

# ANNUAL REPORT 2003/04



## **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.



***FINANCIAL  
SERVICES  
COMMISSION***

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# Board of COMMISSIONERS



Dr. the Honourable Owen Jefferson, O.J.  
*Chairman*



Marjorie Henriques  
*Secretary*



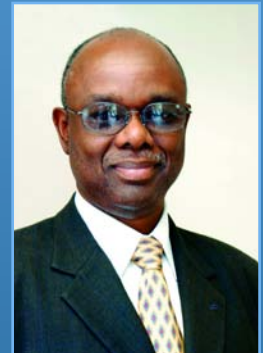
Celia Brown-Blake



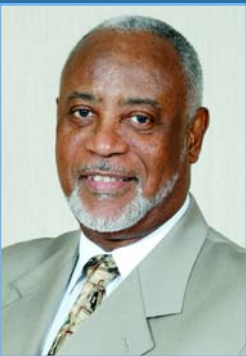
Doreen Frankson



Gayon Hosin



B. St. Michael Hylton, Q.C.



Hugh Martin



Howard Mollison



Clement Radcliffe



Brian Wynter  
*Executive Director*

# Executive MANAGEMENT



*SITTING (left to right)*

Mrs. Faye Sampson (General Counsel), Mr. Brian Wynter (Executive Director),  
and Mrs. Angela Beckford (Senior Director, Pensions)

*STANDING (left to right)*

Mr. George Roper (Senior Director, Securities), Mrs. Janet Johnson-Haughton (Director, Examinations),  
Mrs. Catherine Allen (Chief Actuary), Mrs. Sheila Martin (Director, Corporate Services),  
Mr. Leon Anderson (Senior Director, Insurance)

# Message from the CHAIRMAN

It is my pleasure to present the third annual report of the Financial Services Commission (“the Commission”) for the year ended March 31, 2004. It was a successful year as the Commission accomplished some major milestones in keeping with its strategic goals and priorities.

The implementation of a new fee structure for the regulation and supervision of the securities and insurance industries was a significant milestone. The new fee structure was developed after consultation with the major stakeholders and is based on a principle of full cost recovery. The Commission has developed a formula that fairly apportions its expenditures among the regulated sectors.

Today, consumers are offered a wide variety of financial products and services each with distinct risks which may not be readily apparent. There is therefore a growing need to empower consumers by increasing their knowledge of the financial sector and the various financial instruments. The Commission made substantial progress in consumer education during the year through a number of community interactive talks which is a collaborative effort with the Jamaica Deposit Insurance Corporation, the Jamaica Stock Exchange and the Bank of Jamaica. This educational outreach programme covered the major towns of May Pen, Mandeville, Savanna la Mar and Montego Bay.

A vibrant financial services industry is built on public trust. This trust depends both on the ethical business practices of the market participants and on the vigilance of supervisory authorities in protecting the public interest. The Commission is seeking to combine strict supervision and enforcement with activities

designed to promote willing compliance and reduce intervention.

To promote compliance the Commission ensures that the regulated sectors clearly understand their legislative and regulatory obligations and keep abreast of changing requirements. Policies, bulletins and guidelines are published regularly and posted on the Commission’s website. Several bulletins were issued to the securities and insurance industries during the year. With respect to the insurance industry bulletins were issued relating to corporate governance and the investment provisions of the Insurance Act, 2001 and Regulations.

The Insurance Act, 2001 introduced new and expanded provisions relating to internal controls, board committees, independent directors, related party transactions and investment limits. The Insurance Regulations require that insurance companies file investment and lending policies and Conduct Review Committee procedures with the Commission. In this regard two major activities were undertaken by the Commission during the year. Firstly, each company’s investment and lending policy was analysed and recommendations made to ensure compliance with the Regulations. Secondly, the Commission reviewed each company’s Conduct Review Committee procedures and recommended changes as necessary to ensure that suitable systems are in place within the companies to manage related party transactions.

Complementing these initiatives, the Commission also hosted a seminar on corporate governance. In addition to explaining the requirements of the Regulations, guidance on best practices was also provided in respect of board committees. Market participants were

encouraged to exercise the required due diligence and observe high standards of governance. The principles of good corporate governance underpin the sustainable development of a vibrant capital market capable of meeting investors' growing needs and external challenges.

During the year the Commission also focussed its attention on enhancing its own governance procedures. A comprehensive review of the Board and Committee structures and delegated authorities was undertaken with a view to improving the decision-making practices and accountability within the Commission. Changes arising from the review included the creation of a Pension Committee which will oversee the Commission's pensions regulatory programme. The functions of the Legal and Policy Committee were subsumed under the relevant sectoral committees. These changes were implemented towards the end of the year and will continue into the new year.

The Commission welcomed the passage of the Pensions (Superannuation Funds and Retirement Schemes) Bill by the House of Representatives in March 2004. This was an achievement of broad significance and reflected the cooperative endeavours of a great many persons from the private and the public sectors including industry participants, trade unions, professional bodies and other stakeholders. The Bill, once it has been enacted, will mark the culmination of a process of wide public consultation over a number of years.

The Bill seeks to empower the Commission to regulate and supervise the operations of superannuation funds and retirement schemes. The attendant Regulations are at an advanced stage of development and it is anticipated that during the next financial year the registration and licensing process will commence. It is estimated that there are about 800 superannuation funds and retirement schemes,

4,000 trustees and 40 investment managers and administrators who will have to be registered by the Commission. This is a daunting task but the Commission is committed to completing the process in the shortest time possible.

Looking ahead, the task is to achieve more efficient and dynamic financial institutions which will require the commitment of all parties, market participants and regulators. Throughout 2003 and continuing over the next two to three years efforts are being directed towards enhancing efficiency and developing greater capacity within the Commission. This will involve looking to improve not only the regulatory structures and processes, but also the Commission's internal processes and systems.

During the past two years and eight months the staff and the Board of the Commission have sought to demonstrate the kind of leadership that will provide better protection to investors, foster strong and efficient markets and maintain confidence in their integrity.

I take this opportunity to thank the management and staff for their achievements over the past year and their continued hard work and commitment to the development of the Commission as a strong and effective regulator.

I also wish to thank my fellow Commissioners for the support they provided during the year and their dedication in the execution of their responsibilities. I welcome Mr. B. St. Michael Hylton, Q.C. who joined the Board during the year.



Dr Owen Jefferson  
Chairman

# EXECUTIVE DIRECTOR'S REPORT

## Highlights of Activities 2003/04

### Regulatory Activities

#### (a) New Legislation and Regulations

##### Insurance

A new fee structure was implemented after consultations with members of the Life Insurance Companies Association of Jamaica and the Jamaica Association of General Insurance Companies.

During the year an amendment was made to the Insurance Regulations to incorporate the new fee structure for insurance companies. Effective September 30, 2003 fees paid by insurance companies (life and general) are based on the value of assets. The new fee structure will ensure equity in the allocation of fees between general and life companies as well as consistency in calculation and payment.

##### Securities

A new fee structure was implemented after consultations with members of the Jamaica Securities Dealers Association and the Jamaica Bankers Association. The new fee structure, which is designed to recover the cost of supervision, seeks to ensure that the fee paid by each licensee reflects the level of effort required by the regulator in supervising that licensee.

During the year amendments were made to the Securities (Licensing and Registration)

Regulations and the Securities (Conduct of Business) Regulations. The amended Regulations, which became effective on September 1, 2003, introduced the new fee structure for licensees based on the value of assets and removed the quarterly and annual filing fees.

The Companies Act 1967 was repealed and replaced by the Companies Act 2004. Amongst the many changes to companies law brought by the new Act were provisions which recognise mutual fund companies, allowing them to redeem shares that have been issued to unit holders and exempting them from other restrictive provisions that normally apply to ordinary companies. This change will allow local companies to be registered as Mutual Funds in accordance with the Securities (Mutual Funds) Regulations.

##### Pensions

The Pensions (Superannuation Funds and Retirement Schemes) Bill was laid in the House of Representatives in December 2003. The main object of the Bill is to allow the regulation and supervision of superannuation funds and retirement schemes and to empower the Commission to carry out activities essential to that operation. This involves:

- approval and registration of superannuation funds and retirement schemes;



- supervision of approved superannuation funds and approved retirement schemes;
- licensing and registration of trustees, administrators and investment managers;
- examinations and investigations; and
- approval of wind-ups and distribution of surplus.

After considering submissions from a number of pensions stakeholders (e.g., the Life Insurance Companies Association and the Private Sector Organization of Jamaica) the Bill was passed in the House in March 2004. The Bill is expected to be addressed by the Senate early in the next financial year.

## (b) Bulletins

The Commission issued several bulletins during the year. Bulletins are used to provide information and guidance to licensees and registrants and to the general public.

### Insurance

During the year the Commission issued three bulletins to the insurance industry which dealt with the following:

- Guidance on the investment provisions of the Insurance Act and Regulations;
- Guidance on the corporate governance requirements for the insurance industry;
- Procedure for the approval of new insurance policies and insurance policy amendments.

### Securities

A bulletin was issued to the securities industry in relation to the new fit and proper standards against which all persons seeking renewal of dealer licenses would be

assessed. The fit and proper requirements are set out in section 9 of the Securities Act (as amended).

## General

The Commission also issued a bulletin to clarify its authority to have access to all books, records and documents of licensees when conducting on-site examinations. In accordance with Section 6(3)(a) of the Financial Services Commission Act, 2001 licensees have a statutory obligation to provide access to records and documents to the Commission.

## (c) Jamaica Stock Exchange Rule Changes

Section 19 of the Securities Act requires that the Commission approve rule changes that are being made by the Council of the Jamaica Stock Exchange (“JSE”). During the period, the Commission approved amendments to Rule 407 and Rule 408 which set out the requirements for quarterly and annual reporting to the JSE. The amendments recognised the fact that local accounting was now governed by International Financial Reporting Standards.

## (d) Authorisations

### Insurance

#### (i) Re-registration of Insurance Intermediaries

The re-registration exercise was substantially completed during the year.

#### (ii) New Registrations

During the year the Commission registered one (1) broker, one (1) agent and one hundred and thirty-three (133) sales representatives. During the year also Blue Cross of Jamaica which had previously been registered as a general insurance company to market health and personal accident insurance was registered to carry out ordinary long term insurance business. The company's registration as a general insurance company was therefore cancelled.

The Insurance Act, 2001 introduced two new categories of intermediaries to be regulated by the Commission. These are insurance consultants and insurance loss adjusters. During the year the requirements for registration were developed and implemented and three applications were being processed.

During the year five (5) dealers and one hundred and seventy eight (178) dealers' representatives were licensed or registered by the Commission. There was also the registration of four (4) overseas mutual funds. Fifteen (15) dealers and ninety nine (99) dealers' representatives surrendered their licenses or cancelled their registrations. No licenses, registrations or approvals were revoked.

At the end of the financial year there were one hundred and two (102) licensed dealers and five hundred and sixty eight (568) registered dealers' representatives.

#### (ii) New Accreditation

Securities dealers and dealers' representatives are required to complete a

**Table 1 - Number of Entities/Individuals Licensed/Registered as at March 2004**

	LIFE INS. COS.	GENERAL INS COS	ASSOC. OF UNDER-WRITERS	INS. BROKERS	INS. AGENTS	INS. SALES REPS.	SECURITIES DEALERS	SECURITIES DEALERS' REPS.	MUTUAL FUNDS	UNIT TRUSTS
LICENSED/ REGISTERED AT 31/3/03	7	14	1	31	12	985	112	489	11	4
ADDITIONS	1	--	--	1	1	133	5	178	4	--
TERMINATIONS/ CANCELLATIONS	--	(1)	--	--	(1)	(249)	(15)	(99)	--	--
MERGED ENTITIES	(1) (NOTE 1)	--	--	2 (NOTE 2)	--	--	--	--	(1)	--
<b>LICENSED/ REGISTERED 31/3/04</b>	<b>7</b>	<b>13</b>	<b>1</b>	<b>30</b> (NOTE 3)	<b>12</b>	<b>869</b>	<b>102</b>	<b>568</b>	<b>14</b>	<b>4</b>

Note 1 – Island Life Ins. Co. Ltd. merged with Life of Jamaica Ltd.

Note 2 – Consolidated Ins. Brokers Ltd was acquired by Thwaites Finson Sharp Ins. Brokers Ltd. Trustee Ins. Brokers Ltd was acquired by National Property & General Ins. Brokers Ltd.

Note 3 – Includes Overseas Brokers and facultative placement brokers

Table 1 provides a composition of the number of licensed or registered entities or individuals as at the end of March 2004.

## Securities

### (i) New Licensing/Registrations

minimum course of study in securities that is approved by the Commission. During the year the Commission considered and approved the "Certificate in Financial Securities Management" ("CFSM") as acceptable for the registration of dealers' representatives. The CFSM is a programme

offered by the University College of the Caribbean (formerly Institute of Management and Production/Institute of Management Sciences). The CFSM is an introductory level investment course designed to introduce participants to capital markets, investment products and the financial services industry. Designation of the CFSM as an accredited course for registration was effective February 2004.

## Hearings

Under the Securities Act and the Insurance Act, applicants who have been informed by the Commission that it intends to refuse to grant registration or licensing are given an opportunity to be heard by the Commission before a final decision is made.

During the period there were three (3) securities hearings and one (1) insurance hearing. In relation to the securities hearings, two applicants were formally refused licensing or registration after the hearings. The other applicant withdrew the application prior to the Commission formally rejecting the application. The insurance applicant was granted registration.

### (e) Investigations

The Commission carries out special

investigations for the following reasons:

- Investigations into suspected breaches of any relevant Act.
- Investigations of complaints received from the public.
- Investigations into the fit and proper status of persons applying to be licensed or registered under any of the relevant Acts.

#### (i) Investigations into Suspected Breaches of any Relevant Act

During the review period, the Commission conducted twenty-seven (27) investigations into suspected breaches of the Insurance Act, the Securities Act and the Insurance Regulations. Table 2 contains information on the suspected breaches.

#### (ii) Investigations of Complaints Received from the Public

For the year a total of three hundred and fifty-seven (357) complaints were processed by the Commission. Of this total one hundred and fifteen (115) were carried over as complaints unresolved in the previous fiscal year. The remaining two hundred and forty-two (242) represent the number of complaints received between April 2003 and March 2004. Table 3 (on page 12) provides an analysis of complaints.

**Table 2 – Investigations into suspected Statutory and Regulatory Breaches**

DESCRIPTION OF SUSPECTED BREACH	RELATED LEGISLATION
23 unregistered persons performing the function of insurance intermediaries	Section 70(1)-(2) of the Insurance Act.
Insurer carrying on insurance business without being registered	Section 7(1)(a) of the Insurance Act.
Related parties transaction	Insurance Regulations 82-84
2 Securities applicants offering securities without registration	Section 7 of the Securities Act.

**Table 3 – Analysis of Complaints**

	GENERAL INSURANCE	LIFE INSURANCE	SECURITIES	TOTAL
Total complaints unresolved 2002/2003	96	16	3	115
Total complaints received 2003/2004	213	19	10	242
Total complaints processed 2003/2004	309	35	13	357
Number of cases closed at the end of the period	274	34	11	319
<b>Percentage closed</b>	<b>89%</b>	<b>97%</b>	<b>85%</b>	<b>89%</b>

(iii) Investigations into Fit and Proper Status

During the period eighteen (18) investigations were carried out in relation to persons applying for a license or registration under the Securities Act and the Insurance Act or seeking senior positions of responsibility within the securities and insurance industries.

Both the Insurance Act and the Securities Act (as amended) stipulate that each of the persons managing or controlling entities covered under these Acts must be fit and proper.

Not all applicants for fit and proper assessment are subjected to an investigation. Investigations are usually undertaken in, but are not limited to, the following situations:

- Inconsistencies identified in the application;
- External reports or other intelligence gathered highlighting financial problems, disregard for fiduciary responsibilities or an adverse employment or police record;
- Information supplied by the candidate that impacts negatively on the review process.

In carrying out its investigations the Commission will, amongst other things, take

into account evidence that an applicant was:

- a director or member of senior management of a failed financial entity;
- a director or member of senior management of an intervened company;
- disciplined in a civil suit or by professional body for incompetence.

At the end of the year thirteen (13) of the investigations were completed, with the remaining five (5) in progress.

**(f) Appeal Tribunal**

Section 19 of the Financial Services Commission Act provides for the establishment of an Appeal Tribunal. During the year the Minister of Finance and Planning appointed the members of the Financial Services Commission Appeal Tribunal who are as follows:

- Ambassador the Hon. David Muirhead, O.J., Q.C. – Chairman
- Mr. Winston Hay
- Rev. Dr. Artnel Henry, C.D.
- Justice Ranse Langrin (Retired)

The administrative offices are located at 39-43 Barbados Avenue, Kingston 5.

The mandated role of the Appeal Tribunal is

to hear appeals from decisions, rulings or directions made by the Commission under any relevant Act (i.e., the Insurance Act, the Securities Act and the Unit Trusts Act). The structure, procedures and role seek to meet the specific requirements of the local industry and are in accordance with international best practice.

During the year the Appeal Tribunal heard one appeal which emanated from a decision of the Commission made in the previous financial year under the Insurance Act. The decision of the Commission was upheld on appeal.

## Supervisory Activities

### Insurance

#### (i) Reporting Requirement for Registrants

The electronic filing system was fully developed and implemented during the review period. The system greatly facilitated the insurance companies in filing their annual and quarterly statements as returns were filed much earlier than in the previous year. Of note is the filing of quarterly statements which were all received within the 30-day deadline.

#### (ii) Corporate Governance

During the year the Commission continued to promote the need for good corporate governance practices in the management of insurance companies. While regulations are important, the support of the companies in implementing good corporate governance practices in their institutions is essential. In this regard the Commission hosted a seminar on corporate governance in April 2003 followed by bulletins giving guidance on the Investment Regulations and the

corporate governance requirements of the Insurance Act.

The Insurance Regulations require that insurance companies file investment and lending policies and conduct review committee procedures with the Commission. During the year the Commission analysed each company's investment and lending policies and recommended changes to ensure that each company's policies were prudent, comprehensive and comply with the Regulations. The Commission also reviewed each company's Conduct Review Committee procedures to ensure that suitable systems are in place within each company to manage all related party transactions and that those transactions are at fair value, are in the normal course of the company's business and are in the best interest of the company.

#### (iii) Examinations

During the year off-site examinations of all insurance companies were completed using the "CAMELS" risk-based examination framework. The framework is used to assess the risk level of a company's capital, asset quality, re-insurance, actuarial liabilities, management, earnings, liquidity (and asset/liability matching) and subsidiaries. It is also used to identify those companies assessed as having overall risk profiles that require more in-depth reviews of their policies and procedures and, in some cases, clarification of specific significant transactions. On-site examinations are then conducted on selected companies. The deficiencies detected through this process of off-site and on-site examinations are communicated to the companies and the Commission works with them to ensure that they are remedied appropriately and in a timely manner.

## Securities

### Reporting Requirement for Licensees.

Securities dealers are required to submit periodic filings (quarterly and annual) of financial statements, Management Discussion and Analysis and the Form C1 which contains information on funds managed by the dealer. Review of these filings enables the Commission to carry out off-site analysis of its licensees and the industry as a whole.

### Examinations

During the year the Commission continued to apply the "CAMEL" risk assessment model to determine the soundness of securities dealers. The model assesses each dealer's exposure to risk with respect to capital, assets, management, earnings and liquidity/interest rates.

The Commission also carried out on-site examinations of twenty-eight (28) securities dealers. Table 4 provides an analysis of the violations observed.

Licensees who were in violation of the Securities Act and attendant Regulations were issued Deficiency Letters outlining the details of the violations and other concerns observed by the Commission during the examination process. A plan of action to address the violations and concerns is also prepared for each licensee and the Commission monitors the licensee to ensure compliance with the plan.

Some of the most common violations uncovered related to:

#### 1. Failure to Designate Responsible Officer

Not all licensees identified a Responsible Officer. This is required under Section 10A of the Securities Act.

#### 2. Unregistered persons acting as Dealer's/Investment Adviser's Representatives

In a number of instances some licensees were using unregistered persons to perform the functions of a representative for a dealer or investment adviser. This is a violation of Section 10 of the Securities Act.

**Table 4 – Violations of the Securities Act & Regulations**

LEGAL PROVISION VIOLATED	DESCRIPTION OF PROVISION	NUMBER OF VIOLATIONS 2002/03	NUMBER OF VIOLATIONS 2003/04
S10	Requirement to register dealer representatives	5	5
S36	Requirement to hold client funds in Trust Accounts	1	0
S38	Issue of Contract Notes	5	10
S39	Provision of disclosure of dealers' interest in securities	3	5
S40	Provision governing dealers dealing as principal	3	4
S43	Prohibition of short-selling	1	0
COB	Conduct of Business Regulations	46	37
DOI	Disclosure of Interest Regulations	7	1
L&R	Licensing and Registration Regulations	0	1
<b>Total</b>		<b>71</b>	<b>63</b>

### 3. Failure to Display Registration Certificates

Regulation 18 of the Securities (Conduct of Business) Regulations requires that the registration certificate of dealers and dealers' representatives be conspicuously displayed at the licensee's place of business. There were a number of cases where non-compliance with Regulation 18 was observed.

### 4. Request for Proposal (RFP) Forms

On opening an account with a dealer, each client is required to sign an RFP form. Several licensees used RFP forms which did not state clearly the following:

- The kind of authority given to the portfolio manager (i.e., full discretion, partial discretion or no discretion);
- The risk appetite of the client (i.e., aggressive, medium or conservative).

This contravenes Regulation 8(2)(c) and 8(2)(d) of the Securities (Conduct of Business) Regulations.

### 5. Issue of Contract Notes

Several violations of the Securities Act were observed in relation to the issue of contract notes by dealers. These included breaches of the following provisions of the Act:

- Section 38(3)(c) which mandates dealers, when dealing as principal 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.

### 6. Disclosure of Dealers' Interest in Market Circulars

It was observed in a number of instances that dealers were issuing marketing circulars and brochures in contravention of Section 39(1) of the Securities Act which 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. Section 39 directs that the dealer, investment adviser or their representatives must disclose any interest they have in securities being offered to clients.

### 7. Dealing as Principal

It was observed that some dealers were issuing contract notes that did not satisfy the requirement contained in Section 40(3) of the Securities Act. This Section stipulates that a dealer, when dealing as principal in a transaction with a non-licensee, must disclose that it is dealing as a principal and not as an agent, on the relevant contract note, and prior to effecting the transaction.

### 8. Issuing a Statement of Account

There were several violations of Regulation 10 of the Securities (Conduct of Business) Regulations. This Regulation 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 months if there is no such activity on the account.

### 9. Presentation of Financial Reports

The Securities (Conduct of Business) Regulations 13 and 14 require that:

- Licensees file audited accounts along with the prescribed annual reports “Form PR.A” and “Management Discussion and Analysis of Financial Condition and Results of Operations” within 90 days of the end of the financial year.
- Licensees file prescribed quarterly returns within 45 days of the end of the quarter. Returns to be filed include “PR.Q” and quarterly financial statements.

The delinquency rate has been high which has obliged the Commission to take strong remedial action.

#### 10. Transparency of Financial Position

There were several cases where the Securities Act, Section 63(1), was contravened. Every dealer is required to keep such accounting records as correctly record and explain the transactions and financial position of the securities business carried on by the dealer.

#### 11. Dealers’ Accounting Records

Based on the Securities (Conduct of Business) Regulation 12(1)-(6), every licensee should maintain records as prescribed in the regulations, which include, inter alia, daily records of security sales and

purchases, cash disbursements and receipts, security ledgers, and client ledger. This was not always maintained.

## Public Education

During the year the Commission intensified its public education programme through a series of seminars, island-wide community interactive talks (“CIT”) and media exposure. The Commission’s public education programme is guided by one of its key responsibilities as outlined in the Financial Services Commission Act, which is “to promote public understanding in the operations of prescribed financial institutions”. Table 5 provides information on the seminars and CITs held during the year.

The first seminar was held in April 2003 and targeted insurance licensees. The seminar focussed on pertinent aspects of corporate governance such as the role of the Audit, Investment and Loan and Conduct Review Committees. The seminar was well attended and participants included senior executives of insurance companies and other industry professionals.

“Risk management” was the focus of the second seminar which was held in October 2003. This seminar garnered tremendous support from

**Table 5– Seminars and CITs held during 2003/4**

SEMINARS/CITs	LOCATION	NUMBER OF ATTENDEES	DATE
Insurance Seminar	Kingston	130	April 2003
CIT	Mandeville	40	June 2003
CIT	Savanna-la-mar	50	July 2003
Securities Seminar	Kingston	150	October 2003
CIT	Montego Bay	50	November 2003
Pensions Seminar	Kingston	700	January 2004
CIT	May Pen	50	March 2004





**CIT**

Pictures taken at the FSC's Community Interactive Talks (CIT) held island wide within the year. These public forums allow the FSC to educate the public on the organization's roles and responsibilities and also to interact with the public on issues relating to the financial services industry.

major participants within the securities sector and was attended by chief executive officers, risk managers, compliance officers and staff responsible for preparing C1 Forms and Management Discussion and Analysis reports.

In January 2004, the Commission co-hosted with the Ministry of Finance and Planning its first seminar for the pensions industry. The seminar attracted approximately seven hundred (700) persons including trustees, administrators, investment managers and trade union representatives. The seminar examined the Pensions (Superannuation Funds and Retirement Schemes) Bill and the Commission's role as regulator for the industry.

During the year the Commission made significant inroads in increasing public awareness of its role by collaborating with the Jamaica Deposit Insurance Corporation, Jamaica Stock Exchange and Bank of Jamaica in hosting island wide CITs. These sessions were organized to promote better understanding of the financial sector and to equip investors with the knowledge they need to make prudent decisions

when investing. The public was very receptive to the presentations made by the various entities and actively engaged in discussions on wide ranging financial issues. This island wide educational vehicle covered the major towns of May Pen, Mandeville, Savanna-la-Mar and Montego Bay.



The other vehicle used by the Commission to fulfil its mandate of educating the public and its licensees was the media (print and electronic). During the year the Commission participated in several radio and television programmes aimed



#### **Pensions Seminar**

Dr. the Hon. Omar Davies, Minister of Finance and Planning, presenting the opening remarks at the seminar.



FSC's Executive Director, Brian Wynter (right) in conversation with Dr. Omar Davies, Minister of Finance and Planning at the seminar.

at providing information on its role and responsibilities. The Commission also published in the daily newspapers its first advertorial under the theme "We Are Where You Are". The advertorials which will be published quarterly are designed to highlight the major activities undertaken by the Commission during the quarter.

During the year the Commission embarked on an exercise to redesign its website in an effort to provide up-to-date information for licensees, registrants, investors and the general public. The website is being enhanced to include application forms with instructions on how to complete these forms for potential licensees and registrants. The website will also provide information about upcoming events, seminars, bulletins and guidelines regarding regulatory developments and legislative changes.

Towards the end of the year the Commission was in the process of planning two seminars, one on anti-money laundering and the other on capital adequacy requirements for the securities industry.

## Human Resource Development

The Commission continued to make significant investments in developing its staff. For the year \$10 million was spent on training and

development and accounted for 5% of total operating expenses. A summary of staff training provided during the year is shown in Table 6.

**Table 6– Training Summary 2003/2004**

<b>COURSE/SEMINAR</b>	<b>PROVIDER</b>	<b>NUMBER OF STAFF TRAINED</b>
Anti-money Laundering	Caribbean Anti-Money Laundering Program	49
Pension Reform in the English-Speaking Caribbean	Caribbean Development Bank/Inter-American Development Bank	1
Insurance Supervision	Caribbean Regional Technical Assistance Centre	1
Pensions Reform	Crown Agents	2
Risk Management Workshop	Euromoney	1
Supervision of Financial Conglomerates	FSI Switzerland	1
Financial Crimes Investigation	Justice Training Institute	3
Caribbean Commercial Law Workshop	Miami, U.S.A.	1
Integrating Market Regulation	National Association of Insurance Commissioners	3
Corporate Failure - Early Warning Signs	NY Institute of Finance	1
Insurance Supervision	Office of the Superintendent of Financial Institutions	2
Project Management Seminar	Setym	1
Securities Supervision	Toronto Leadership Centre	1
USSEC Securities Market Development	United States Securities & Exchange Commission	6
USENIX Security Symposium	USENIX	1
Capital Markets in Developing Countries	World Bank	1
Bond Market Forum	World Bank	1
Contractual Savings Conference: Pensions & Life Ins.	World Bank	2
Reforming Payment & Securities Settlement Systems	World Bank	1

## Financial Review

The financial statements present the position and results of operation of the Commission for the financial year ended March 31, 2004. The following comments analyse the Commission's performance during the year and should be read in conjunction with the financial statements.

### Highlights

The Commission's net income from operation for the year was \$16 million compared to the prior year's loss of \$23.7 million. The improvement in net income for the year resulted from increased revenue of \$85.1 million or 65% over the previous year due to the implementation of new fee structures for the securities and insurance industries effective September 1, 2003 and September 30, 2003 respectively.

and administration software as part of the computerisation of the Commission.

### Analysis of Financial Year 2003/04 operations and Financial Position

#### (1) Revenue

Revenue for the period was \$216 million earned primarily from fees payable under the Securities Act and the Insurance Act.

The Commission earned approximately \$68 million from the securities industry. Table 7 gives a breakdown of the fees earned from the securities industry.

Revenue from the insurance industry was approximately \$146.6 million for the year. Table 8 (on page 21) gives a breakdown of the fees earned from the insurance industry.

**Table 7 – Revenue Earned from Securities Industry 2003/4 & 2002/3**

SOURCE	2003/04		2002/03	
	REVENUE (\$'000)	% OF TOTAL	REVENUE (\$'000)	% OF TOTAL
Dealers Licence	34,528	51	10,195	42
Stock Exchange Transactions	26,118	38	10,021	41
Application & Filing Fees	1,406	2	1,859	8
Commercial Paper, etc.	68	--	749	3
Mutual Funds	5,896	9	1,452	6
<b>Total</b>	<b>68,016</b>	<b>100</b>	<b>24,276</b>	<b>100</b>

The Income and Expenditure statement reflected revenue and capital grants received during the year totalling \$23 million. These grants were provided by the Government of Jamaica under a technical assistance loan agreement with the Caribbean Development Bank. The revenue grants totalling \$15.6 million were used to cover the costs for professional fees (\$14.5 million) and staff training (\$1.1 million) in relation to several technical assistance projects. The capital grants of \$7.3 million were used to purchase accounting

#### (2) Expenses

Total expenses for 2003/04 was \$209 million, an increase of \$49.4 million or 31% over the previous year. The major expense items were as follows:

- Staff costs accounted for 65% of total expenses (2002/03 – 64%) and for the year increased by \$33.8 million or 33% over the previous year. The increase in staff costs

**Table 8 – Revenue Earned from Insurance Industry 2003/4 & 2002/3**

SOURCE	2003/04		2002/03	
	REVENUE (\$'000)	% OF TOTAL	REVENUE (\$'000)	% OF TOTAL
Renewal Fees	143,693	98	102,243	96
Re-registration/Registration Fees	1,867	1	2,919	3
Filing & Others	1,022	1	1,019	1
<b>Total</b>	<b>146,582</b>	<b>100</b>	<b>106,181</b>	<b>100</b>

resulted from higher permanent staff and the implementation of a job classification and compensation study. At the end of the year the Commission employed 73 persons compared to 62 at the end of the previous year.

- Professional fees of \$24 million (2002/03 - \$27 million) accounted for 12% of total expenses. Funding of approximately \$16 million was provided by the Government of Jamaica under a technical assistance loan agreement with the Caribbean Development Bank.
- Training and Conferences of \$10 million (2002/03 - \$6 million) accounted for 5% of total expenses. The Government of Jamaica under a technical assistance loan agreement with the Caribbean

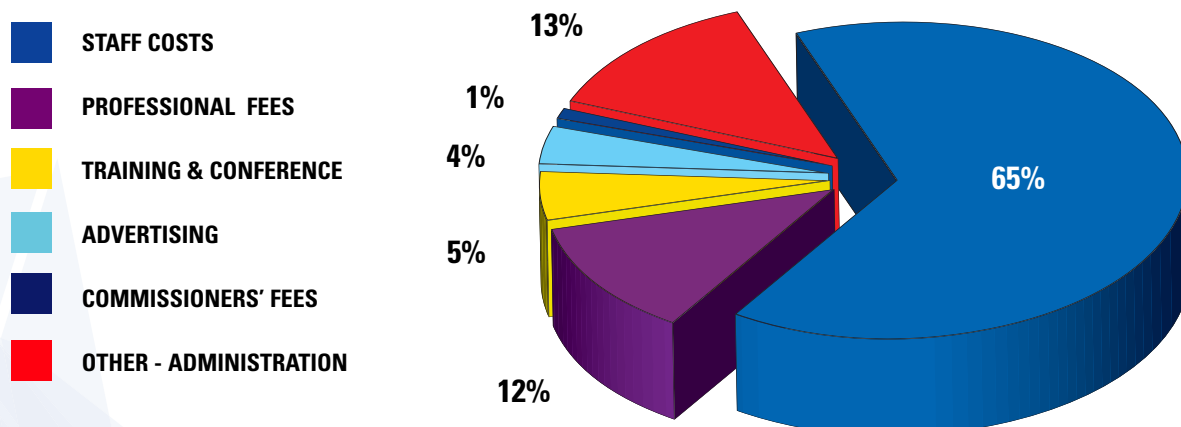
Development Bank covered \$1.1 million of the cost for training.

- Advertising expense for the year was \$7.5 million (2002/03 - \$2.2 million) due largely to advertising overseas in compliance with CDB's guidelines relating to advertising for technical assistance projects.

### (3) Liquidity

The Commission is not permitted to borrow and requires liquidity to finance its operations, for capital purchases and to meet unexpected contingencies. At March 31, 2004 the Commission held cash and resale agreements totalling \$81 million (approximately), current assets of \$129 million, current liabilities of \$38 million

**Pie Chart 2 - Breakdown of Expenses**



for a current ratio of 3.39:1 (2002/03 - 4.32:1).

#### **(4) Capital Expenditure**

Capital Expenditures of \$9.9 million were made during the year. \$7.4 million was used for the procurement of accounting and administration software. The balance was spent on furniture and other office equipment.

### **Initiatives Underway at Year End**

#### **(i) Pensions Regulation**

During the year the Commission commenced development of Regulations to accompany the Pension (Superannuation Funds and Retirement Schemes) Bill. Regulations covering investment, governance, registration, licensing and reporting have been developed and discussion papers on the regulations were circulated to industry associations and interested persons who attended the Commission's pension stakeholders meetings during the year. Pension stakeholders meetings were held to provide a forum for consultation on regulations and policy. Participants include employees, trade union, insurance companies, securities dealers, trustees, actuaries and accountants. The Commission has reviewed the comments from the industry and early in the next financial year will be sending drafting instructions to the Chief Parliamentary Counsel to draft the pensions regulations.

With the imminent passage of the Bill and Regulations, the Commission will be addressing the following key areas:

#### **• Public Education**

The education and training of persons in the pensions industry is of critical importance. All affected persons, i.e., trustees, members, investment managers and administrators must be aware of the provisions of the new pensions legislation as well as their rights and obligations thereunder. The pensions education programme will provide information through workshops, community interactive talks, the media, brochures and bulletins.

#### **• Registration and Licensing**

It is estimated that the Commission will have to register or licence approximately 800 superannuation funds and retirement schemes, 4,000 trustees and 40 investment managers and administrators. To achieve this objective in the shortest time possible, the Commission is in the process of developing a strategy which will allow for the smooth and efficient processing of applicants.

#### **• Supervision**

Supervision of the pensions industry will be conducted using a risk-based approach. This is similar to the methodology used in the supervision of the securities and insurance industries. Statutory filings will be examined to identify areas of weakness. These weaknesses will then be assessed to determine their impact on the pension plan or company. Some of the areas which will be examined are contributions, assets, management and governance, sponsor, regulatory compliance and actuarial/solvency. The Commission's

staff is being trained in and exposed to pension best practice and the latest techniques in the analysis and supervision of private pension plans.

## **(ii) Securities Regulation**

### **• Interim Capital Standards**

Towards the end of the previous financial year the Securities (Licensing and Registration) Regulations (“L&R”) were amended to provide for risk based capital standards for the securities industry. In accordance with regulations 2A and 2B of the L&R the risk weighting and capital ratios will be adopted in the new financial year the FSC having carried out extensive consultation with the industry.

### **• Margin Requirements for Repurchase Agreements**

The Securities Act makes provisions for regulations preventing excessive use of credit by securities dealers. Towards the end of the previous year the Commission commenced the development of rules to regulate the use of credit for the purchase or carrying of large securities positions. Extensive consultation with the industry and other key stakeholders was carried out during the year under review. The rules will identify the securities which may be used as collateral and specify the conditions under which dealers may borrow funds on an unsecured basis. The intention is to eventually promulgate these rules as regulations.

### **• Audit Committee Guidelines**

The Securities Act requires that every company that is licensed as a dealer or

investment adviser must establish an audit committee. The Commission will be releasing in 2004/5 a consultative paper setting out draft guidelines for the operation of audit committees established by licensees pursuant to section 59A of the Securities Act.

### **• Standardized Financial Reporting**

In order to enhance the quality of financial information received from our licensees pursuant to the Securities (Conduct of Business) Regulations the Commission is in the process of developing a standardized reporting format for balance sheets and income statements submitted periodically by licensed securities dealers. This initiative is being carried out with assistance from members of the Institute of Chartered Accountants of Jamaica.

### **• Guidelines for Margin Trading**

Margin trades refer to securities transactions where a brokerage firm lends the client a part of the purchase price and the securities so required are pledged by the client to the brokerage firm as collateral for the loan. Domestic dealers access this facility, made available to them by their broker-dealers in the USA with whom they maintain accounts and business relationships. In the USA the advance of credit to acquire securities is regulated by securities credit rules.

In order to guide brokers in their margin trading activities, the Commission released a consultative paper containing proposed industry guidelines detailing the requirements to be met by dealers who acquire securities on margin. The guidelines will be issued in 2004/5

following consultation with the industry during the year under review. The guidelines outline requirements covering the following:

- (i) accounting treatment;
- (ii) disclosures; and
- (iii) marginable securities.

### **(iii) Other Legislative Amendments**

The Commission is considering amendments of the Financial Services Commission Act (the Act) to allow for the following:

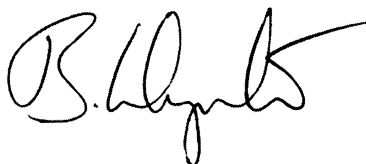
- A widening of its information sharing powers to facilitate the sharing of information with other regulators (domestic and international), the Financial Investigation Division and the Police. This will enable the Commission to become a signatory to the International Organisation of Securities Commissions' Multilateral Memorandum of Understanding and will enhance the ability of the Commission to fulfil its role in Jamaica's anti-money laundering efforts.
- Implementation of the Fourth Schedule administrative penalties under section 21 of the Act. This amendment will improve the Commission's enforcement capabilities when breaches of regulations are determined.

### **(iv) Anti-Money Laundering**

During the year the Commission circulated to the securities and insurance industries draft anti-money laundering

guidelines. The comments received from licensees are being incorporated into the finalized guidelines.

The Commission also developed an anti-money laundering checklist which was circulated to licensees for completion so as to make an assessment of the status of their anti-money laundering programme. Arising from the assessment two training seminars for the industries have been planned to address the deficiencies noted and these will be conducted during the first quarter of the next financial year.



Brian Wynter  
Executive Director



# FSC Statutes & Regulations

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

**The Financial Services Commission Act** – enacted in May 2001; it provides for the basic functions and responsibilities of the FSC.

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

**The Insurance Regulations** – promulgated in December 2001 and amended in September 2003; provide detailed rules and regulations governing individuals and companies operating in the insurance industry.

**The Insurance (Actuaries) (Life Insurance Companies) Regulations** – promulgated in December 2001; 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 March 2002; set out the rules governing the preparation of actuarial reports and the business conduct of actuaries for general insurance companies.

**The Securities Act** – enacted in December 1993 and last amended in 2001; it 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 last amended in August 2003; provide for the licensing and registration of dealers, investment advisers, their representatives and responsible officers.

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

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

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

**The Securities (Mutual Funds) Regulations** – promulgated in September 1999; 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 (Central Securities Depository) Regulations** – promulgated in 2000 and amended in 2002; deal with the operational procedures of a central securities depository.

**The Unit Trusts Act** – enacted in 1972 and last amended in May 2001; it governs the operation of unit trusts.

**The Unit Trusts (Registration of Schemes) Regulations** – promulgated in 1971; governs the process of registration for unit trusts.

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

# Compensation of Executive Management

	2003/04
Salary range of Executive Management	\$2,670,000 - \$4,320,000 per annum
Gratuity in lieu of Pension	25% of basic salary
<b>Motor Vehicle Allowance of Executive Management</b>	
(a) Executive Director	Fully Maintained Company Car
(b) Other Executive Management	\$360,000 per annum

**Note:**

Executive Management includes the Executive Director, Senior Directors (4), Chief Actuary (1), Director (1) and General Counsel (1). Each member of Executive Management is on contract and is therefore not on the FSC's Pension plan. They are however eligible for health insurance and life insurance coverage on the FSC's group health plan.

# List of Registered Entities/Individuals

as at March 31, 2004

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## Dealers (companies)

*There were fifty-nine (59) licensed securities dealers (Companies) as at March 31, 2004:*

1. Alliance Investment Management Limited
2. ATL Group Pension Fund Trustees Nominee Limited
3. Bank of Nova Scotia Jamaica Limited
4. Barita Investments Limited
5. Barita Portfolio Management Limited
6. Capital & Credit Merchant Bank Limited
7. Capital & Credit Securities Limited
8. Capital Options Limited
9. Capital Solutions Limited
10. Citifinance Limited
11. Citimerchant Bank Limited
12. CWJ Employees Co-operative Credit Union Limited
13. DB&G Merchant Bank Limited
14. Dehring, Bunting & Golding Limited
15. E. W. Lewis Investments Limited
16. Edward Gayle & Company Limited
17. FGB Securities Limited
18. First Global Bank Limited
19. First Global Stockbrokers Limited
20. First Life Insurance Company Limited
21. FirstCaribbean International Bank (Jamaica) Limited
22. FirstCaribbean International Securities Limited
23. George & Branday Limited
24. George & Branday Securities
25. Gleaner Company Limited
26. Grace Pension Management Limited
27. Guardian Asset Management Limited
28. Guardian Life Limited
29. Ideal Finance Corp. Limited
30. Ideal Portfolio Services Limited
31. International Trust & Merchant Bank Limited
32. Intertrade Finance Corp. Limited
33. Island Life Insurance Company Limited
34. Issa Trust & Merchant Bank Limited
35. Jamaica Co-operative Credit Union Limited
36. Jamaica Money Market Brokers Limited
37. Jamaica National Building Society
38. JMMB Securities Limited
39. JN Fund Managers Limited
40. Lets Investments Limited
41. Life of Jamaica Limited
42. MF&G Asset Management Limited
43. M/VL Stockbrokers Limited
44. Manufacturers Sigma Investment Management Limited
45. Manufacturers Sigma Merchant Bank Limited
46. Mayberry Investments Limited
47. National Commercial Bank Jamaica Limited
48. NCB Investments Limited
49. Pan Caribbean Financial Services Limited
50. Pan Caribbean Merchant Bank Limited
51. Paul Chen Young & Company Limited
52. Prime Life Assurance Company Limited
53. RBTT Bank Jamaica Limited
54. Scotia Jamaica Investment Management Limited
55. Sterling Asset Management Limited
56. Victoria Mutual Wealth Management Limited
57. Village Resorts Limited
58. West Indies Trust Company Limited
59. West Indies Union Development Company Limited

# List of Registered Entities/Individuals (cont'd)

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## Dealers (not associated with a company)

---

*There were thirteen (13) licensed securities dealers (not associated with a company) as at March 31, 2004:*

- |                      |                     |
|----------------------|---------------------|
| 1. Bailey, Lorreston | 8. Nelson, Gary     |
| 2. Harrison, Verley  | 9. Richards, Kevin  |
| 3. Issa, Christopher | 10. Riley, C. Roy   |
| 4. James, Rex        | 11. Scott, Ewart    |
| 5. Johnson, Roy      | 12. Shirley, Sandra |
| 6. McIntosh, Howard  | 13. Taffe, Joseph   |
| 7. Miller, Courtney  |                     |

## Dealers (associated with a company)

---

*There were thirty (30) licensed securities dealers (associated with a company) as at March 31, 2004:*

- |                         |                          |                            |
|-------------------------|--------------------------|----------------------------|
| 1. Berry, Christopher   | 11. Evans, Vitus         | 21. Melhado, Peter         |
| 2. Berry, Konrod        | 12. Hall, Peta-Rose      | 22. Ming, Herman           |
| 3. Campbell, Raymond    | 13. Hudson, Arthur       | 23. Moore, Earl            |
| 4. Campbell, Ryland     | 14. Humphries-Lewin Rita | 24. Moss, Kathleen         |
| 5. Chin, Peter          | 15. Issa, John           | 25. Richardson, Dwight     |
| 6. Clarke, Oliver       | 16. Jarrett, Earl        | 26. Ross, Charles          |
| 7. Crooks, Claudette    | 17. Lewis, Everton       | 27. Shirley, Andral 'Jack' |
| 8. Croskery, Hugh       | 18. Marzouca, Dorothy    | 28. Tanna, Dhiru           |
| 9. Curtis, Henry        | 19. Massias, William     | 29. Watson, Cecile         |
| 10. Duncan Scott, Donna | 20. McKie, Edwin         | 30. Wray, Wayne            |

# List of Registered Entities/Individuals (cont'd)

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## UNIT TRUSTS

---

*There were four (4) Unit Trusts Fund Managers as at March 31, 2004:*

- |  |  |
|--|--|
| 1. Barita Unit Trusts Management Limited | 3. Jamaica Unit Trust Services Limited |
| 2. DB&G Unit Trusts Management Limited   | 4. Sigma Unit Trust Managers Limited   |

## MUTUAL FUNDS

---

*There were fourteen (14) Mutual Funds as at March 31, 2004:*

- |                                      |                                    |
|--------------------------------------|------------------------------------|
| 1. "Advantage" Group Fund            | 8. Scotia US Growth Mutual fund    |
| 2. AIC Money Market Corporate Class  | 9. Scotiabank Canadian Growth Fund |
| 3. "Balanced" Group Fund             | 10. Scotiabank Global Growth Fund  |
| 4. "Diversified" Group Fund          | 11. Scotiabank Money Market Fund   |
| 5. "Focused" Group Fund              | 12. Scotiabank US Dollar Bond Fund |
| 6. Grace Caribbean Fixed Income Fund | 13. Scotiabank, Mutual Funds, SPC  |
| 7. JMMB Select Index fund            | 14. Sterling Global Fund Limited   |

## INVESTMENT ADVISERS

---

*There were no investments advisers registered as at March 31, 2004.*

## INSURANCE AGENTS

---

*There were twelve (12) insurance agents registered as at March 31, 2004:*

- |  |  |
|--|--|
| 1. Associated Owners Insurance (Agents) Limited  | 8. Nationwide Insurance Agents and Consultants Limited |
| 2. Cooke & Andrew Insurance Agency Limited       | 9. NUCS Co-operative Insurance Services Limited        |
| 3. Crichton Insurance Agency Limited             | 10. Platinum Insurance Agency                          |
| 4. Excel Insurance Agents Limited                | 11. Prime Insurance Agency Limited                     |
| 5. Desmond Mair (Insurance) Limited              | 12. Riviera Insurance Agency Limited                   |
| 6. Mutual Agency (Insurance) Ltd.                |  |
| 7. Mutual Enterprises (Insurance) Agents Limited |  |

# List of Registered Entities/Individuals (cont'd)

## INSURANCE BROKERS

*There were thirty (30) Insurance Brokers registered as at March 31, 2004:*

1. Allied Insurance Brokers Limited
2. Assurance Brokers of Jamaica Limited
3. Billy Craig Insurance Brokers Limited
4. Covenant Insurance Brokers Limited
5. Evals Insurance Brokers Limited
6. Firm Insurance Brokers Limited
7. Fraser Fontaine & Kong Limited Insurance Brokers
8. GEM Insurance Brokers Limited
9. Genesis Insurance Brokers Limited
10. Guardian Insurance Brokers Limited
11. International Insurance Brokers Limited
12. Jamaica Citadel Insurance Brokers Limited
13. JMMB Insurance Brokers Limited
14. Marathon Insurance Brokers Limited
15. Maritime General Insurance Brokers Limited
16. Mutual Security Insurance Brokers Limited
17. National Property & General Insurance Brokers Limited
18. Orion Insurance Brokers Limited
19. Progressive Insurance Brokers Ltd.
20. Scotia Jamaica General Insurance Brokers Limited
21. Solid Life and General Insurance Brokers Limited
22. Spectrum Insurance Brokers Limited
23. Thwaites Finson Sharp Insurance Brokers Limited
24. Zenith Insurance Brokers Limited

### Facultative Placement Brokers

25. Firm Insurance Brokers Limited
26. Fraser Fontaine & Kong Limited Insurance Brokers
27. Scotia Jamaica General Insurance Brokers Limited
28. Thwaites Finson Sharp Insurance Brokers Limited

### Overseas Reinsurance Brokers

29. Benfield Limited
30. J. B. Boda Company (UK) Limited

# List of Registered Entities/Individuals (cont'd)

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## **INSURANCE MANAGING GENERAL AGENTS**

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*There were no Managing General Agents registered as at March 31, 2004.*

## **INSURANCE LOSS ADJUSTERS**

---

*There were no Insurance Loss Adjusters registered as at March 31, 2004.*

## **INSURANCE CONSULTANTS**

---

*There were no Insurance Consultants registered as at March 31, 2004.*

# List of Registered Entities/Individuals (cont'd)

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## ASSOCIATION OF UNDERWRITERS

---

*There was one Association of Underwriters registered as at March 31, 2004:*

- Lloyd's of London

## LIFE INSURANCE COMPANIES

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*There were seven (7) life insurance companies registered as at March 31, 2004:*

1. Blue Cross of Jamaica
2. CUNA Mutual Insurance Society
3. First Life Insurance Company
4. Guardian Life Limited
5. Life of Jamaica Limited
6. NCB Insurance Company Limited
7. Scotia Jamaica Life Insurance Company Limited

## GENERAL INSURANCE COMPANIES

---

*There were thirteen (13) general insurance companies registered as at March 31, 2004:*

1. American Home Assurance Co.
2. British Caribbean Insurance Company Limited
3. Dyoll Insurance Company Limited
4. General Accident Insurance Jamaica Company Limited
5. Globe Insurance Company of the West Indies Limited
6. Jamaica International Insurance Company Limited
7. Key Insurance Company Limited
8. NEM Insurance Company (Jamaica) Limited
9. The Insurance Company of the West Indies Limited
10. The Jamaica General Insurance Company Limited
11. United General Insurance Company Limited
12. Victoria Mutual Insurance Company Limited
13. West Indies Alliance Insurance Company Limited



# **Auditors' Report & Financial Statements**

*FOR THE PERIOD ENDED MARCH 31, 2004*

# AUDITORS' Report

MARCH 31, 2004



**KPMG Peat Marwick  
Chartered Accountants**

P.O. Box 76  
Kingston  
Jamaica

The Victoria Mutual Building  
6 Duke Street  
Kingston  
Jamaica

Telephone +1 (876) 922-6640  
Telefax +1 (876) 922-7198  
+1 (876) 922-4500  
email:firmmail@kpmg.com.jm

To the Commissioners of  
**FINANCIAL SERVICES COMMISSION**

## Auditors' Report

We have audited the financial statements of Financial Services Commission ("the Commission") as of and for the year ended March 31, 2004, set out on pages 35 to 46, and have obtained all the information and explanations which we required. These financial statements are the responsibility of the commissioners and management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, proper accounting records have been kept and the financial statements, which are in agreement therewith and have been prepared in accordance with International Financial Reporting Standards, give a true and fair view of the state of affairs of the Commission as at March 31, 2004, and of the results of its operations and its cash flows for the year then ended.

October 27, 2004



KPMG Peat Marwick, a Jamaican Partnership,  
is a Member of KPMG International,  
a Swiss Association.

Rolf Lanigan  
Kelvin St. C. Roberts  
Raphael E. Gordon  
John W. Atkinson

Caryl A. Fenton  
Patricia O. Dailey-Smith  
Elizabeth A. Jones

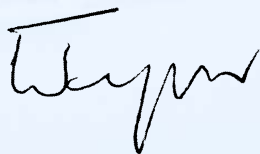
Linroy J. Marshall  
Patrick A. Chin  
R. Tarun Handa

# BALANCE Sheet

MARCH 31, 2004

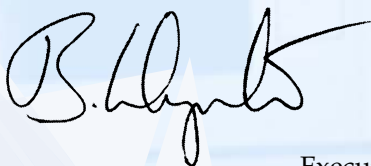
	<u>Notes</u>	<u>2004</u>	<u>2003</u>
CURRENT ASSETS			
Cash		14,649,531	16,220,056
Resale agreements	3	66,000,000	32,000,000
Accounts receivable		44,753,720	19,902,292 *
Taxation recoverable	4	4,224,363	2,415,488
		<u>129,627,614</u>	<u>70,537,836</u>
CURRENT LIABILITIES			
Accounts payable	5	13,241,758	6,853,938
Deferred fees		24,427,870	9,447,000 *
		<u>37,669,628</u>	<u>16,300,938</u>
WORKING CAPITAL		91,957,986	54,236,898
FIXED ASSETS			
	6	25,991,816	23,847,298
		<u>\$117,949,802</u>	<u>78,084,196</u>
Financed by:			
RESERVES	7	<u>\$117,949,802</u>	<u>78,084,196</u>

The financial statements on pages 35 to 46 were approved by the Commissioners on October 27, 2004, and signed on its behalf by:



Chairman

Dr. Owen Jefferson



Executive Director

Brian Wynter

*\*Restated to conform to current year's presentation.  
The accompanying notes form an integral part of the financial statements.*

# INCOME AND EXPENDITURE ACCOUNT

## and Statement of Total Recognised Gains and Losses

### YEAR ENDED MARCH 31, 2004

	<u>Notes</u>	<u>2004</u>	<u>2003</u>
<b>INCOME</b>			
Fees		216,365,329	131,237,720
Interest income		9,518,554	4,700,891
Gain on disposal		<u>26,500</u>	<u>-</u>
		<u>225,910,383</u>	<u>135,938,611</u>
<b>EXPENDITURE</b>			
Advertising		7,451,677	2,165,901
Appeals		203,253	-
Audit		300,000	300,000
Building maintenance		2,957,492	2,982,653
Commissioners' fees		2,164,640	1,818,514
Depreciation		7,765,712	2,665,441
Motor vehicle expenses		2,403,843	1,894,428
Office expenses		4,532,424	4,710,162
Printing and stationery		1,841,568	1,736,530
Professional fees	8(ii)	24,294,603	27,249,038 *
Public seminars and meetings		2,028,794	312,642
Utilities		4,988,244	4,019,962 *
Staff costs		136,666,769	102,855,434
Subscriptions		1,300,565	748,343
Travelling		148,055	137,323
Training and conferences	8(ii)	<u>10,029,413</u>	<u>6,063,897 *</u>
		<u>209,077,052</u>	<u>159,660,268</u>
Net income/(expenditure) from operations before grants and transfer		16,833,331	( 23,721,657)
Grants	8	<u>23,032,275</u>	<u>68,700,679 *</u>
Surplus for the year, before transfer		39,865,606	44,979,022
Transfer from capital reserve of amount equivalent to depreciation charge on donated assets		<u>2,375,847</u>	<u>2,158,665</u>
Surplus for the year, being total gains recognised for the year		<u>\$ 42,241,453</u>	<u>47,137,687</u>

\* Restated to conform to current year's presentation.

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

# STATEMENT OF Cash Flows

YEAR ENDED MARCH 31, 2004

---

	<u>2004</u>	<u>2003</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Surplus for the year	39,865,606	44,979,022
Adjustment to reconcile surplus for the year to net cash provided by operating activities:		
Depreciation	7,765,712	2,665,441
Fixed assets donated	-	(14,600,000)
Gain on disposal of fixed assets	( 26,500)	-
	47,604,818	33,044,463
(Increase)/decrease in current assets		
Resale agreements	(34,000,000)	(29,000,000)
Accounts receivable	(24,851,428)	6,747,580
Taxation recoverable	( 1,808,875)	( 1,087,055)
Increase in current liabilities		
Accounts payable	6,387,820	1,762,207
Deferred fees	14,980,870	5,313,257
Net cash provided by operating activities	<u>8,313,205</u>	<u>16,780,452</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to fixed assets	( 9,910,230)	( 3,991,607)
Proceeds from disposal of fixed assets	26,500	-
Net cash used by investing activities	<u>( 9,883,730)</u>	<u>( 3,991,607)</u>
Net (decrease)/increase in cash	( 1,570,525)	12,788,845
Cash at beginning of the year	16,220,056	3,431,211
Cash at end of the year	<u>\$14,649,531</u>	<u>16,220,056</u>

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

# NOTES TO THE Financial Statements

MARCH 31, 2004

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## 1. The Commission

The Financial Services Commission (The Commission) is a statutory not-for-profit organization established under the Financial Services Commission Act 2001 (the Act).

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 Financial Services Commission which commenced operations on that day. On the same date the FSC assumed responsibility for Unit Trusts under the Unit Trusts (Amendment) Act, 2001. With the passing of the new Insurance Act 2001, the Commission assumed regulatory responsibility for the insurance industry, on the appointed day (December 21, 2001).

During the prior period, the Government of Jamaica (GOJ) through its agencies, the Superintendent of Insurance and the Financial Sector Adjustment Company (FINSAC), donated certain fixed assets to the Commission. These assets were brought in at valuation.

These financial statements are presented in Jamaican dollars and cover the year ended March 31, 2004, with comparatives for the year ended March 31, 2003

The Commission had in its employment 73 (2003:62) employees as at March 31, 2004, out of a Board approved establishment of 89 (2003:77) employees.

## 2. Basis of preparation and significant accounting policies

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), adopted by the International Accounting Standards Board ("IASB"), as well as interpretations issued by the International Financial Reporting Standards Interpretation Committee of the IASB and recommendations issued by the Institute of Chartered Accountants of Jamaica, and comply with the provisions of the Companies Act.

The financial statements are prepared using IFRS for the first time. IFRS 1 - First time adoption of IFRS, which is effective for accounting periods beginning on or after January 1, 2004, has been adopted early.

# NOTES TO THE Financial Statements (cont'd)

MARCH 31, 2004

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## 2. Basis of preparation and significant accounting policies (cont'd)

The adoption of IFRS has no significant effect on the prior year's reported financial position, financial performance and cash flows of the Commission, and no restatements are required, in this regard.

The financial statements are prepared under the historical cost convention and are presented in Jamaica dollars (J\$), which is the measurement currency of the Commission.

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

The accounting policies set out below have been applied consistently to all periods presented in the financial statements.

### (a) 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.

### (b) Property, plant and equipment:

#### (i) Owned assets

Items of fixed assets are stated at cost or valuation, less accumulated depreciation and impairment losses.

(ii) Fixed assets are depreciated on the straight-line basis at annual rates estimated to write off the assets over their expected useful lives. The depreciation rates are as follows:

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

### (c) Capital expenditure:

Amounts utilized from government grants for the purchase of fixed assets, 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 fixed assets is transferred from capital reserve to the general fund.

### (d) 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 income and expenditure account.

# NOTES TO THE Financial Statements (cont'd)

MARCH 31, 2004

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## 2. Basis of preparation and significant accounting policies (cont'd)

### (e) 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. The Securities Regulations were amended in 2003.

The Securities (Licensing and Registration) (Amendment) Regulations, 2003 came into effect on September 1, 2003 and resulted in a change in the method of fee calculation. The second schedule to the principal regulation was amended by deleting the original flat fee of \$120,000 for dealers and \$8,000 for each branch. It was replaced by a fee which was "the greater of:

(i) \$170,000; or

(ii) The aggregate of

- 5 basis points on the 1<sup>st</sup> \$2 billion of assets; and
- 2 basis points on the next \$13 billion of assets; and
- 2/100<sup>th</sup> of a basis point on assets over \$15 billion, less the aggregate amount of fees paid by the dealer for its representatives and responsible officer during the 12 months preceding the anniversary".

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 31<sup>st</sup> 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 31<sup>st</sup> December immediately prior to the anniversary of the grant of its licence".

#### (ii) Insurance

New registration 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. Renewal fees for life insurance companies are calculated based on gross first year premium income and on premium income for employee benefits products and are payable quarterly in arrears.

The amended 20<sup>th</sup> schedule became effective October 1, 2003. Renewal fees for Intermediaries were the greater of the fee indicated on the amended 20<sup>th</sup> schedule or 0.5% of earned commissions. Fees for General & Life Insurance companies were now based on assets as outlined in the amended 20<sup>th</sup> schedule.



# NOTES TO THE Financial Statements (cont'd)

MARCH 31, 2004

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## 2. Basis of preparation and significant accounting policies (cont'd)

(e) Fees (cont'd):

(ii) Insurance (cont'd):

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) Jamaican and CARICOM General Insurance Companies

A fee of \$1 million, or the sum of:

First \$1 billion of total assets at 0.37%;

Second \$1 billion of total assets at 0.27%; and

Third \$1 billion of total assets at 0.17%; and

Total assets in excess of \$3 billion at 0.07%, whichever is greater.

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

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

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

(f) Resale agreements:

Securities purchased under resale agreements (“resale agreements”) are accounted for as collateralised financing.

(g) Accounts receivable:

Accounts receivable are stated at their cost less impairment losses [see accounting policy (h)].

(h) Impairment:

The carrying amount 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 income and expenditure account.

# NOTES TO THE Financial Statements (cont'd)

MARCH 31, 2004

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## 2. Basis of preparation and significant accounting policies (cont'd)

### (i) Accounts payable:

Accounts payable are stated at cost.

### (j) 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, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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.

## 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 15.60% and 14.60% (2003: 12.80% and 17.85%) as at the year end. The market value of the underlying securities as at March 31, 2004 was \$67,249,662 (2003: \$32,475,300).

## 4. Taxation recoverable

Taxation recoverable represents tax withheld by financial institutions on interest income earned on balances held with those institutions.

## 5. Accounts payable

Accounts payable includes \$477,000 (2003: \$Nil) due to commissioners.

# NOTES TO THE Financial Statements (cont'd)

MARCH 31, 2004

## 6. Fixed assets

	<u>Motor vehicles</u>	<u>Office furniture and equipment</u>	<u>Computer equipment</u>	<u>Total</u>
At cost:				
March 31, 2003	4,210,059	9,762,502	20,840,628	34,813,189
Additions	-	2,477,406	7,432,824	9,910,230
Disposal	( 165,631)	( 9,999)	-	( 175,630)
March 31, 2004	<u>4,044,428</u>	<u>12,229,909</u>	<u>28,273,452</u>	<u>44,547,789</u>
Depreciation:				
March 31, 2003	2,845,756	4,545,107	3,575,028	10,965,891
Charge for year	416,364	1,916,507	5,432,841	7,765,712
Eliminated on disposal	( 165,631)	( 9,999)	-	( 175,630)
March 31, 2004	<u>3,096,489</u>	<u>6,451,615</u>	<u>9,007,869</u>	<u>18,555,973</u>
Net book value:				
March 31, 2004	<u>\$ 947,939</u>	<u>5,778,294</u>	<u>19,265,583</u>	<u>25,991,816</u>
March 31, 2003	<u>\$1,364,303</u>	<u>5,217,395</u>	<u>17,265,600</u>	<u>23,847,298</u>

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

## 7. Reserves

	<u>General</u>	<u>Capital Reserve [see note below]</u>	<u>Total</u>
Balance at March 31, 2002	28,931,666	4,173,508	33,105,174
Periodic depreciation charge transfer	-	( 2,158,665)	( 2,158,665)
Transfer of capital grants from income and expenditure account to capital reserve	( 16,942,000)	16,942,000	-
Surplus for the year	<u>47,137,687</u>	<u>-</u>	<u>47,137,687</u>
Balance at March 31, 2003	59,127,353	18,956,843	78,084,196
Periodic depreciation charge transfer	-	( 2,375,847)	( 2,375,847)
Transfer of capital grants from income and expenditure account to capital reserve	( 7,366,848)	7,366,848	-
Surplus for the year	<u>42,241,453</u>	<u>-</u>	<u>42,241,453</u>
Balance at March 31, 2004	<u>\$94,001,958</u>	<u>23,947,844</u>	<u>117,949,802</u>

# NOTES TO THE Financial Statements (cont'd)

MARCH 31, 2004

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## 7. Reserves (cont'd)

Note:

This includes fixed assets valued at \$1,078,564 taken over from the Securities Commission. These assets were donated by the United States Agency for International Development through the Ministry of Finance for use by the Commission.

The transfer of capital grants from the income and expenditure account represents fixed assets donated by the Government of Jamaica through a loan from the Caribbean Development Bank, amounting to 2004 \$7,366,848 [2003:\$16,942,000 (see note 7)].

## 8. Grants

	<u>2004</u>	<u>2003</u>
Government of Jamaica ("GOJ") revenue grants:		
(i) Grant No. 1	-	29,883,262
(ii) Grants No. 2	15,665,427	21,875,417*
	15,665,427	51,758,679
Capital grants (see note 7)	7,366,848	16,942,000
	<u>\$23,032,275</u>	<u>68,700,679*</u>

(i) In the prior year, Grant No. 1 represented budgetary drawdowns received from the Ministry of Finance, Government of Jamaica, to cover some operating expenses.

(ii) The Commission is a beneficiary of the Caribbean Development Bank ("CDB")/Government of Jamaica loan agreement through the Ministry of Finance and Planning. Grants No. 2 represent professional fees and training expenses paid by the CDB amounting to \$14,521,917 (2003:\$21,559,405) and \$1,143,510 (2003:\$316,012) respectively.

## 9. Taxation

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

## 10. 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 Financial Services Commission assumed responsibility for the Plan (see note 1).

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 \$3,449,064 (2003: \$1,151,958).

The scheme is subject to periodic actuarial reviews at intervals of not more than three years.

\* Restated to conform to current year's presentation.

# NOTES TO THE Financial Statements (cont'd)

MARCH 31, 2004

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## 11. 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.

As at March 31, 2004, securities so deposited and which were in the possession of the Commission amounted to \$1,391 million (2003: \$1,477 million)

## 12. Financial Instruments

A financial instrument is any contract that gives rise to both 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, resale agreements, and accounts receivable. Financial liability consists of accounts payable only. Information relating to fair values and financial instruments risks is summarized below.

### (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 loss to one or both parties.

Cash and short-term investments are held with one reputable financial institution and investments are made in repurchase agreements involving Government of Jamaica securities.

### (ii) Interest rate risk:

Interest rate risk 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.

# NOTES TO THE Financial Statements (cont'd)

MARCH 31, 2004

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## 12. Financial Instruments (cont'd)

### (iii) 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, 2004, the foreign currency asset was US\$110,618 (2003: US\$13,716).

### (iv) 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 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.

### (v) Market risk:

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in prices, whether those changes are caused by factors specific to the individual security or its issuers or factors affecting all securities traded in the market. At the balance sheet date, the Commission did not have any financial instruments subject to this risk.

### (vi) Cash flow risk:

Cash flow risk is the risk that future cash flows associated with a monetary financial instrument will fluctuate in amount.

The company manages this risk by ensuring as far as possible, that fluctuations in cash flows relating to monetary financial assets are minimal by investing at fixed rates for fixed durations in the short term.

### (vii) Fair value disclosure:

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 judgement is required in interpreting market data to develop estimates of fair value and even greater judgement where there is no public or over-the-counter market. Accordingly, the estimates presented 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.

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

# NOTES

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# NOTES

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