FINANCIAL SERVICES COMMISSION

Annual Report 2004/05



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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.



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



Marjorie Henriques



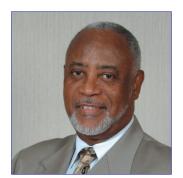
Celia Brown-Blake



Doreen Frankson



B. St. Michael Hylton, Q.C.



Hugh Martin



Howard Mollison



Clement Radcliffe



David Tennant



Brian Wynter Executive Director

Board of Commissioners



SITTING (left to right)

Mrs. Sheila Martin (Senior Director, Corporate Services), Mrs. Faye Sampson (General Counsel), Mr. Brian Wynter (Executive Director), Mrs. Angela Beckford (Chief Actuary)

STANDING (left to right)

Mr. Leon Anderson (Senior Director, Insurance), Mrs. Janet Johnson-Haughton (Director, Examinations), Mr. George Roper (Senior Director, Securities), Mrs. Nicolette Jenez (Senior Director, Pensions), Mr. Everton McFarlane (Director, Research & Policy)

Executive Management



MESSAGE FROM THE CHAIRMAN

am pleased to present the annual report of the Financial Services Commission for the year ended March 31, 2005. During the year, the Commission made notable strides in strengthening the regulatory framework, improving supervisory processes, investor education and developing the institutional capacity to carry out the mission of protecting users of prescribed financial services. However, the year was not without challenges as, among other things, the Commission sought to grapple with issues such as the orderly resolution of the failure of a medium-sized general insurance company as well as issues related to the adequate capitalization of securities dealers within the context of a newly established capital regime.

With respect to the strengthening of the regulatory framework, the passage through Parliament of the *Pensions (Superannuation Funds and Retirement Schemes) Act, 2004* was a landmark event in the statutory empowerment of the Commission to regulate and supervise the operations of superannuation funds and retirement schemes. It was therefore a significant milestone in the evolution of the Commission into a fully integrated financial services regulator after three years of operation. The attendant pensions regulations were signed after an extensive process of consultation with industry stakeholders and now await approval by Parliament.

The regulatory framework was also enhanced by:

• The passage of the Financial Services Commission (Amendment) Act, 2004 and related regulations, which strengthened the Commission's powers to share information with (a) entities empowered to investigate money laundering offences and offences in contravention of other laws, (b) overseas regulatory authorities and (c) the Solicitor

General, to facilitate coordination among financial regulatory agencies;

- The promulgation of insurance regulations aimed at (a) improving the disclosure by general insurance companies of the liabilities to be incurred under specific contracts and (b) allowing customers of life insurance companies to have more timely access to the proceeds of their insurance products;
- The promulgation of Anti-Money Laundering/Counter-Financing of Terrorism ("AML/CFT") Guidelines, which explained to prescribed institutions their obligations under the money laundering legislation and suggested approaches to executing their responsibilities;
- The promulgation of guidelines to securities dealers aimed at (a) regulating the excessive use of credit, (b) improving disclosure to clients and (c) improving capital adequacy and risk management.

The last of these were important components in the Commission's attempt to strengthen the prudential supervision of securities dealers. Securities dealers in Jamaica, because of their high level of balance sheet intermediation, are particularly prone to liquidity and interest rate risks and the Commission identified the need for these firms to improve their level of capital provisioning as well as their risk management practices in order to more adequately deal with these vulnerabilities. The programme of prudential supervision was also strengthened by an improvement to dealers' reporting requirements and the establishment by the Commission of early warning benchmarks to facilitate the timely detection of potential difficulties and to allow for earlier application of



supervisory remedies. As might be expected, the establishment of the capital regime for securities dealers has involved a transitional period in which the Commission has been working closely with dealers to ensure that the new capital requirements are observed in an orderly manner.

Public education is an important strategy in the commission's regulatory toolbox as this activity is expected to complement our efforts to improve market discipline by, on the one hand, fostering greater vigilance from more informed consumers of financial services and, on the other hand, by helping licensees and registrants to better comply with regulatory requirements. The main aim of the Commission's 2004/05 public education programme was to foster and promote knowledge and understanding of the Commission's operations and responsibilities amongst licensees in the securities and insurance industries. Among the activities undertaken, the Commission hosted a number of seminars aimed at improving stakeholder understanding of the regulatory implications of pension reform and sponsored other seminars under the themes of corporate governance and disclosure standards.

However, the Commission's progress during the financial year should not be gauged only from its interaction with its external clients. During the year the Commission continued to strengthen its own internal processes, systems and staff in order to improve the effectiveness and efficiency of its delivery of supervisory services. There were continued improvements to governance and management systems with the elaboration of policies and procedures in a number of areas and the development of an improved performancebased management system for corporate planning and performance evaluation. The institutional strengthening within the Commission was aided by a number of technical assistance projects aimed at improving the information technology architecture, policy development processes and human capital base in virtually all technical areas related to the supervision of insurance, securities and pensions.

Looking back, the Commission's efforts during the last year, and indeed since inception, were aimed primarily at establishing an adequate regulatory framework at both the policy and operational levels. This has been substantially achieved. More remains to be done as relevant Acts are amended and new regulations are promulgated to remedy existing deficiencies and to anticipate emerging developments. However, looking ahead, the Commission may be expected to place renewed focus on enforcement and compliance and is presently seeking to bolster its armoury of administrative penalties for breaches of relevant statutes. The Commission will also be seeking to strengthen its capacity for international cooperation given the increasing importance of cross-border transactions and transnational (indeed, supranational) financial corporations in Jamaica's financial system.

I wish to thank the management, staff and members of the Board for their continued dedication and hard work in pushing the Commission forward on its drive to be a strong, credible, impartial and effective regulator. During the year, the Commission lost the services of Mrs. Gayon Hosin, who was a founding member of the Board. We take this opportunity to thank Mrs. Hosin for her sterling contribution in helping to guide the Commission through its formative years and wish her all the best in her future endeavours. The Commission welcomes Mr. David Tennant, who replaced Mrs. Hosin. We look forward to working with Mr. Tennant as we continue to fulfill our regulatory mandate.

Dr. Owen Jefferson

Chairman



EXECUTIVE DIRECTOR'S REPORT Highlights of Activities, 2004/2005

Regulatory Activities

(a) **Legislation and Regulations**

Insurance

Two new sets of insurance regulations were approved within the reporting period. The first of these were *Insurance (Amendment) Regulations, 2004 (Pro rata Condition of Average)*, which took effect on August 23, 2004. With the promulgation of these regulations, general insurers, where applicable, must inform the insured in writing of the nature and effect of the average clause before the insured enters the contract. As a transitional requirement, within the year following the effective date of these regulations, general insurers are required to publish quarterly in an island-wide daily newspaper the nature and effect of the average clause.

The second set of new regulations was the *Insurance (Prescribed Sum) Regulations, 2004*, which became effective on December 9, 2004. These regulations prescribe the amount payable by an insurer to an individual who satisfies the insurer that he or she is entitled to obtain probate of the will of the deceased person or to take out letters of administration. This only applies in circumstances where the Administrator General is not legally obliged to apply for letters of administration in respect of the estate of the deceased policy holder.

Regulations 28 and 29 of the Insurance

Regulations were amended to clarify the solvency requirements of insurance companies. The amendments clarify and stipulate the correct wording as well as the factors to be employed in computing the solvency test.

Securities

With the *Companies Act, 2004* having come into effect in February 2005, it became possible for mutual funds to be registered locally. In preparation for this market development, the Commission consulted with the Office of the Registrar of Companies to develop a smooth procedure for registering local mutual funds. In addition, proposed changes to the Mutual Funds Regulations were being prepared by the Commission after consultations with industry stakeholders.

Some of the revisions include the following areas:

- The calculation (method and frequency) of Net Asset Value per security
- The custodian agreement.
- Duties of the custodian and sub-custodian.
- Reporting requirements.

Pensions

The Pensions (Superannuation Funds and Retirement Schemes) Act, 2004 ("the Pensions Act") was passed by Parliament in September 2004 and the Pensions (Superannuation Funds and Retirement Schemes) (Amendment) Act,



2005 was passed in March 2005. Both Acts were gazetted with an effective date of March 1, 2005. The order declaring pensions a financial service for purposes of the Financial Services Commission Act was gazetted at the same time.

Four sets of pension regulations were signed by the Commission and approved by the Minister after an extensive process of consultation and collaborative review with industry participants. The regulations were approved by the House of Representatives on March 16, 2003 and, at year end, were awaiting Senate approval. The four sets of regulations cover the following subjects:

- Registration, Licensing and Reporting,
- Governance.
- Investment and
- Specified Pension Fund and Specified Pension Scheme.

The provisions to be included in a fifth set of regulations that deal with the winding-up of superannuation funds and retirement schemes have been prepared and posted for public discussion on the Commission's website.

General

Amendments to the *Financial Services* Commission Act, 2001 ("the FSC Act") were passed by the Senate on the 2nd of December 2004. The amendments allow the Commission to disclose information to a wider group of prescribed entities and individuals. This group now includes the Financial Investigations Division for the purposes of an investigation of an offence under the Money Laundering (Prevention) Act. The Commission can also share information with the Solicitor General, any designated authority as recommended by the Minister of

Finance and Planning in consultation with the Commission's Chairman, and with an overseas regulatory authority. The amendments also allow for regulatory action to be triggered under section 8 and the Third Schedule of the FSC Act for breaches of the Money Laundering (Prevention) Act.

The Financial Services Commission (Overseas Regulatory Authority) (Disclosure) Regulations 2005 were prepared and signed during the review year and will become effective in the next financial year. These regulations set out the conditions under which the Commission may provide confidential information and documents to an overseas regulatory authority. The effect of these provisions is to permit the Commission to provide assistance to overseas regulators and to receive reciprocal assistance from them thus enhancing the regulatory protection to the Jamaican public provided by the FSC Act and relevant Acts.

(b) Bulletins and Guidelines

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

Insurance

Two guidelines were issued to the insurance industry:

 Investment and Lending Policies for Insurance Companies (IR-GUID-04/05-0006). This elaborated the Commission's



expectations with respect to insurance companies developing a prudent and comprehensive Investment and Lending Policy as required under regulation 104 of the *Insurance Regulations*;

• Filing Requirements for Insurance Intermediaries (IR-GUID-04/06-0007). This provided a listing of the information that is required to be filed with the Commission by insurance intermediaries registered in Jamaica.

Securities

The Commission released the following bulletins and guidelines for the securities industry:

- Treatment of Securities acquired on Margin (SR-GUID-04/07-0009). This bulletin enunciated guidelines for appropriate standards to be adhered to by securities dealers engaged in the practice of buying securities on margin using the services and credit lines available through their US based broker dealers. The guidelines relate to, among other things, standards for accounting, disclosure, and capital levels;
- Capital adequacy guidelines for securities dealers. This included two complementary documents, viz (a) Guidelines for Margin Requirements for Repurchase Agreements (SR-GUID-04/07-0010) and (b) Guidelines for Interim Capital Standards for Securities Dealers (SR-GUID-04/07-0011). The former sought to regulate the use of credit by dealers by specifying margin requirements for liabilities acquired by dealers using repurchase agreements, while the latter

specified risk weights and other aspects of risk-based capital requirements;

- Minimum Requirements for Client-Dealer Repurchase Agreements (SR-GUID-04/07-0012). These guidelines specified the criteria to be satisfied by repurchase agreements with clients if they are to be eligible for the lower margins allowed by SR-GUID-04/07-0011 above;
- Liquidity Management for Security Dealers that are not Licensed Deposit Takers (SR-GUID-04/11-0013). These guidelines elaborated key principles and provided practical guidance for sound liquidity management;
- Early Warning Tests (SR-ADVI-05/03-0001). This bulletin provided information on a set of key ratios being used by the Commission for the purpose of identifying early signs of financial weakness in licensees so that the Commission can ensure that early remedial action is taken by company directors and business owners.

General

The Commission's regulatory framework for antimoney laundering was strengthened with the promulgation of the Anti-Money Laundering/Counter-Financing of Terrorism ("AML/CFT") Guidelines, which came into effect on February 3, 2005. The development of these guidelines involved wide stakeholder consultations, taking into consideration feedback from regulated sectors and incorporating international recommendations, standards and guidelines, particularly those of the Financial



Action Task Force, the International Association of Insurance Supervisors and the International Organization of Securities Commissions.

(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. In May 2004, the Commission approved amendments to Rule 407 and Rule 408 which were previously changed in November 2003. The approved amendments in 2004 require that a listed company inform both its shareholders and the Jamaica Stock Exchange when the company will not be able to submit its quarterly financial statements and its audited annual financial statements within prescribed deadlines.

(d) Authorisations

During the year the Commission issued authorizations to 387 entities in the insurance and securities sectors. Table 1 below outlines the changes in the number of licensees and registrants for the insurance and securities industries. No licenses, registrations or approvals were revoked.

Under both the Securities Act and the Insurance Act and in accordance with regulatory best practices, where the circumstances would incline the Commission towards rejection of a license or refusal to register, the applicant is afforded an opportunity to be heard by the Commission before a decision is made. During the review period, this opportunity was taken advantage of by one securities applicant and one insurance applicant. The insurance applicant was granted registration while the securities applicant was rejected.

Insurance

The life insurance industry saw a reduction in the number of registrants during the period as two companies merged their operations following approval by the Commission. A new general insurance company was registered. Two new insurance brokers and four new insurance agents were also registered. One entity cancelled its registration as an insurance agent and was subsequently registered as an insurance broker. Similar to last year, there were no registered insurance managing general agents.

Securities

During the review year, twenty three securities dealers cancelled their licenses, three new securities dealers were registered and three securities dealers were merged. For the securities dealers' representatives the additions include new individuals as well as representatives changing from one securities dealer to another. Similar to last year, there were no licensed investment advisers.

(e) **Investigations**

The Commission normally conducts investigations for the following reasons:

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

FINANCIAL SERVICES COMMISSION

Table 1- Number of Licensees and Registrants as at March 31, 2005	lumber o	f License	es and R	egistrant	s as at N	larch 31	, 2005					
	LIFE INS. COs.	LIFE INS. GENERAL ASSOC. OF COS. INS. COS. WRITERS	ASSOC. OF UNDER- WRITERS	INS. BROKERS	INS. AGENTS	INS. SALES REPS.	LOSS ADJUSTERS	SECURITIES SECURITIES DEALERS DEALERS' REPS.	SECURITIES DEALERS' REPS.	MUTUAL FUNDS	UNIT	TOTAL
LICENSED/ REGISTERED AT 31/03/04	7	13	1	30	12	869	0	102	268	14	4	1,620
ADDITIONS	0	1	0	2	4	164	4	3	209	0	0	387
TERMINATIONS/ CANCELLATIONS	0	0	0	0	(2)	(116)	ı	(23)	(113)	0	0	(254)
MERGED	(1)	1	1	1	1	ı	ı	(3)	ı	1	ı	(4)
LICENSED/ REGISTERED AT 31/03/05	9	14	1	32 (NOTE 1)	14	917	4	79	664	14	4	1,749

Note 1 - Includes Overseas Brokers and facultative placement brokers



Investigations into Suspected Breaches of any Relevant Act

During the review period, the Commission conducted twenty-five (25) investigations into suspected breaches of the *Securities Act*, the *Insurance Act* and the *Insurance Regulations*. Table 2 contains information on the suspected breaches.

Investigations Into Fit and Proper Status

During the reporting period, forty-one (41) 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 evaluation of his or her application.

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 a professional body for incompetence.

At the end of the year, forty (40) of the investigations were completed, with one awaiting completion.

Table 2 - Investigations into Suspected Statutory and Regulatory Breaches	Table 2 - Investigo	itions into Suspected S	Statutory and Regu	latory Breaches
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Description of Suspected Breach	Related Legislation
4 Entities carrying on insurance business without being registered	Section 7(1)(a) of the Insurance Act
17 unregistered persons performing the function of insurance intermediaries	Section 70(1)-(2) of the Insurance Act
Persons providing misleading information	Section 147 of the Insurance Act
1 Entity carrying on business as a reinsurer without being registered to do so	Insurance Regulations 115(3)
3 Public entities offering securities without registration	Section 7 of the Securities Act
Market abuse comprising insider trading and use of manipulative or deceptive practices	Various sections of the Securities Act



Investigations into Alleged Improper Conduct of Licensees and Registrants

Three (3) investigations were done in relation to market conduct practices within the insurance industry. Nine (9) insurance sales representatives were investigated for termination due to fraudulent activities. These investigations are still on-going.

Investigations of Complaints Received from the Public

For the year, a total of two hundred and eighteen (218) complaints were reviewed. Of this amount, one hundred and eighty (180) were received during the year with the remaining 38 complaints being carried forward from 2003/2004. At the end of the year, one hundred and sixty-six (166) or 76% of the cases of complaints were closed. Table 3 provides an analysis of the complaints. Complaints relating to the life insurance industry required a special investigation

process which is still ongoing and this is reflected in the relatively low closure rate for life insurance cases.

(f) Appeal Tribunal

Section 19 of the Financial Services Commission Act provides for the establishment of an Appeal Tribunal. The Minister of Finance and Planning appoints the members of the Financial Services Commission Appeal Tribunal. The current members 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. There were no appeals before the Appeal Tribunal for the reporting period.

Table 3 - Analysis of Con	nplaints 2004/05
	General Insurance

	General Insurance	Life Insurance	Securities	Total
Total complaints reviewed Of which: b/f from previous year	169 34	32	17 3	218 38
No. of cases closed Of which: b/f from previous year	149 34	3	14 3	166 38
Percentage closed	88%	9 %	82%	76%



Supervisory Activities

Insurance

(i) Reporting requirements for Registrants

The insurance companies kept up the standard of the previous year in filing their quarterly statements within the 30-day deadline. However, the filing of the annual statements was not as prompt as four companies filed later than the prescribed deadline.

(ii) Early Warning Tests

During the year, the framework for prudential supervision of insurance companies was further strengthened. In particular, the slate of early warning ratios which guide the Commission as to the solvency and operational strength of insurance companies was modified and new ones were included after a detailed review. The standards were revised to produce results that were more consistent with the statutory solvency standards. The new ratios became effective for the reporting quarter ended March 31, 2005. The reporting templates for the annual and quarterly statements were also revised to incorporate the new and modified ratios.

For the general insurance companies, the Solvency ratio and the Investments in Real Estate ratio were amended whilst the use of the Return on Investments ratio was discontinued. A number of new ratios were also introduced. These include the Reinsurance ratio and the Return on Equity ratio.

For the life insurance companies, the Solvency ratio was amended and the use of ratios such as Investments in Real Estate, Earnings ratio, Profitability ratio and Return on Investments were discontinued. These were replaced by:

- Management tests such as Premium tests and change in the number of in-force policies
- Earnings tests such as Return on Equity
- Liquidity and Asset Liability Matching tests

(iii) Examinations

To allow for supervision that is both effective and efficient, the Commission is committed to a riskbased supervisory approach. Under this approach, the Commission conducts both on-site and off-site examinations. Off-site examinations mainly involve a review of the annual filings and selected documents submitted by the licensees and registrants. Based on the results from the off-site examinations, on-site examinations are conducted on companies where the Commission requires a more in-depth review of the companies' policies, procedures and practices. An on-site examination typically involves a team going to the company to perform a thorough inspection of the company's records that are deemed relevant to the examination.

During the review period, all insurance companies in the life and general insurance sectors were assessed using the CARAMELS risk model'. Nineteen off-site assessments were completed. Additionally, quarterly assessments were completed on all these companies during the year on the basis of quarterly filings. The deficiencies detected through this process of off-site and onsite examinations are communicated to the

¹Under the CARAMELS assessment framework, a company's risk profile is assessed according to the following areas of exposure: Capital, Asset Quality, Reinsurance, Actuarial, Management, Earnings, Liquidity, and Subsidiaries.



companies and the Commission works with them to ensure that they are remedied appropriately and in a timely manner.

(iv) Insurance Company Insolvency

The Caribbean, including Jamaica and the Cayman Islands, was severely affected by the effects of Hurricane Ivan in September 2004. The hurricane hit the Cayman Islands with a catastrophe that is reportedly experienced only once every 500 to 1000 years.

One medium-sized general insurance company obtained 25% of its premium income from its operations in the Cayman Islands and as a result was exposed to net claims estimated to be in excess of J\$1.7 billion. The international reinsurers' normal catastrophe cover for the Cayman Islands provided cover for insurers for a single catastrophe (or event) of no more than 15% of the insurance company's aggregate sum insured. This is called the single event limit. The insurance company had reinsurance cover that would provide up to 20% of its aggregate sum insured in a single event. It is estimated that the effect of Hurricane Ivan on the Cayman Islands brought claims on insurers in excess of 30% of the aggregate sums insured. The general insurer therefore suffered significant losses which the company could not meet from reinsurance or capital.

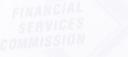
In order to protect the interest of the company's policyholders the Commission used its powers under section 8 of the Financial Services Commission Act and put the company under temporary management on March 7, 2005 and appointed an agent to manage its affairs. The policies comprising the Jamaican portfolio were terminated and were taken over by another solvent insurer with the financial and managerial capacity to assume the portfolio at short notice.

The solvent insurer also assumed the unearned premium liabilities related to these policies (approximately \$477 million) and paid a sum of \$113 million. The risks on these policies were assumed effective March 7, 2005 on substantially the same terms and conditions and the policyholders paid no additional premiums. The transaction eliminated further risk to the failed insurer and provided for the orderly continuation of the approximately 16,000 policies in Jamaica. The failed insurer's financial position was also improved by \$585 million as a result of the transaction.

The transaction did not extend to claims that were incurred before March 7, 2005. The transaction also did not extend to the policies comprising the Cayman Islands' portfolio. Efforts to establish a similar arrangement with insurers in Jamaica or the Cayman Islands were not successful. These policies were terminated to eliminate further risk exposure to the failed insurer. At the end of the period under review the Commission was in the process of preparing to file a petition in the courts to have the company liquidated.

(v) Insurance Intermediaries

The supervision of intermediaries continued to intensify during the year with attention being focussed on insurance brokers and insurance agents. The regulatory and reporting requirements were finalised and implemented and the process has had an impact on the companies. Insurance brokers and insurance agents must meet mandatory standards of capital and insurance cover in addition to other regulatory standards. During the period a number of breaches, mainly in respect of capital adequacy and late filing of financial statements, were detected. Most cases were satisfactorily remedied within the period.





BOX 1:

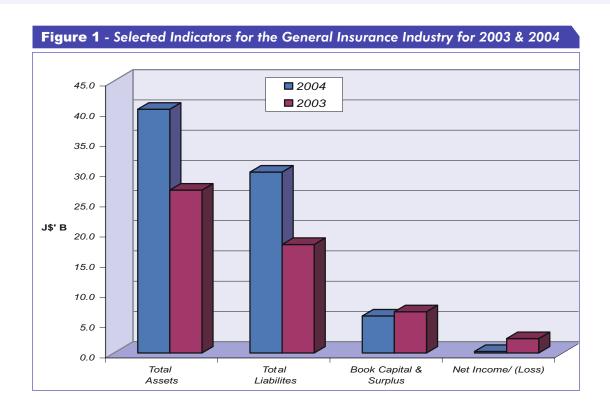
A SNAPSHOT OF THE IMPACT OF HURRICANES ON THE INSURANCE INDUSTRY IN 2004

Figure 1 depicts the impact of the hurricane season on the general insurance industry by showing the changes in selected key indicators between 2003 and 2004. Total industry assets increased by 49.7 percent. This was due primarily to increases in reinsurance recoverable. It is anticipated the balance sheets will return to normal as the funds for claims payment are received from the reinsurers and paid to claimants. Without the recoverable amount from the reinsurers, the increase in total assets would have been approximately 8.5 percent.

Total liabilities grew by 67 percent. The main factor for this growth was insurance liabilities (unpaid claims and adjustment expenses) which ballooned mainly as a result of Hurricane Ivan. Total liabilities without unpaid claims and adjustment expenses would have increased by only 4.5 percent. Net income plummeted by 89 percent and was due to high underwriting losses and fall in interest earnings. All companies suffered a decline in net income. Industry book capital and surplus fell by 10 percent largely as a result of losses incurred by one insurance company which was put into liquidation shortly after the end of the review period.

The impact of hurricane-related claims on the performance of the industry may be more starkly illustrated by examining the pattern of net income changes using un-audited quarterly filings. For the first six months of 2004 - the pre-hurricane quarters - net income declined by 45.6 per cent compared with the corresponding period of 2003. This may be primarily attributed to the effects on investment returns of falling interest rates and a relatively stable exchange rate¹. However, by December 2004 net income for the general insurance industry had declined by 81.9 per cent relative to the previous year, as the effects of hurricane-related underwriting losses were added to the continuing impact of declining investment returns.

During 2003, net income grew by 32.1 per cent fuelled by (a) an increase in foreign exchange gains in the wake of exchange rate depreciation during the first half of the year and (b) marked increases in fixed income returns as Bank of Jamaica interest rates were increased to contain the exchange rate movements. In particular during the first six months of 2003, net income had increased by 168.0 per cent compared with the corresponding period of 2002.





Securities

(i) Securities Market Surveillance

The Commission routinely monitors trading on the stock market. The Commission also receives reports on suspected instances of insider trading or market misconduct. Investigations into suspected market abuses can be initiated as a result of information gleaned through routine monitoring or information received from external resources.

An investigation in respect of trading in the shares of a listed company was initiated in February 2005. The aim of the investigation is to determine whether there was insider trading or market manipulation.

(ii) Examinations

During the year the Commission continued to apply the CAMEL risk assessment model² to

determine the soundness of licensed securities dealers. These assessments identified a number of weaknesses including high balance sheet intermediation, mismatch of maturity and duration of assets and liabilities and weak capital. As the interim capital standards and other measures introduced by the Commission came into effect and licensees responded to the Commission's deficiency letters, improvement was seen in a strengthening of capital and a reduction in the level of balance sheet intermediation.

The Commission also carried out nineteen (19) on-site examinations of securities dealers. These revealed a range of violations of the Securities Act and attendant regulations by a number of licensees. Table 4 provides a summary of the violations observed. Licensees with violations were issued deficiency letters setting out the details of the violations and any other concerns raised by the Commission during the examination

²Under the CAMEL assessment framework, a company's risk profile is assessed according to the following areas of exposure: Capital, Asset Quality, Management, Earnings, and Liquidity and Interest Rate.

Table 4 -	Violations of The Securities Act & Regulations 2004/05		
Legal Provision Violated	Description of Provision	Number of Violations 2003/04	Number of Violations 2004/05
S07	Dealing without Dealer's License	0	1
S08	Dealing without Licensing of Investment Advisers	0	1
\$10	Requirement to register dealer representatives	5	2
S38	Issue of Contract notes	10	5
S39	Provision of disclosure of dealers' interest in securities	5	3
S40	Provision governing dealers dealing as principal	4	2
S63	Dealing without Dealer's Accounting Records	0	1
COB	Conduct of business Regulations	37	43
DOI	Disclosure of Interest Regulations	1	1
L&R	Licensing and Registration Regulations	1	1
Total		63	60



process. A plan of action to address the violations and concerns in a timely manner is also prepared for each licensee and the Commission monitors the licensee to ensure compliance with the plan. While the number of violations observed continues to decline year on year the pace of decline is modest and current levels remain unacceptably high. The Commission has signalled to licensees its intention to utilise stricter enforcement measures to achieve full compliance with the Securities Act and regulations.

Some of the most common violations observed were:

1. Dealing without Dealer's Licence

Section 7 stipulates that everyone who carries on a securities business or holds himself out as carrying on a securities business must be in possession of a dealer's licensee.

2. Dealing without Investment Adviser's License

Section 8 of the Securities Act prohibits any person from acting as an investment adviser without a license.

3. Unregistered persons acting as Securities 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 was a violation of section 10 of the Securities Act.

4. 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.

5. 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.

6. 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.

7. Transparency of Financial Position

There were several cases where section 63(1) of the Securities Act was contravened. Under this



provision every dealer is required to keep such accounting records so as to accurately capture and explain the transactions and financial position of the securities business carried on by the dealer.

8. Conduct of Business Regulations

• 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.

• 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 contravened regulation 8(2)(c) and 8(2)(d) of the Securities (Conduct of Business) Regulations by not stating 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).

• 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.

• Presentation of Financial Reports

Regulations 13 and 14 of the Securities (Conduct

of Business) Regulations require that:

- Licensees file, within 90 days of the end of the financial year, audited accounts along with the prescribed annual reports "Form PR.A" and "Management Discussion and Analysis of Financial Condition and Results of Operations";
- 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 number of violations in this category was significantly reduced as a result of remedial action taken by the Commission.

• Dealers'Accounting Records

Based on paragraphs 12(1)-12(6) of the Securities (Conduct of Business) Regulations, every licensee should maintain records as prescribed in the regulations, which include, inter alia, daily records of securities sales and purchases, cash disbursements and receipts, securities ledgers and client ledger. These were not always maintained.

9. Disclosure of Interest Regulations

Regulation 6 of the Securities (Disclosure of Interest) Regulations prohibits any company from issuing commercial paper unless in accordance with these regulations.

10. Licensing and Regulations

Regulation 2 (i(c)) of the Securities (Licensing and Registration) Regulations outlines one of the requirements for an individual to be considered eligible to be a dealer or an investment adviser. One individual was found to have breached this regulation.



Pensions

The Commission developed registration and licensing procedures in preparation for the registration of superannuation funds and retirement schemes, trustees and responsible officers and the licensing of administrators and investment managers. Stakeholders were informed about registration and licensing requirements through various media: seminars, stakeholder meetings, responses by the Commission to specific queries and a general registration information guide published on the Commission's website.

The Commission also conducted an industry survey in October 2004 the results of which supported the Commission's estimate of potential registrants and licensees. The results of the survey also provided the Commission with preliminary information with which to design a regulatory fee structure.

The Commission continues to explore different risk-based methods of pension supervision and is committed to the application of the latest techniques and best practices in its work. The riskbased approach which the Commission will be using 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 company's pension plan. Some of the areas which will be examined are contributions, assets, management and governance, sponsor, regulatory compliance and actuarial/solvency. The Commission will continue to train and expose its staff to pension best practice and the latest techniques in the analysis and supervision of private pension plans.

Anti-Money Laundering/Combating the Financing of Terrorism ("AML/CFT")

The Commission continued the intensification of its activities in this area begun in the previous financial year. The Commission's AML/CFT Guidelines were issued (see page 10). The Financial Services Commission Act was amended to permit sharing of confidential information with overseas regulatory authorities and the Designated Authority under the Money Laundering Act ("MLA") and to include breaches of the MLA and attendant regulations amongst the conditions which would allow the Commission to draw on its wide ranging powers of sanction against licensees and registrants (see page 9).

During the year under review, the Commission also participated as a member of the newly formed National Anti-Money Laundering Committee. This committee, which includes representatives drawn from all official agencies involved with AML/CFT, was formed to provide a forum for the discussion of anti-money laundering issues, to ensure that the necessary measures are taken to improve Jamaica's anti-money laundering regime and to facilitate compliance with international obligations. Further developments are highlighted below:

(i) Anti-money Laundering Policies and Procedures Manuals

During the financial year, each regulated entity was required to submit to the Commission an Anti-Money Laundering Policies and Procedures



Manual approved by the entity's board. Submissions were received from approximately 93% of institutions. The manuals were reviewed as part of the off-site phase of the examination process. Deficiencies noted will be communicated to the relevant licensees and registrants during the first quarter of the next financial year.

(ii) Appropriate Persons

Section 7(3) of the MLA mandates financial institutions to appoint an Appropriate Person who performs management functions and who is responsible for ensuring the implementation of the programmes, policies, procedures and controls required for compliance with the MLA. These persons will be the primary point of contact with the Commission on AML/CFT matters.

Regulated entities were required to submit the details of the Appropriate Person to the Commission. At the end of the reporting period, approximately 78% and 65% of the entities within the securities and insurance industries, respectively, had complied. Full compliance is expected during the next financial year.

(iii) The AML/CFT Checklist

The AML/CFT Checklist and the AML/CFT Programme Steps were developed during the review year. The Commission's analysts and examiners utilize these as tools in the process of reviewing the AML/CFT regime in each regulated entity. During the off-site and on-site phases of an

examination, the Checklist and Programme Steps provide a directed approach for the identification of weaknesses and risk areas in the AML/CFT regime of registrants and licensees. Based on the off-site analysis of the Checklist completed by all regulated entities, the Commission was able to structure training programmes to address deficiencies identified at that level.

(iv) International Monetary Fund/World Bank Mutual Evaluation Exercise

During the reporting period, Jamaica commenced an International Monetary Fund/World Bank Mutual Evaluation, with the Caribbean Financial Action Task Force ("CFATF") as the regional body to the Financial Action Task Force ("FATF") conducting the Mutual Evaluation exercise on their behalf. The Mutual Evaluation involves the assessment and rating of the level of Jamaica's compliance with all aspects of the FATF Forty & Eight Special Recommendations on AML/CFT measures.

The preliminary phase of the evaluation process involved the completion and submission of a Mutual Evaluation Questionnaire to the CFATF Secretariat. The second or on-site phase of the Mutual Evaluation exercise, marked by a series of interviews by a CFATF mission with representatives of government, government agencies, law enforcement, the judiciary, supervisors of financial institutions and other relevant bodies and associations, will be conducted during the first quarter of the next financial year.



Public Education

Securities

In May 2004 the Commission hosted a seminar entitled *Capital Adequacy for the Securities Industry*. The objective of the seminar was to sensitize industry players on capital adequacy requirements which were to be implemented in



Dr. Owen Jefferson (left), Chairman of the FSC speaking at the Official Opening Ceremony of 2005 Pension Seminar. Dr. the Hon. Omar Davies MP, Minister of Finance & Planning (right) and Executive Director of the FSC Brian Wynter look on.

July 2004. The topics covered included guidelines for interim capital standards for securities dealers, margin requirements for client-dealer repurchase agreements, minimum requirements for repurchase agreements and the treatment of securities acquired on margin.

Attorneys providing legal services to licensees in the securities sector were the target audience for a

seminar held in August 2004. This seminar was aimed at providing an understanding of the requirements of securities industry guideline Minimum Requirements for Client-Dealer Repurchase Agreements (SR-GUID-04/07-0012).

In November 2004, the Commission hosted a symposium with the theme *Public Disclosure and Transparency in Financial Markets*. At the symposium, which attracted approximately 120 participants, three papers were presented, namely Disclosure Requirements an assessment of the environment in Jamaica, the Education and Empowerment of Investors and the feature paper Public Disclosure and Transparency in Financial Markets.

Pensions

In January 2005, five industry training seminars targeting trustees, administrators, investment managers, accountants, actuaries, attorneys and other stakeholders were held in Kingston and Montego Bay. The seminars focused on the provisions of the Pensions Act and draft regulations and served as a medium to educate and clarify issues as well as to obtain feedback from a wide cross-section of the industry. These seminars were attended by 544 persons.

During March 2005, advertisements were published giving information on the passage of the







Mrs. Angela Beckford, Senior Director of Pensions (standing to left) responds to questions from audience members at a pension seminar.



Pensions Act and the status of the regulations. A brochure on the Act has been published and another on registration and licensing will be available shortly.

In response to queries from the public, persons with concerns about their pension benefits were advised of their rights under the law. Trustees of funds and schemes which were in the process of winding-up were also notified of the requirements under the Act as well as the Commission's policy on termination of funds and schemes.

General

Corporate Governance

In July 2004, the Commission sponsored a seminar on Corporate Governance at which the Commission sought to engage senior executives of Jamaica's securities and insurance firms in discussion on this topical issue. Presentations were made by consultants from Canada, the United States of America and the Caribbean, as the Commission sought to bring a global perspective to the issue of corporate governance. This seminar was attended by 110 persons.

Anti-Money Laundering

Based on feedback from an anti-money laundering checklist, which was first circulated to the securities and insurance industries in the final quarter of the 2003/04 financial year, the Commission was able to undertake a preliminary assessment of the level of compliance with existing money laundering legislation, both within the institutions and throughout the industries. Based on the deficiencies noted, a training strategy for industry participants and Commission staff was developed.

Two introductory AML training seminars were held in April 2004 with 113 participants from the insurance and securities industries. Participants were exposed to the following areas:

- Know your customer
- Know your employee
- Enhanced due diligence
- Procedures for reporting
- Nature of reports and filing of reports

In June 2004 the Commission in collaboration with the Caribbean Anti-Money Laundering Programme hosted an Advanced Anti-Money Laundering Training Seminar. The target audience was the "Appropriate Person", as defined by regulation 10(a) of the Money Laundering Regulations, 1997. This seminar was attended by eighty-five (85) persons from the insurance and securities industries. The seminar covered areas such as securities enforcement and money laundering, the vulnerabilities of the insurance industry to money laundering, money laundering trends and developments from a law enforcement perspective, risk management and the effects of money laundering on the financial system and nation.

Community Interactive Talk

A community interactive talk was held in collaboration with the Jamaica Deposit Insurance Corporation, the Bank of Jamaica and the Jamaica Stock Exchange in Port Antonio under the theme Securing Your Financial Safety. It attracted 115 participants. The Commission used the opportunity to share with the participants the role and responsibilities of the Commission as a regulator and highlighted the functioning of the Commission's Complaints Unit.



Human Resource Management

One of the Commission's strategic objectives is to build a competent staff, committed to professionalism and teamwork the achievement of which is critical to the overall performance and effectiveness of the Commission. The industries which the Commission regulates are complex and highly technical and the staff must be equipped with the right skills and knowledge to understand

the operations and the risks associated with the various financial entities.

During the 2004/5 financial year the Commission spent approximately \$11.3 million on training (seminars and workshops) and approximately \$4.6 million for conferences which together accounted for 6% of total operating expenses. A summary of staff training provided during the year is shown in Table 5 below.

Table 5 - Training Summary 2004/05

Course/Seminar	Provider	Number of Staff Trained
Auditing Operational Risk in Financial Institutions	Euromoney Training	2
Basic Financial Investigation	Caribbean Regional Drug Law Enforcement Training Centre	1
Customer Service Standards and Work Ethics	Quality Management Consultancy Limited	69
Fraud Workshop	Euromoney Training	2
Insurance Supervision	Caribbean Regional Technical Assistance Centre, Trinidad	1
Insurance Supervision	Office of the Superintendent of Financial Institutions, Canada	1
Insurance Supervisors Workshop	Caribbean Regional Technical Assistance Centre, Barbados	2
Intelligence Led Regulation - Organized Crime in the Global Financial Markets	Ontario Securities Commission, Canada	2
Leadership Skills for Supervisors	Lloyd Eubank-Green & Associates	14
Mutual Funds Workshop	Jamaica Stock Exchange	3
Pensions Reform in the Caribbean	Crown Agents, UK	8
Records Management	Stellent, California	1
Securities Supervision	Toronto Leadership Centre, Canada	2
Supervision of Financial Conglomerates	Financial Stability Institute, Switzerland	1
Supervisory Management	Lloyd Eubank-Green & Associates	17
Securities Enforcement & Market Oversight	United States Securities & Exchange Commission	2
Securities Market Development	United States Securities & Exchange Commission	2



Financial Review

The following comments discuss the financial position and the result of operations of the Commission and should be read in conjunction with the audited financial statements and related notes for the year ended March 31, 2005.

Highlights

The Commission ended the financial year with a net income from operations of \$35.1 million compared to the net income of \$39.9 million for the previous year. Revenue and capital grants received during the year totalled \$36.5 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 \$17.8 million were used to cover the cost of professional fees and staff training related to several technical assistance projects including the development of operating policies and procedures; strengthening the supervision of the insurance industry and

defining the computer requirements for a regulatory and management information system. The capital grant of \$18.6 million was used to finance the purchase of a records management system as part of the computerization of the Commission.

Analysis of Financial Year 2004/5 Operation and Financial Position

1. Revenue

2004/05 represented a full year since the introduction of the new fee structure for the insurance and securities industries. Fee revenue which accounted for 95% of total revenue was \$233.1 million and was 7.7% higher than the previous year. The securities industry contributed \$91.8 million (39% of total fee revenue) which was 35% higher than the previous year. Table 6 gives a breakdown of the fees earned from the securities industry.

The insurance industry contributed \$139.9 million (60% of total fee revenue) which was 4% lower

	200	4/05	200	3/04
Source	Revenue (\$'000)	% of Total	Revenue (\$'000)	% of Total
Dealers Licenses	54,911	60	34,528	51
Stock Exchange Transactions	31,043	34	26,118	38
Application and Filing Fees	621	1	1,406	2
Commercial Paper, etc.	175	-	68	-
Mutual Funds	5,067	5	5,896	9
Total	91,817	100	68,016	100



than the previous year. The decline in insurance fees resulted from the failure of a general insurance company and the merger of two life insurance companies. Table 7 gives a breakdown of the fees earned from the insurance industry.

2. Expenses

Total expenses for the 2004/05 financial year was \$246.6 million, an increase of \$37.5 million or 18% over the previous year. The major expense items which accounted for 81.7% of total expenses were as follows:

- Staff costs accounted for 66% of total expenses, compared to 65% in 2003/04. For the review year staff cost increased by \$26.5 million or 19% over the previous year due to an expansion in the size of the staff. At the end of the review year the Commission had 84 permanent employees compared with 73 at the end of the previous year.
- Professional fees amounted to \$23.5 million compared to \$24.3 million in 2003/04 and accounted for 9.5% of total expenses.

Table 7 - Revenue from Insurance Industry, 2004/05 & 2003/04

	200	4/05	200	2003/04	
Source	Revenue (\$'000)	% of Total	Revenue (\$'000)	% of Total	
Registration Fees - General Companies	77,635	55	99,154	67	
Registration Fees - Life Companies	50,395	36	39,517	27	
Registration Fees - Intermediaries	10,989	8	6,888	5	
Filing & Others	920	1	1,022	1	
Total	139,939	100	146,581	100	

Pie Chart 1 - Breakdown of Expenses



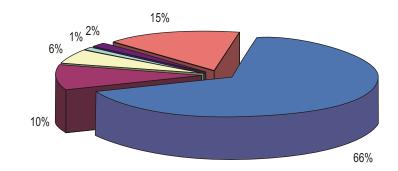
Professional Fees

□ Training & Conference

■ Commissioner's Fees

■ Appeal Tribunal Cost

Other - Administration





Funding of approximately \$14.3 million was provided by the Government of Jamaica under a technical assistance loan agreement with the Caribbean Development Bank.

 Expenditure on Training and Conferences amounted to \$15.2 million compared with \$10 million in 2003/04 and accounted for 6% of total expenses. The Government of Jamaica under a technical assistance loan agreement with the Caribbean Development Bank financed \$3.6 million of the training cost.

3. Liquidity

The Commission is not permitted to borrow and requires liquidity to finance its operations (recurrent and capital expenditures) and to deal with contingencies. At March 31, 2005 the Commission's Balance Sheet showed current assets of \$180 million, current liabilities of \$49.4 million for a current ratio of 3.64:1. Cash and resale agreements accounted for \$103.5 million of the current assets. At the end of the 2003/04 financial year the current ratio was 3.44:1.

4. Capital Expenditure

Capital expenditures of \$25.9 million were made during the year. \$7.3 million was used for the purchase of computer equipment, office furniture and equipment and a motor vehicle. The balance of \$18.6 million which was a capital grant from the Caribbean Development Bank was used as a deposit on the Records Management Software System.

Initiatives Underway at Year End

Insurance Supervision

The Commission is in the process of updating the instructional manuals for the general and life insurance companies. This will standardise the completion of annual filings by the companies. In addition, for general insurance companies, the Commission is examining the introduction of a risk-based solvency test which will replace the Minimum Asset Test (MAT), which although an adequate test of solvency is not as sensitive to the risk associated with companies. The new riskbased solvency test will be an advanced and more comprehensive method of appraising the soundness and health of general insurers. The Commission and the industry will have in-depth consultation on the new method before its implementation.

Securities Regulation

The Commission will continue its work on the following activities:

- Amendment of the Securities (Mutual Funds)
 Regulations in order to enhance the
 regulatory framework and to facilitate the
 establishment of local mutual funds.
- The creation of guidelines for Audit Committees of companies that are licensed as securities dealers and issuers of publicly traded securities.
- Consultation on the introduction of a "qualified investor" concept in the regulatory framework. The introduction of the qualified



investor concept will allow for highly structured and complicated securities, which create information asymmetries, to be sold in Jamaica but only to "qualified investors".

- The establishment of Issuer Registration Regulations dealing with prospectus and ongoing disclosure requirements.
- The development and recommendation of best practices with respect to Corporate Governance and Risk Management

Pensions Regulation

The Commission will be working closely with the Ministry of Finance in preparation for Phase II of pensions regulatory reform which involves:

- (a) legislation addressing the adequacy of pensions (eg. vesting, locking-in and portability provisions) amongst other things;
- (b) amendments to the Phase I legislation and regulations; and
- (c) finalising policy and operational issues relating to approved retirement schemes.

Enforcement

Section 21 and the Fourth Schedule of the Financial Services Commission Act introduced the means for the Commission to impose fixed penalties for offences. This was meant to facilitate the speedy application of a penalty in circumstances where licensees and registrants have committed offences and have accepted liability. However, while the mechanism has been used successfully in some cases, deficiencies have been noted. In particular, offences found in regulations made under the Commission's

relevant Acts are excluded from this treatment, thereby limiting the value of the Fourth Schedule mechanism since most breaches committed by licensees and registrants are breaches of provisions found in regulations. The Commission is seeking to have the Act amended to remedy this deficiency. The Commission is also reviewing the Fourth Schedule with a view to proposing to the Minister that a greater range of offences be included so that the Fourth Schedule mechanism is able to more fully perform its intended role.

Brian Wynter Executive Director



FSC STATUTES AND REGULATIONS

The statutory duties and responsibilities of the Commission 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 2001 and amended in 2004; it provides for the basic functions and responsibilities of the Commission.

The Financial Services Commission (Overseas Regulatory Authority) (Disclosure) Regulations-promulgated in 2005; give the Commission the authority to provide information and documents, as the Commission 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; provide detailed rules and regulations governing individuals and companies operating in the insurance industry.

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

The Insurance (Amendment) Regulations, 2004 (Pro rata Condition of Average) - promulgated in 2004; prescribe that general insurers shall inform the insured in writing of the nature and effect of the average clause, before the insured enters or renews any contract to which the average clause applies.

The Insurance (Prescribed Sum) Regulations - promulgated in 2004; 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; 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 2003; 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; 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; 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; stipulate the rules for the business operation and supervision of mutual funds.

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

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 2001; it governs the operation of unit trusts.

The Unit Trusts (Registration of Schemes) Regulations - promulgated in 1971; govern 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 unit trusts.

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





COMPENSATION OF EXECUTIVE MANAGEMENT 2004/05

1. Basic Salary Range of Executive Management	
a) Senior Director, Director, Chief Actuary and General Counsel	\$2,670,000 - \$4,140,000
b) Executive Director	\$5,800,00 - \$7,000,000
2. Gratuity in Lieu of Pension	25% per annum basic salary
3. Motor Vehicle Allowance	
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), Directors (2), and General Counsel (1). Each member of Executive Management is on contract and is therefore not on the Commission's pension plan. The members are, however, eligible for health insurance and life insurance coverage on the Commission's group health plan.



LIST OF REGISTERED ENTITIES/INDIVIDUALS AS AT MARCH 31, 2005

Dealers (Companies)

There were fifty-two (52) licensed securities dealers (Companies) as at March 31, 2005.

- 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. FirstCaribbean International Bank (Jamaica) Limited
- 17. FirstCaribbean International Securities Limited
- 18. First Global Bank Limited
- 19. First Global Financial Services Limited
- 20. First Life Insurance Company Limited
- 21. Gleaner Company Limited
- 22. Guardian Asset Management Limited
- 23. Guardian Life Limited
- 24. Ideal Finance Corporation Limited
- 25. Ideal Portfolio Services Limited
- 26. UGI Finance & Investments Limited

- 27. Intertrade Finance Corporation Limited
- 28. Jamaica Co-operative Credit Union Limited
- 29. Jamaica Money Market Brokers Limited
- 30. Jamaica National Building Society
- 31. Jamaica Unit Trust Services Limited
- 32. JMMB Securities Limited
- 33. JN Fund Managers Limited
- 34. Life of Jamaica Limited
- 35. MF&GAsset Management Limited
- 36. M/VL Stockbrokers Limited
- 37. Mayberry Investments Limited
- 38. National Commercial Bank Jamaica Limited
- 39. NCB Capital Markets Limited
- 40. Pan Caribbean Asset Management Limited
- 41. Pan Caribbean Financial Services Limited
- 42. Pan Caribbean Merchant Bank Limited
- 43. Paul Chen Young & Company Limited
- 44. Prime Asset Management Limited
- 45. RBTT Bank Jamaica Limited
- 46. RBTT Securities Limited
- 47. Scotia Jamaica Investment Management Limited
- 48. Sterling Asset Management Limited
- 49. Victoria Mutual Wealth Management Limited
- 50. Village Resorts Limited
- 51. West Indies Trust Company Limited
- 52. West Indies Union Investment Management Limited



Dealers (individuals not associated with a company)

There were ten (10) licensed securities dealers (individuals not associated with a company) as at March 31, 2005:

- 1. Bailey, Lorreston
- 2. Harrison, Verley
- 3. Issa, Christopher
- 4. Johnson, Roy
- 5. McIntosh, Howard

- 6. Moss, Kathleen
- 7. Nelson, Gary
- 8. Riley, C. Roy
- 9. Scott, Ewart
- 10. Taffe, Joseph

Dealers (individuals associated with a company)

There were seventeen (17) licensed securities dealers (individuals associated with a company) as at March 31, 2005:

- 1. Berry, Christopher
- 2. Berry, Konrod
- 3. Campbell, Raymond
- 4. Campbell, Ryland
- 5. Chin, Peter
- 6. Clarke, Oliver
- 7. Croskery, Hugh
- 8. Jarrett, Earl
- 9. Lewis, Everton

- 10. Massias, William
- 11. McKie, Edwin
- 12. Ming, Herman
- 13. Moore, Earl
- 14. Shirley, Sandra
- 15. Tanna, Dhiru
- 16. Watson, Cecile
- 17. Wray, Wayne

Investment Advisers

There were no investment advisers as at March 31, 2005.

Mutual Funds

There were fourteen (14) registered Mutual Funds as at March 31, 2005:

- 1. AIC Advantage Group Fund
- 2. AIC Money Market Corporate Class
- 3. AIC Balanced Group Fund
- 4. AIC Diversified Group Fund
- 5. AIC Focused Group Fund
- 6. Grace Caribbean Fixed Income Fund
- 7. JMMB Select Index fund

- 8. Scotia US Growth Mutual fund
- 9. Scotiabank Canadian Growth Fund
- 10. Scotiabank Global Growth Fund
- 11. Scotiabank Money Market Fund
- 12. Scotiabank US Dollar Bond Fund
- 13. Scotiabank, Mutual Funds, SPC
- 14. Sterling Global Fund Limited

Unit Trusts

There were four (4) registered Unit Trust Fund Managers as at March 31, 2005:

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

Life Insurance Companies

There were six (6) life insurance companies registered as at March 31, 2005:

- 1. Blue Cross of Jamaica
- 2. CUNA Mutual Insurance Society
- 3. Guardian Life Limited
- 4. Life of Jamaica Limited

- 5. NCB Insurance Company Limited
- 6. Scotia Jamaica Life Insurance Company Limited

General Insurance Companies

There were fourteen (14) general insurance companies registered as at March 31, 2005:

- 1. American Home Assurance Company
- 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. The Insurance Company of the West Indies Limited
- 7. Island Heritage Insurance Company Limited

- 8. The Jamaica General Insurance Company Limited
- 9. Jamaica International Insurance Company Limited
- 10. Key Insurance Company Limited
- 11. NEM Insurance Company (Jamaica) Limited
- 12. United General Insurance Company Limited
- 13. Victoria Mutual Insurance Company Limited
- 14. West Indies Alliance Insurance Company Limited

Associations of Underwriters

There was one Association of Underwriters registered as at March 31, 2005:

Lloyds



Insurance Brokers

There were thirty two (32) Insurance Brokers registered as at March 31, 2005:

- 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. Excel Insurance Brokers Limited
- 7. Firm Insurance Brokers Limited
- 8. Fraser Fontaine & Kong Limited Insurance Brokers
- 9. GEM Insurance Brokers Limited
- 10. Genesis Insurance Brokers Limited
- 11. Guardian Insurance Brokers Limited
- 12. International Insurance Brokers Limited
- 13. Jamaica Citadel Insurance Brokers Limited
- JMMB Insurance Brokers Limited
- **Facultative Placement Brokers**
- 26. Excel Insurance Brokers Limited
- 27. Firm Insurance Brokers Limited
- 28. Fraser Fontaine & Kong Limited Insurance Brokers
- 29. Scotia Jamaica General Insurance Brokers Limited
- 30. Thwaites Finson Sharp Insurance Brokers Limited

- 15. Marathon Insurance Brokers Limited
- 16. Maritime General Insurance Brokers Limited
- 17. Mutual Security Insurance Brokers Limited
- National Property & General Insurance Brokers Limited
- 19. Orion Insurance Brokers Limited
- 20. Progressive Insurance Brokers Ltd.
- 21. Scotia Jamaica General Insurance Brokers Limited
- 22. Solid Life and General Insurance Brokers Limited
- 23. Spectrum Insurance Brokers Limited
- Thwaites Finson Sharp Insurance Brokers Limited
- 25. Zenith Insurance Brokers Limited

Overseas Reinsurance Brokers

- 31. Benfield Limited
- 32. J. B. Boda Company (UK) Limited

Insurance Agents

There were fourteen (14) insurance agents registered as at March 31, 2005:

- Associated Owners Insurance (Agents) Limited
- 2. Cooke & Andrew Insurance Agency Limited
- 3. Crichton Insurance Agency Limited
- 4. Desmond Mair (Insurance) Limited
- 5. Doran Ferguson T/A Apex Insurance Agents
- 6. First Union Insurance Agency
- 7. Mutual Agency (Insurance) Ltd.
- 8. Mutual Enterprises (Insurance) Agents Limited

- 9. Nationwide Insurance Agents and Consultants Limited
- 10. NUCS Co-operative Insurance Services Limited
- 11. Pat Lawe Insurance Agency
- 12. Paul Anthony Simpson, General Insurance Agent
- 13. Platinum Insurance Agency
- 14. Riviera Insurance Agency Limited



Insurance Managing General Agents

There were no Insurance Managing General Agents registered as at March 31, 2005.

Insurance Loss Adjusters

There were four (4) Insurance Loss Adjusters registered as at March 31, 2005:

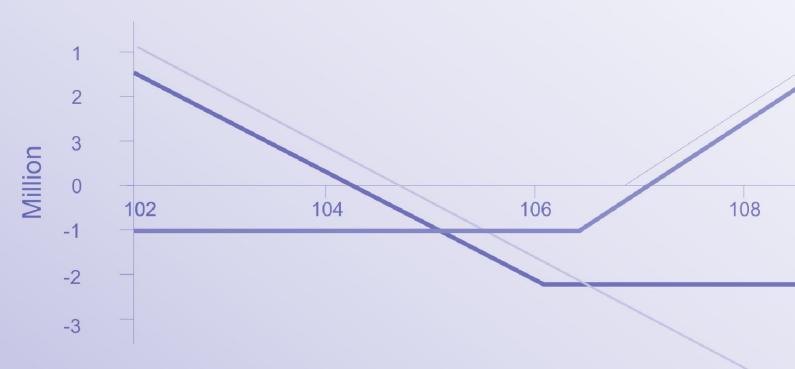
- 1. Caribbean Loss Adjusters Limited
- 2. Evan Evans T/A Evans Insurance Consultants Limited
- 3. Innovative Consulting Services Limited T/A International Claims Services
- 4. Trans Jam Loss Adjusters Limited

Insurance Consultants

There was one Insurance Consultant registered as at March 31, 2005:

Nicholas James Wood





Auditors' Report & Financial Statements

FOR PERIOD ENDED MARCH 31, 2005





KPMG Peat Marwick Chartered Accountants

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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, 2005, set out on pages 39 to 50, 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, 2005, and of the results of its operations and its cash flows for the year then ended.

July 25, 2005

KIMA Pout Harvia



Balance Sheets March 31, 2005 and March 31, 2004

	Notes		
		<u>2005</u>	<u>2004</u>
CURRENT ASSETS			
Cash and cash equivalents		28,500,823	14,649,531
Resale agreements	3	75,000,000	66,000,000
Accounts receivable and prepayment		69,163,242	44,753,720
Taxation recoverable	4	7,323,969	4,224,363
		179,988,034	129,627,614
CURRENT LIABILITIES			
Accounts payable	5	13,516,135	13,241,758
Deferred fees		35,896,310	24,427,870
		49,412,445	37,669,628
WORKING CAPITAL		130,575,589	91,957,986
PROPERTY, PLANT & EQUIPMENT	6	_22,505,921	25,991,816
TROTERTT, TEART & EQUITMENT	O	22,303,921	23,991,010
		\$ <u>153,081,510</u>	<u>117,949,802</u>
Financed by:			
RESERVES	7	\$ <u>153,081,510</u>	117,949,802

The financial statements on pages 39 to 50 were approved by the Commissioners on July 25, 2005, and signed on its behalf by:

Dr Owen Jefferson

Executive Director

Chairman

Brian Wynter

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

Income

FINANCIAL SERVICES COMMISSION

Income and Expenditure Account and Statement of Total Recognised Gains and Losses Years ended March 31, 2005 and March 31, 2004

	Notes	2005	2004
INCOME			
OPERATIONS			
Fees		233,115,097	216,365,329
Interest income		11,985,237	9,518,554
Gain on disposal		150,000	26,500
- ···			
		245,250,334	225,910,383
GRANTS	8	36,494,530	23,032,275
		281,744,864	248,942,658
EXPENDITURE			<u></u>
Advertising		1,582,700	7,451,677
Appeals		4,242,950	203,253
Audit		450,000	300,000
Building maintenance		4,313,075	2,957,492
Commissioners' fees		1,712,336	2,164,640
Depreciation		10,827,097	7,765,712
Motor vehicle expenses		2,804,568	2,403,843
Office expenses		6,596,756	4,532,424
Policy and research		206,580	-
Printing and stationery		1,935,489	1,841,568
Professional fees	8(i)	23,568,886	24,294,603
Public seminars and meetings		1,225,738	2,028,794
Utilities		6,762,383	4,988,244
Staff costs		163,183,230	136,666,769
Subscriptions		1,928,575	1,300,565
Travelling		11,098	148,055
Training and conferences	8(i)	15,261,695	10,029,413
		246,613,156	209,077,052
Net income from operations before transfer		35,131,708	39,865,606
Transfer from capital reserve of amount equivalent			
to depreciation charge on donated assets		<u>7,727,021</u>	2,375,847
Surplus for the year, being total			
gains recognised for the year		\$ <u>42,858,729</u>	42,241,453

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



Statement of Cash Flows Years ended March 31, 2005 and March 31, 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES Surplus for the year	35,131,708	39,865,606
Adjustment to reconcile surplus for the year to net cash provided by operating activities: Depreciation Gain on disposal of property, plant & equipment	10,827,097 (<u>150,000</u>) 45,808,805	7,765,712 (<u>26,500</u>) 47,604,818
Increase in current assets Resale agreements Accounts receivable and prepayment Taxation recoverable	(9,000,000) (24,409,522) (3,099,606)	(34,000,000) (24,851,428) (1,808,875)
Increase in current liabilities Accounts payable Deferred fees	274,377 11,468,440	6,387,820 14,980,870
Net cash provided by operating activities	<u>21,042,494</u>	8,313,205
CASH FLOWS FROM INVESTING ACTIVITIES Additions to property, plant & equipment Proceeds from disposal of property, plant & equipment	(7,341,202) 	(9,910,230) <u>26,500</u>
Net cash used by investing activities	(_7,191,202)	(<u>9,883,730</u>)
Net increase/(decrease) in cash	13,851,292	(1,570,525)
Cash & eash equivalents at beginning of the year	14,649,531	16,220,056
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	\$ <u>28,500,823</u>	14,649,531

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

Notes to the Financial Statements Years ended March 31, 2005 and March 31, 2004

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 property, plant and equipment 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, 2005, with comparatives for the year ended March 31, 2004.

The Commission had in its employment 84 (2004:73) employees as at March 31, 2005, out of a Board approved establishment of 100 (2004:89) employees.

2. Basis of preparation and significant accounting policies

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), with their interpretations adopted by the International Accounting Standards Board ("IASB"), and comply with the provisions of the Companies Act.



Notes to the Financial Statements (Continued) Years ended March 31, 2005 and March 31, 2004

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

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 & equipment:

(i) Owned assets

Items of property, plant & equipment are stated at cost or valuation, less accumulated depreciation and impairment losses.

(ii) Property, plant & equipment 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 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.

(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 (Continued) Years ended March 31, 2005 and March 31, 2004

- 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.

In accordance with the Securities (Licensing and Registration) (Amendment) Regulations 2003, fees are calculated using "the greater of:

- (i) \$170,000; or
- (ii) The aggregate of -5 basis points on the 1^{st} \$2 billion of assets; and
 - -2 basis points on the next \$13 billion of assets; and
 - $-2/100^{th}$ 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 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

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.

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 now based on assets as outlined in the amended 20th schedule.





Notes to the Financial Statements (Continued) Years ended March 31, 2005 and March 31, 2004

- 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 (Continued) Years ended March 31, 2005 and March 31, 2004

2. <u>Basis of preparation and significant accounting policies (cont'd)</u>

(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 13.60% and 13.25% (2004: 15.60% and 14.60%) as at the year end. The market value of the underlying securities as at March 31, 2005 was \$75,631,882 (2004: J\$67,249,662).

4. <u>Taxation recoverable</u>

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

5. <u>Accounts payable</u>

Accounts payable includes \$Nil (2004: \$477,000) due to commissioners.



Notes to the Financial Statements (Continued) Years ended March 31, 2005 and March 31, 2004

6. Property, plant & equipment

	Motor vehicles	Office furniture and equipment	Computer equipment	Total
At cost:			- 	
March 31, 2004	4,044,428	12,229,909	28,273,452	44,547,789
Additions	1,649,750	4,395,858	1,295,594	7,341,202
Disposal	(_734,303)			(734,303)
March 31, 2005	<u>4,959,875</u>	16,625,767	29,569,046	<u>51,154,688</u>
Depreciation:				
March 31, 2004	3,096,489	6,451,615	9,007,869	18,555,973
Charge for year	991,975	2,357,766	7,477,356	10,827,097
Eliminated on disposal	(_734,303)	. <u> </u>		(734,303)
March 31, 2005	3,354,161	8,809,381	16,485,225	28,648,767
Net book value:				
March 31, 2005	\$ <u>1,605,714</u>	7,816,386	<u>13,083,821</u>	<u>22,505,921</u>
March 31, 2004	\$ <u>947,939</u>	5,778,294	19,265,583	<u>25,991,816</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>	Capital Reserve [see note below]	<u>Total</u>
Balance at March 31, 2003	59,127,353	18,956,843	78,084,196
Periodic depreciation charge transfer Transfer of capital grants from income and	-	(2,375,847)	(2,375,847)
expenditure account to capital reserve Surplus for the year	(7,366,848) 42,241,453	7,366,848	42,241,453
Balance at March 31, 2004	94,001,958	23,947,844	117,949,802
Periodic depreciation charge transfer Surplus for the year	<u>42,858,729</u>	(7,727,021)	(7,727,021) <u>42,858,729</u>
Balance at March 31, 2005	\$ <u>136,860,687</u>	16,220,823	<u>153,081,510</u>

Notes to the Financial Statements (Continued) Years ended March 31, 2005 and March 31, 2004

7. Reserves (cont'd)

Note:

This includes property, plant and equipment 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.

In the prior year, the transfer of capital grants from the income and expenditure account represented property, plant and equipment donated by the Government of Jamaica through a loan from the Caribbean Development Bank of \$7,366,848 (see note 8). There were no transfer of capital grants from the income and expenditure account to capital reserves during the year.

8. Grants

	<u>2005</u>	<u>2004</u>
Government of Jamaica ("GOJ") revenue grants (i) Capital grants (ii)	17,852,958 18,641,572	15,665,427
	\$ <u>36,494,530</u>	23,032,275

- (i) The Commission is a beneficiary of the Caribbean Development Bank ("CDB")/Government of Jamaica loan agreement through the Ministry of Finance and Planning. The grants represent professional fees and training expenses paid by the CDB amounting to \$14,262,526 (2004:\$14,521,917) and \$3,590,432 (2004:\$1,143,510) respectively.
- (ii) Capital grant of \$18,641,572, received during the year from Caribbean Development Bank, represent deposit on computer equipment and is included in accounts receivable and prepayment.

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 \$2,544,796 (2004: \$3,449,064).

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



Notes to the Financial Statements (Continued) Years ended March 31, 2005 and March 31, 2004

11. <u>Insurance Licence Deposit</u>

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, 2005, securities so deposited and which were in the possession of the Commission amounted to \$1,472 million (2004: \$1,391 million)

12. <u>Financial Instruments</u>

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.

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.

Years of

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements (Continued) Years ended March 31, 2005 and March 31, 2004

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, 2005, the foreign currency asset was US\$159,815 (2004: US\$110,618).

(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 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.

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.

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