ANNUAL REPORT 2001

FINANCIAL
SERVICES
COMMISSION

ANNUAL REPORT
2001

FINANCIAL SERVICES COMMISSION

VISION

To be a strong, credible, impartial and effective regulator.

MISSION

The mission of the Financial Services Commission

is 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.

FINANCIAL SERVICES COMMISSION

BOARD OF COMMISSIONERS

Dr. The Honourable Owen Jefferson
CHAIRMAN

Gladstone Lewars
SECRETARY

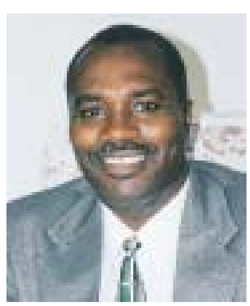
Celia Brown-Blake

Doreen Frankson

Marjorie Henriques

Gayon Hosin

Hugh Martin



Clement Radcliffe

Brian Wynter
EXECUTIVE DIRECTOR

Carina Cockburn (resigned)

EXECUTIVE MANAGEMENT

SITTING (L-R): Mrs. Catherine Allen (Chief Actuary), Mr. Brian Wynter (Executive Director) and Mrs. Sheila Martin (Director - Corporate Services).
STANDING (L-R): Mrs. Angela Beckford (Senior Director - Pensions), Mr. E. George Roper (Senior Director - Examinations & Investigations), Ms. Stephanie Gordon (General Counsel), Mr. Glenford McLeish (Senior Director - Securities) and Mr. Leon Anderson (Senior Director - Insurance).

FINANCIAL SERVICES COMMISSION

CONTENTS

MESSAGE FROM THE CHAIRMAN

I take pleasure in presenting the first annual report of the Financial Services Commission which covers the period August 2, 2001 to March 31, 2002.

The year 2001 was particularly meaningful for the Jamaican financial sector as it saw the coming into being of the Financial Services Commission (FSC) on August 2, 2001. The FSC is seen as a major part of the restructuring efforts on which the government embarked in the aftermath of the financial crisis of the late 1990's. It represents the first step towards an integrated approach to the regulation of financial services such as insurance, unit trusts and securities. When the proposed legislation is passed, pension services will also be included.

The operations of the FSC are governed by the Financial Services Commission Act, 2001 which details its functions, responsibilities and powers "for the purpose of protecting customers of financial services".

With the creation of the FSC on August 2, 2001, all the assets, rights and liabilities of the Securities Commission in existence on that date were transferred to and vested in the FSC. On that date also, the Unit Trusts (Amendment) Act, 2001 became effective giving the FSC supervisory responsibility for Unit Trusts.

The FSC assumed responsibility for supervising the insurance industry on December 21, 2001 when the Insurance Act, 2001 became effective. The old Insurance Act of 1971 was repealed and the Office of the Superintendent of Insurance, the former regulatory authority for the industry was phased out. The legal and regulatory framework to encompass the activities of insurance companies, agents and brokers was further strengthened with the introduction of the Insurance Regulations, 2001 and the Insurance (Actuaries) (Life Insurance Companies) Regulations, 2001 on December 31, 2001 and the Insurance (Actuaries) (General Insurance Companies) Regulations, 2002 on March 8, 2002.

As with any new institution, the FSC is facing significant challenges during the transition period. A major challenge is the bringing together of the staff from the predecessor institutions as well as new recruits from the private sector to form a cohesive and effective workforce. This was particularly challenging as there were many fears and apprehensions on the part of the staff concerning the new institution and the new working environment. At March 31, 2002 the FSC had a staff complement of 58 persons including 17 persons from the former Securities Commission and 21 from the former Office of the Superintendent of Insurance and Unit Trusts. The size of the staff is expected to increase to 77 when the FSC becomes fully operational.

Another, and perhaps equally important, challenge is to ensure that the new institution maintains effective supervision of the securities and insurance sectors. I am pleased to say that during the review period the FSC effectively discharged this responsibility. Regular on-site examinations and on-going off-site monitoring of licensees were conducted to ensure that licensees adhere to sound and prudent business and management practices and comply with the relevant legislation.

The FSC also began the process of reviewing all existing legislation. This will be a continuous process as the FSC seeks to provide enhanced supervision, more effective enforcement and promote greater regulatory compliance. During the period amendments were made to the Securities (Licensing and Registration) Regulations to introduce a risk-based capital requirement for licensees as well as the appointment of a Responsible Officer. The work started in 2001 will continue into the next financial year and beyond as the FSC seeks to strengthen the regulatory framework for the sectors. We have introduced a process of consultation with our licensees prior to the implementation of legislative and regulatory changes and we look forward to even greater collaboration in the future.

Jamaica's financial services industry will continue to face new challenges but I am confident that the structural reform and restructuring of the industry has restored stability. Financial institutions are now stronger, more resistant to economic challenges and better positioned for growth in the years ahead.

My work as Chairman during this period was made easier through the strong and dedicated support provided by the members of the Board of Commissioners. The Board had its first meeting on August 8, 2001 soon after the FSC began operations. Several committees of the Board have been established to ensure full coverage of all the regulatory and administrative activities within the purview of the FSC. I take this opportunity to extend my heartfelt thanks to the commissioners whose contributions during the first eight months of operations of the FSC are greatly appreciated. I look forward to their continued co-operation and dedication as we chart our progress and hope that our journey together will be fruitful and worthwhile.

With regard to our regulatory colleagues, both local and overseas, I hope that we will continue to work together to fulfill our mutual objective of ensuring that the financial sector in its totality is well regulated and supervised.

Finally, the FSC's achievements to date would not have been possible without the efforts of its staff, its most valuable resource. To this group of talented, dedicated and determined people, I say a big "thank you" and keep up the good work.

Dr. Owen Jefferson
CHAIRMAN

EXECUTIVE DIRECTOR'S REPORT

INTRODUCTION

The FSC was established on August 2, 2001 with the promulgation of the Financial Services Commission Act, 2001. The functions, powers and responsibilities of the FSC are broad and are specifically outlined in the Act. The FSC was created to:

1. Supervise and regulate prescribed financial institutions;
2. Promote the adoption of procedures designed to control and manage risk, for use by the management, boards of directors and trustees of such institutions;
3. Promote stability and public confidence in the operation of prescribed financial institutions;
4. Promote public understanding of the operation of prescribed financial institutions;
5. Promote the modernization of financial services with a view to the adoption and maintenance of international standards of competence, efficiency and competitiveness;
6. Take such steps as are necessary to ensure that appropriate standards of conduct and performance are maintained in prescribed financial institutions in accordance with the Act and its regulations or any relevant Act; and
7. Implement measures designed to reduce the possibility of a prescribed financial institution being used for any purpose connected with an offence involving fraud, theft or money laundering.

As part of its supervisory functions, the FSC sets forth broad policy parameters for supervision of prescribed financial institutions. Prescribed financial institutions are persons (individual or corporate) in the business of providing financial services under the Financial Services Commission Act, the Securities Act, the Insurance Act and the Unit Trust Act. These include securities dealers and their representatives, investment advisors and their representatives, general and life insurance companies, associations of underwriters, insurance brokers, insurance agents, insurance sales representatives, insurance loss adjusters and insurance consultants. A National Pensions Act, still in preparation, will be included once it has been enacted. The FSC has the authority to issue, suspend or revoke the license or registration of such persons to conduct business under the respective Acts.

The functions of the FSC are aimed at achieving a single objective, "the protection of customers of financial services."

CORPORATE GOVERNANCE

The Commissioners

The FSC is governed by a Board of Commissioners consisting of a Chairman, the Executive Director (ex officio) and up to eight (8) other members. Each Commissioner, with the exception of the Executive Director, is appointed by the Minister of Finance for up to five years and may be re-appointed to serve additional terms. The Board of Commissioners appoints the Executive Director.

The Board of Commissioners establishes policies and provides overall guidance for the operations of the FSC. The Commissioners meet on a regular basis to discuss and approve matters relating to the functions of the FSC. The multi-sector duties of the FSC, when combined with the objective of fully exploiting the benefits of integrated regulation, represent a considerable challenge for the Board. Accordingly, several committees of the Board have been established to ensure full coverage with appropriate depth of all matters within its purview.

Board Committees

Five committees of the Board have been created.

Securities Committee

The Securities Committee is charged with responsibility for all matters requiring regulatory approval under the Securities Act and the Unit Trusts Act. The Securities Committee meets monthly but may meet more frequently if required.

Insurance Committee

The Insurance Committee is charged with responsibility for all matters requiring regulatory approval under the Insurance Act. The Insurance Committee meets monthly but may meet more frequently if required.

Legal and Policy Committee
The Legal and Policy Committee has responsibility to review, consider and recommend regulatory policies, standards and guidelines for the FSC and in particular to recommend appropriate rules and regulations for the administration of the FSC Act and all relevant Acts. It also considers and reports on new legislation and regulations that are being developed by the FSC in relation to the FSC Act and all relevant Acts.

Human Resources and Administration Committee
The objective of the Human Resources and Administration ("HRA") Committee is to consider, recommend and report on all matters relating to staff including salaries and benefits, personnel policies and procedures, management information systems, premises and any other administrative issues. The HRA Committee also reviews, approves and recommends contracts relating to the procurement of goods and services.

Finance and Audit Committee
The objective of the Finance and Audit Committee is to consider, recommend and report on all matters relating to the financial affairs of the FSC including the monthly and annual financial statements and the annual budget. This Committee also reviews and recommends the fee structure for the regulatory services provided by the FSC.

Board and Committee Meetings

During the eight-month period ending March 31, 2002 seven (7) Board meetings were held. The agenda and a full set of papers for consideration were distributed before each meeting to ensure that members had sufficient time for review and to be properly prepared for discussion and informed decision-making.

The number of Committee meetings held during the year is shown in Table 1.

The Legal and Policy Committee did not meet during the period under review.

FSC ORGANISATION

The Executive Director reports to the Board of Commissioners and provides the necessary leadership and strategic direction to ensure that the FSC achieves its mandate. He is assisted by seven (7) senior managers who report directly to him and have responsibility for the key areas of the FSC. The organization structure for the FSC showing the key divisions and departments is presented in Figure 1 (on page 10).

Table 1
Committee Meetings Held in 2001/2002

Committee	Number of Meetings
Securities	4
Insurance	2
Human Resources & Administration	3
Finance & Audit	1

Insurance Division

The Insurance Division has responsibility for the administration and enforcement of the Insurance Act and Regulations. Discharge of these responsibilities is achieved using a combination of established supervisory techniques including regular monitoring of institutions with the aim being to ensure that all licensees are in sound financial condition and have proper internal controls and risk management systems.

Securities Division

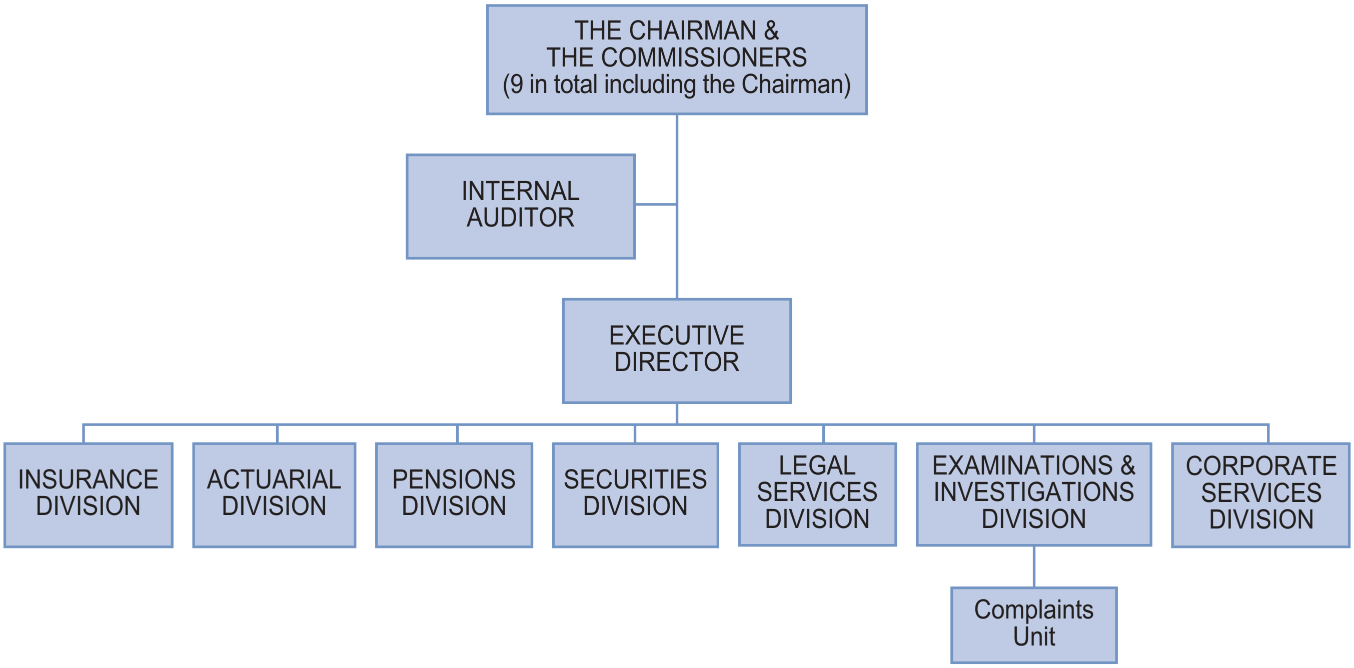
The Securities Division is responsible for the administration and enforcement of the Securities Act and Regulations. The Securities Division discharges its responsibility by analyzing each licensee's business activities and results and by examining financial statements. This includes surveillance of activities on the Jamaica Stock Exchange and the Jamaica Central Securities Depositary.

Examinations & Investigations Division

The Examinations & Investigations Division plays pivotal roles in enabling the FSC to perform its critical duties in the pursuit of its functions. These include:

- Working with the Insurance Division and the Securities Division with respect to the scheduling and conduct of routine on-site examinations of institutions engaged in securities and insurance business.
- conducting special examinations and investigations to

Figure 1 - Organizational Chart



gather evidence where there are cases of suspected breaches of the relevant Acts.

- carrying out reviews to gather pertinent information to determine the fitness and propriety of persons applying for registration or licensing under the relevant Acts.
- receiving and processing complaints from the public concerning the practices of licensees.

Legal Division

The Legal Division is responsible for providing legal services to the FSC by interpreting and applying the spirit and intent of the statutes under the FSC's jurisdiction.

Actuarial Division

The Actuarial Division is responsible for providing advice and guidance within the FSC with respect to all actuarial matters concerning licensed entities.

Corporate Services Division

The Corporate Services Division is responsible for all the support functions for the FSC including human resources, information systems, accounting and the administrative aspects of the registration function. It also has responsibility for public information and public education.

Pensions Division

When the private pensions legislation is enacted, the Pensions Division will have responsibility for the administration and enforcement of this legislation and related regulations.

At March 31, 2002 the FSC had a staff complement of fifty-eight (58) persons. When the FSC assumes full regulatory responsibility for pensions the staff complement is expected to increase to seventy-seven (77) persons.

HIGHLIGHTS OF ACTIVITIES 2001/2002

Regulatory Activities

a) **New Legislation Implemented**

During the period new legislation was enacted or brought into effect to facilitate effective performance of the FSC.

- ***The Insurance Act, 2001 and Regulations***

  The Insurance Act, 2001 (the "new Act") came into effect on December 21, 2001 and signalled the start of a new regulatory regime for the insurance industry which had previously been regulated under the Insurance Act, 1971 (the "old Act"). The old Act was repealed and the Office of the Superintendent of Insurance, the former regulatory authority for insurance, was phased out. These regulatory responsibilities were immediately assumed by the new FSC. Shortly after the enactment of the new Insurance Act the accompanying Insurance Regulations were introduced on December 31, 2001. In addition, for the first time, Regulations giving guidance to actuaries were implemented in the form of the Insurance (Actuaries) (Life Insurance Companies) Regulations and the Insurance (Actuaries) (General Insurance Companies) Regulations in December 31, 2001 and March 8, 2002 respectively.

Several new provisions aimed at maintaining the solvency of insurance entities and the protection of policyholders were introduced by the new legislation. The main task of the Commission during the period was to ensure that the supervised entities were aware of the new requirements of the Act and manage its smooth implementation. This was achieved through meetings with industry associations and individual entities, by telephone and through written communication. The task of informing supervised entities of their responsibilities will continue as an FSC priority over the next year.

The new Act also mandated the registration of entities in the insurance sector for which registration was not previously required, namely insurance consultants, loss adjusters, associations of underwriters, managing general agents, facultative placement brokers and local reinsurance brokers. Finally, the new Act required that all intermediaries that were registered immediately prior to its implementation apply for registration under the new Act within sixty days of the effective date of the Act. For insurance companies, the new Act considered them as registered subject to their meeting the requirements for registration under the new Act within the time prescribed by the Commission.

- ***Securities (Amendment) Act, 2001***
  The Securities (Amendment) Act, 2001 came into effect on August 2, 2001. The amendment Act introduced a number of significant measures designed to enhance the levels of information disclosure and investor protection in the local securities market. Some of the most noteworthy changes introduced by the amendment Act include:

  - Expansion of the "Fit and Proper" criteria for Dealers, Investment Advisors and their regulated Representatives.
  - Requirement for Dealers to appoint a Responsible Officer.
  - Amendment of the definition of Mutual Fund.
  - Requirement for Issuers to register their securities with the Commission.
  - Requirement for Dealers to establish Audit and Conduct Review Committees.
  - Creation of an obligation for persons employed in the administration of the Act to properly guard confidential information.

- ***Unit Trusts (Amendment) Act, 2001***
  The Unit Trusts (Amendment) Act, 2001 came into effect on August 2, 2001. Overall, there were thirty-eight amendments to the Act and these were made to allow the FSC to regulate unit trust schemes operating in Jamaica.

- ***Securities Regulations***
  During the year a number of amendments to the securities regulations were approved by the Commission and signed into law by the Minister of Finance. Prior to the promulgation of the amendments to the regulations, the FSC carried out extensive research on the subject, including a review of the practices in other jurisdictions and their applicability to Jamaica. During the process, there was a period of consultation with licensees and other interested parties in order to obtain their comments and suggestions on the proposals.

  A number of changes were made to the Licensing and Registration Regulations (the "regulations").

  i) *Risk-based Capital Standards*
  The regulations were amended in December 2001 by the introduction of a risk-based capital provision, which requires every licensed securities dealer to maintain at all times a specified ratio between its capital base and its risk-adjusted assets and other risk exposures. The ratio to be maintained by dealers has not yet been specified and is the subject of a special study using external

consultants. Upon completion of the study, the risk weights to be used in calculating the risk-adjusted assets will be established by the FSC after consultation with industry.

ii) *Responsible Officer*
Prior to this amendment, securities dealers were required to appoint to its board of directors a person holding an individual dealer's licence. This person would be the principal liaison between the dealer and the Commission on any and all matters relating to securities dealing. However, the experience of the former Securities Commission was that such qualifying directors (as they came to be called) often failed to fulfil the responsibilities of the appointment and were not necessarily involved in the firm's day to day operations.

In view of this, a Responsible Officer requirement was effected under the Securities (Amendment) Act, 2001. The regulatory provisions required to implement this change were promulgated in amendments to the regulations in December 2001.

b) **Authorisations**

During the period under review the FSC authorised a number of new persons and approved a number of new products by registration, licensing or approval under the relevant Acts. A number of licenses were surrendered. No licenses, registrations or approvals were revoked. The FSC also approved 2 rule changes for the Jamaica Stock Exchange.

The new 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." Neither Act defines the term "fit and proper" but Section 2(3) of the Insurance Act and Section 9(3)(a)(ii) of the Securities Act give guidance as to the standards against which a person, applying for a licence or registration under a relevant Act, may be assessed. These standards include the following:

- Applicant should have no prior conviction for an offence involving dishonesty;
- Applicant should not be an undischarged bankrupt;
- Employment history of the applicant should not include a record of dishonesty or impropriety; and
- The applicant should be a person of sound probity with the ability to function with competence, diligence and sound judgement.

The new standard was applied during the review period to all new applicants for licensing or registration under the Insurance Act and the Securities Act. The FSC also commenced a programme to review the status of persons already in the securities and insurance industries in order to ensure that all relevant persons conform to the new standard.

c) **Investigations**

The FSC carries out special investigations for two reasons:

- Investigations into suspected breaches of any relevant Act
- Investigations of complaints received from the public

During the review period, the FSC conducted five (5) investigations into suspected breaches of the relevant Acts.

The FSC's Complaints Coordinator is often the first meaningful point of contact that a member of the public, with a complaint against a prescribed financial institution, has with the FSC. The Complaints Coordinator is responsible for logging complaints received which, based on the nature of the complaint and evidence presented by the complainant, warrant further investigation.

Table 4 below provides an analysis of the complaints

Figure 2
Complaints Received

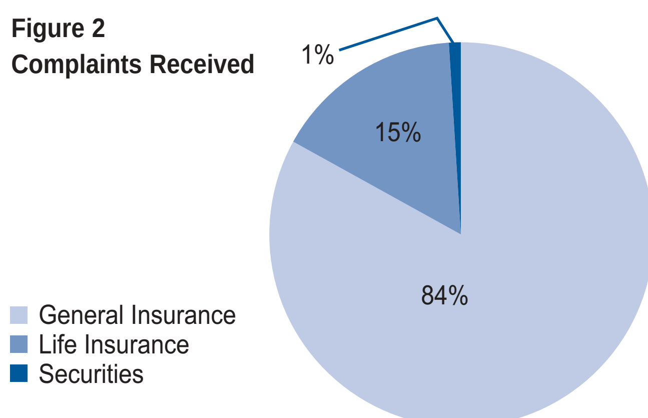


Table 2
Number of Licensees/Registrants

	Life Insurance Companies	General Insurance Companies	Association of Underwriters	Insurance Brokers	Insurance Agents	Insurance Sales Representa-tives	Securities Dealers	Securities Dealer's Representa-tive	Investment Advisors
Licensed/ Registered at 31/12/01	7	14	1	25	24	1,136	140	317	1
Additions	--	1	--	--	--	--	2	65	--
Cancellations (Voluntary)	--	--	--	(1)	--	--	(15)	(40)	--
Did not re-register	--	--	--	--	(12)	--	--	--	--
Licensed/ Registered at 31/3/02	**7**	**15**	**1**	**24**	**12**	**1,136**	**127**	**342**	**1**

Note: There were no registered securities investment advisor representatives, insurance managing general agents, insurance loss adjusters or insurance consultants as at March 31, 2002.

Table 3
Investigations into Suspected Statutory Breaches

Description of Suspected Breach	Related Legislation	Status as at 31 March 2002
Unregistered person performing the functions of a dealer's representative for a licensed securities dealer.	Section 10(1) of the Securities Act.	Investigation completed. Dealer was formally warned and has ceased from using the unregistered person.
Unlicensed person issued to the public invitations to invest in a financial product (Viatical Settlements) offering fixed returns. The product has features consistent with those associated with securities while being connected with insurance services.	Section 7(1) of the Securities Act and/or Section 7(1) - (3) of the Insurance Act.	Preliminary investigation completed. Matter is being researched with a view to determining whether to regulate the product as a security or as an insurance product.
Sale of insurance contracts of unregistered companies (North American insurers).	Section 7(1) - (3) of the Insurance Act.	Preliminary investigation completed. Matter is now under legal review.
Unregistered person performing the function of an insurance intermediary.	Section 70(1) - (2) of the Insurance Act.	Investigation in progress.
Registered insurers paying compensation to an unregistered insurance intermediary for negotiating the renewal of insurance business.	Section 85 (1) - (2) of the Insurance Act.	Investigation in progress.

received by the FSC from August 2, 2001 (for securities) and December 21, 2001 (for insurance) to March 31, 2002.

The low rate of closure reflects the fact that the majority of complaints were from the insurance sector for which the data covers a period of less than four months. The FSC is using data gained from this early experience to establish benchmarks for the average time taken for cases to be investigated and closed.

Table 4
Analysis of Complaints

	General Insurance	Life Insurance	Securities	Total
Total Complaints Received	61	11	1	73
Number of Cases Closed	14	5	1	20
Percentage Closed	23%	45%	100%	27%
Average No. of Days Outstanding	86 days	98 days	65 days	90 days

d) **Takeovers and Mergers Regulations**
The FSC considered two cases relating to the Securities (Takeovers and Mergers) Regulations. Both cases involved applications for a waiver of the mandatory offer requirement under regulation 26(2)(b) where the offeror is purchasing the shares for the purpose of recapitalizing or rehabilitating the company in order to restore it to solvency and to enable it to continue to carry on its business as a going concern. The FSC granted the waiver in one case. Its decision has been challenged by three minority shareholders of the offeree company and is currently before the courts for judicial review. In the other case the FSC did not grant a waiver.

Supervisory Activities

During the review period the FSC, in carrying out its responsibility to supervise prescribed financial institutions, monitored financial data routinely provided by licensees and conducted several examinations and investigations of licensees. The FSC uses a risk-based approach to supervision. In simple terms this approach seeks to identify the entities, activities or practices representing the greatest risk and allocates scarce supervisory resources accordingly. As a part of this approach the FSC developed supervisory ladders for securities dealers, life and general insurance companies. These supervisory ladders identify increasing stages of risk to investors or policyholders represented by a licensee that is either encountering business difficulties or failing to meet regulatory requirements. The FSC has provided a copy of the relevant supervisory ladder to each licensee so that it can develop an understanding of the approach to supervision being taken by the FSC and be in a position to identify potential problems early and take prompt corrective action in order to avoid increased scrutiny from the regulator.

a) **Securities Industry**
During the review period a total of 19 on-site securities examinations were conducted. Table 5 on page 15 provides an analysis of the violations observed.

Some of the most common violations uncovered pertained to:

1. **Marketing Circulars**
It was observed in a number of instances that dealers were issuing marketing circulars and brochures which did not comply with 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 that written communication.

2. **Contract Notes**
A number of 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:

- *S 38(3)(c)* which mandates dealers, when dealing as a principal in a transaction with a non-licensee, to disclose that they are so acting
- *S 38(3)(f)* which establishes that the contract note

Table 5
Violations of the Securities Act and Regulations Uncovered by Routine Examinations

Legal Provision Violated	Description of Provision	Number of Violations
S 10	Requirement to register Dealer's representatives	1
S 38	Issue of Contract Notes	5
S 39	Provision for disclosure of Dealer's interest in securities	5
S 40	Provisions governing Dealers dealing as principal	4
S 46	Prohibition of false and misleading statements	1
COB	Conduct of Business regulations	47
DOI	Disclosure of Interest regulations	1
L&R	Licensing and Registration regulations	1
TOTAL		65

issued must contain the number, amount and a description of the securities that are the subject of the transaction.

3. **Client Statements**
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.

4. **Request for Proposal ("RFP") forms**
Several licensees used RFP forms, in opening client accounts, which did not comply with regulations 8(2)(c) and 8(2)(d) of the Securities (Conduct of Business) Regulations. These regulations require that the RFP, signed by clients on the opening of accounts with the dealer, must clearly state:

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

The FSC took a number of actions:

1. **Deficiency Letters**
Deficiency Letters were issued to licensees who committed violations. Deficiency Letters are a formal means of bringing to licensees' attention the details of violations and other concerns observed by the FSC during their examinations.

   Licensees, to whom Deficiency Letters are sent, are required to indicate to the FSC in writing the action they have taken or plan to take to address the violations and other concerns found during an examination.

2. **Supervisory Actions**
Arising from concerns unearthed in securities examinations conducted, the FSC required the following actions from certain licensees:

   - A licensee was required to adjust its financial statements to reflect disclosures required by local accounting standards and to include on its balance sheet proprietary assets and liabilities which had erroneously been included in its managed funds portfolio. The licensee has complied with this requirement.

   - Another licensee, based on its inability to file financial statements for a protracted period due to operational issues, was put on a program of rigorous monitoring while also being required to put in place professional indemnity insurance cover. The program of monitoring ended after the licensee was able to bring its filings up to date.

b) **Insurance Industry**

Arising from the new Insurance Act, insurance companies are required to provide comprehensive reports to the FSC on an annual basis and to provide other information to the FSC on a more frequent basis than in the past. While these reports form the basis for the FSC's ongoing supervisory programme for the insurance industry, none were due before the end of the period under review. Notwithstanding, the FSC carried out reviews of financial data provided under the provisions of the old Insurance Act. Using early warning tests adopted by the FSC, data filed by companies was used to identify potential problems and to guide the necessary corrective actions.

The FSC intends to use risk-based methodologies in the execution of its on-site examination programme for life and general insurance companies. During the review period significant time was spent developing a framework and training staff for carrying out risk-based examinations for life insurance companies.

With the implementation of the new Insurance Act as well as a concentration on development activities the FSC's programme of insurance company on-site examinations did not commence during the review period. However, the FSC was able to assist the former Office of the Superintendent of Insurance, just prior to its termination, in the completion of a targeted examination of a life insurance company. This examination employed risk-based examination principles.

By the end of the review period the FSC was well on the way to formally adopting the risk based methodologies which will guide all future routine insurance examinations.

Human Resource Development

Human Resource Development is an important and critical aspect of the operations of the FSC. During the review period, significant investments were made in staff development.

Table 6
Training Summary 2001/2002

Seminar/Course	Provider	Number of Staff Trained
Staff Orientation Program - The Financial Services Commission Act	In-house	16
Staff Orientation Program - The Securities Act and Regulations	In-house	16
Staff Orientation Program - The Unit Trust Act and Regulations	In-house	16
Operational Risk Management	Jamaica Institute of Bankers	2
Risk Based Insurance Supervision	CDB Funded Technical Assistance Program	15
Jamaica Securities Course	Jamaica Institute of Management	1
Orientation of the Commission in Corporate Governance Best Practices	IDB Technical Assistance Program	Board of Commissioners, Management and Staff
Strategic Planning	Ministry of Finance & Planning	2
Operational Risk Management	Institute of Bankers	4
Strategic Cost Management	PricewaterhouseCoopers	2

Details of staff training conducted from the inception of the FSC to March 31, 2002 are provided in Table 6 on page 16.

INITIATIVES UNDERWAY AT THE YEAR END

New Fee Structure for Securities Regulation

The FSC began consultation with the members of the securities industry with a view to obtaining their agreement on a new fee structure that was being proposed. The new structure is based on the stated objective of having the FSC become self-funding. The current fees were initially established for the securities industry in 1996 and have not been changed since then.

The consultation process involved letters to all licensees outlining the current and proposed fees as well as meetings held with members of the Jamaica Bankers Association and the Jamaica Securities Dealers Association. Further discussions will continue into next year when it is expected that the new fees will be implemented.

Custodian requirement for Individual Dealers

In order to enhance investor protection, the FSC has as an imminent objective, the promulgation of regulations to require individuals who are dealers in their own right to appoint custodians. The aim of this initiative is to secure the safeguarding of securities and funds under custody and all associated records. The custodian function will also enhance the protection of customer securities against the claims of creditors of the securities dealer. The FSC is in discussions with the industry and it is anticipated that during the New Year the regulations will be passed into law.

Form C1 and Management Discussion and Analysis

Regulations 13 and 14 of The Securities (Conduct of Business) Regulations establish specific reporting requirements from dealers on their managed fund operations. Whereas in its original state the form presented valuable information to the Commission, developments in the financial services sector since their promulgation has led to a requirement for substantial enhancement of the contents of the form. The changes are intended to expand the information to be reported, to regularise reporting periods and the presentation of on- and off-balance sheet items to facilitate consistency and interpretation.

The FSC also has under review guidance notes on the contents of the Management Discussion and Analysis ("MD&A") report initiated in 1999 by the then Securities Commission. The compilation and filing of the MD&A was mandated in order to afford users of financial statements the opportunity to view the dealer's business from the vantage point of management. These guidance notes are intended to provide guidance to directors and management of licensed securities dealers on disclosures to investors that could be reasonably expected if they are to form a reasoned view of the licensee's business. The FSC is at an advanced stage in the consultation process with the industry and implementation is expected in the new financial year.

Collective Investment Schemes ("CIS")

The FSC is seeking to promulgate regulations in relation to mutual funds, unit trusts and other pooled fund arrangements generally referred to as CIS. At year-end the FSC was in the second phase of consultation with members of the securities industry, other regulators and interested professional associations. For this second phase, the FSC requested comments on over eighty recommendations in relation to CIS as part of its consultation prior to arranging for the new regulations to be drafted. The first phase involved consultation with industry on a report prepared by international consultants which formed the basis for the recommendations in the second phase.

Brian Wynter
EXECUTIVE DIRECTOR

SUMMARY OF NEW PROVISIONS OF THE INSURANCE ACT, 2001

The new Insurance Act of 2001 incorporates major new provisions that will correct many past weaknesses. Some of the major new provisions are highlighted below.

Fit and Proper Standard

All directors and senior officers of insurance entities as well as certain shareholders are required to be "fit and proper" persons within the meaning specified in the Act. This provision is consistent with similar provisions in the Banking Act, the Financial Institutions Act, the Securities Act and the Unit Trusts Act. The Insurance Act and Regulations make the "fit and proper" standard one of the conditions for registration of an insurance company or an intermediary.

Minimum and Continuing Capital and Deposits

Another condition for registration of life insurance and general insurance companies is that the companies must have minimum unimpaired share capital of $150 million and $90 million respectively. In addition, life insurance and general insurance companies must also deposit with the FSC a minimum of $90 million and $45 million respectively.

Capital Adequacy and Solvency standards are further spelt out in the regulations to the Act. Life insurance companies are required to meet the **Minimum Continuing Capital and Surplus Requirement** (often referred to as the "MCCSR") standard which is set by the FSC. This standard sets out the minimum capital that a life insurer must maintain in order to remain in business and is proportional to the size and relative risk of the company's business. A company with a capital level below the standard is regarded as insolvent.

General insurance companies are required to apply the **Minimum Asset Test** (often referred to as the "MAT") standard to their balance sheets and income statements and comply with the standard set by the FSC. The standard establishes the minimum capital that a general insurer must maintain in order to remain in business and is a function of the size of the business and its liabilities to its policyholders. A company with a capital level below the minimum standard is regarded as insolvent.

These new provisions make it difficult for under-capitalised companies to stay in business as the Commission has the power, under the new Act and the Financial Services Commission Act, 2001 ("FSC Act"), to intervene to protect the interest of the policyholders. These statutes give the FSC wide-ranging powers from instructing the directors to improve the capitalisation of the company to filing a petition in the courts to wind up the company. In the case of a winding-up the deposit will be used, if required, to assist in paying the liabilities of the insurance company.

Registration

Sections 6 to 21 of the Insurance Act deal with registration of insurance companies. Section 7 makes it illegal for a company to carry on insurance business in Jamaica without being registered by the FSC. No company can be registered to carry on both life and general insurance business unless the general insurance business comprises accident insurance exclusively.

Investments

The Act stipulates in Section 22 that the funds of every insurer shall be invested in accordance with the regulations under the Act and makes non-compliance an offence. The regulations set out the maximum percentages of total assets that can be invested in various investment assets. For example, the maximum investment in real estate is 20% of total assets. Another 10% may be invested in real estate to be used for administrative accommodation. This restriction is aimed at preventing a mismatch of assets and liabilities and ensures that the companies retain sufficient liquid assets to meet their liabilities.

Loans to Directors and Officers

The Act prohibits loans, except policy loans, to directors and officers of an insurance company. This prohibition extends to the spouses and children of the directors and officers. This eliminates the former practice of giving unsecured loans to directors and senior managers.

Financial Reporting

Special attention has been paid to financial reporting in the new Act. Section 26 requires insurance companies to submit an annual statement to the FSC within ninety days of the accounting year-end compared to the six months allowed under the Act of 1971. The insurer's audited financial statements, which are filed with the FSC along with the annual statement, are also to be promptly published in a daily newspaper printed and circulated throughout Jamaica. The company's auditor and actuary must certify the annual statement. Companies are also required under the Insurance Regulations to file quarterly statements with the FSC.

Where the insurance company is part of a group of companies, not only must the parent company submit its audited group financial statements to the FSC but the financial statements of all subsidiary or associated companies. The new Act has given the FSC the power to review and analyse all these statements to identify and seek remedies where there are inter-group transactions that are inimical to the interests of the policyholders.

Auditors and Accounting Standards

The auditors of insurance companies have been given additional responsibilities. Section 40 makes it the duty of the auditor to report in writing to the chief executive officer of the insurance company or intermediary, each director and the FSC, any adverse material transactions or conditions that have come to the auditor's attention in the ordinary course of the audit.

The current or former auditors shall not be regarded as being in breach of their duty of confidentiality to the insurer or intermediary in consequence of any report made in compliance with the provisions of the Insurance Act. Any auditor who refuses to comply with Section 40 is guilty of an offence.

The FSC has the power to report the auditor to the Public Accountancy Board and the Institute of Chartered Accountants of Jamaica in any of the following circumstances:

- where it has reasonable grounds to believe that the auditor has failed to perform his duties or to comply with the relevant provisions of the Insurance Act;

- where there is evidence that the auditor is a party to the preparation of or has approved financial statements that do not reflect the fair financial position of the company; and

- where in the opinion of the FSC the auditor is incompetent or is guilty of professional misconduct.

Accounting standards for life and general insurance companies were developed in association with the Institute of Chartered Accountants of Jamaica and are included in the Regulations. This became necessary as the insurance companies had a wide variety of treatments for similar transactions, which made analysis and comparison of financial statements difficult. The standards also mandate best practice and therefore will eliminate poor accounting practices, especially in the computation of reserves. The standards were developed specifically for the insurance industry in Jamaica and address accounting best practice for life and general insurance companies separately.

The Actuary and the Actuarial Regulations

Section 44 of the Act mandates every registered insurance company to appoint an actuary and to notify the FSC in writing of the appointment. For the first time general insurance companies are required to use the services of an actuary in determining the companies' reserves. Life insurance companies must have annual valuations of their policy liabilities but for general insurance companies, the FSC shall determine the frequency of valuations.

The actuary or former actuary is protected from prosecution by Section 44 and cannot be sued for any oral or written statement he may have made in good faith.

The FSC has developed actuarial regulations for the life and general insurance industries. These regulations govern the conduct of actuaries and the reports to be prepared and submitted to the FSC for specified periods.

Duty of Care of Directors and Senior Officers

Section 36 makes it very clear that in order to discharge "his duty to act honestly and in good faith with a view to the best interests of an insurance company, a director or senior officer thereof shall take into account the interests of the company's policyholders". This sums up the thrust of the new legislation, which is to protect the interests of policyholders.

Corporate Governance

The legislation has introduced the concept of corporate governance and requires each insurance company to establish the following committees:

Audit Committee

The Audit Committee is appointed by the Board of Directors and should consist of not less than three persons, the majority of whom should not be employees of the company or an associated company. The responsibility of the audit committee includes the following:

- To review the returns which the company is required to file with the FSC.
- To review reports made by the auditor under the Insurance Act and the Companies Act.
- To review such other reports, transactions or matters as the FSC may determine.

Investment and Loan Committee

The Investment and Loan Committee which is appointed by the Board of Directors should be comprised of not less than three persons, the majority of whom should not be employees of the company or an associated company. The responsibility of this committee is to:

- Recommend to the directors of the company for their approval, a written investment and lending policy which is consistent with prudent standards outlined in the Insurance Act.
- At least annually review the investment and lending policy and recommend amendments as considered necessary.

Conduct Review Committee

The Conduct Review Committee is to be appointed by the Board of Directors and should consist of at least three directors. This Committee shall establish written procedures which would identify situations which would create potential conflicts of interest and how to prevent such conflicts.

The Conduct Review Committee shall provide the Commission with a copy of the written procedures.

Market Conduct

Under the Regulations, insurance companies are required to take such steps as are reasonably necessary to ensure that the insurance policies issued by them provide fair value to policyholders. Insurance companies are also obliged to pay claims promptly. Any company that is guilty of unreasonable delay in the payment of such claims may have its registration cancelled by the FSC. The Regulations also proscribe a number of unfair trade practices including prohibitions against unfair discrimination.

LAWS GOVERNING THE FINANCIAL SERVICES COMMISSION

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

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

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

The Securities (Licensing and Registration) Regulations - promulgated in 1996 and last amended in December 2001; it provides for the licensing and registration of dealers, investment advisors, their representatives and responsible officers.

The Securities (Take-Overs and Mergers) Regulations - promulgated in September 1999; it deals with mergers and acquisitions of public companies.

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

The Securities (Conduct of Business) Regulations - promulgated in April 1999; it deals with the dealer/client relationship and guidelines for filing of financial information by licensed dealers.

The Securities (Mutual Funds) Regulations - promulgated in September 1999; it stipulates the rules for the business operation and supervision of mutual funds. It also contains specific provisions concerning the protection of investors.

The Securities (Central Securities Depositary) Regulations - promulgated in 2000; it deals with the operational procedures of a central securities depositary.

The Insurance Act - enacted in December 2001; it prescribes the provisions for the regulation of insurance business in Jamaica.

The Insurance Regulations - promulgated in December 2001; it provides detailed rules and regulations governing individuals and companies operating in the insurance industry.

The Insurance (Actuaries) (Life Insurance Companies) Regulations - promulgated in December 2001; it sets out the rules governing the preparation of actuarial reports and the business conduct of actuaries for life insurance companies.

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

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

The Unit Trusts (Registration of Schemes) Regulations - promulgated in 1971; it governs the process of registration for Unit Trust Schemes.

The Unit Trusts (Books and Document) Regulations - promulgated in 1973; it deals with the books and records which should be maintained by the Unit Trusts.

COMPENSATION OF EXECUTIVE MANAGEMENT

	2001
Salary range of Executive Management	$2,334,000 - $4,000,000 per annum
	Gratuity (25% of basic salary)

Motor Vehicle Allowance of Executive Management

(a) Executive Director	Fully Maintained Company Car
(b) Other Executive Management	$360,000 per annum

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

FINANCIAL SERVICES COMMISSION

AUDITOR'S REPORT AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED MARCH 31, 2002

KPMG Peat Marwick
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To the Commissioners of
FINANCIAL SERVICES COMMISSION

Auditors' Report

We have audited the financial statements, set out on pages 2 to 10, and have obtained all the information and explanations which we required. The financial statements are the responsibility of the commissioners and management. In preparing the financial statements, the commissioners and management are required to select suitable accounting policies and apply them consistently, make judgements and estimates that are reasonable and prudent, follow applicable accounting standards and apply the going concern basis, unless it is inappropriate to presume that the Commission will continue in business for the foreseeable future. The commissioners and management are responsible for keeping proper accounting records, for safeguarding the assets of the Commission, and for the prevention and detection of fraud and other irregularities. 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 all the information and explanations which we consider necessary to provide us with reasonable assurance that 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, assessing the accounting principles used and significant estimates made by the commissioners and management, and evaluating the overall financial statement presentation. 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 generally accepted accounting principles in Jamaica, modified on the bases set out in notes 2(a) and (e) give, a true and fair view of the state of the Commission's affairs as at March 31, 2002 and of its surplus and cash flows for the period then ended.

KPMG Peat Marwick

October 2, 2002

BALANCE SHEET

March 31, 2002

	Notes	2002 $
CURRENT ASSETS		
Cash		3,431,211
Short-term investments	3	3,000,000
Accounts receivable		27,220,872
Taxation recoverable, net	4	1,328,433
		34,980,516
CURRENT LIABILITIES		
Accounts payable		5,091,731
Deferred fees		4,704,743
		9,796,474
WORKING CAPITAL		25,184,042
FIXED ASSETS	5	7,921,132
		33,105,174
Financed by:		
RESERVES	6	33,105,174

On behalf of the Commission

______________________ Chairman
Dr Owen Jefferson

______________________ Executive Director
Brian Wynter

INCOME AND EXPENDITURE ACCOUNT AND STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

8 months ended March 31, 2002

	Notes	2002 $
INCOME		
Fees		37,794,680
Interest income		287,427
		38,082,107
EXPENDITURE		
Training		491,849
Advertising		67,380
Audit		130,000
Commissioners' fees		1,353,635
Depreciation		703,822
Entertainment		12,261
Motor vehicle expenses		1,095,786
Printing and stationery		851,512
Professional fees		4,947,265
Public seminars and meetings		908,048
Rent and office expenses		2,555,073
Staff costs		45,681,898
Subscriptions		642,693
Telephone		691,603
Travelling		354,737
		60,487,562
Net expenditure from operations		(22,405,455)
Gain on disposal of fixed assets		66,288
Net expenditure before government grants		(22,339,167)
Government grants	7	45,500,000
Surplus for the period, being total gains recognised for the period		23,160,833

STATEMENT OF CASH FLOWS

8 months ended March 31, 2002

	2002 $
CASH FLOWS FROM OPERATING ACTIVITIES	
Surplus for the period	23,160,833
Adjustment to reconcile surplus for the period to net cash provided by operating activities:	
Depreciation	703,822
Gain on disposal of fixed assets	(68,288)
	23,796,367
Decrease/(increase) in current assets	
Short-term investments	200,000
Accounts receivable	(24,129,811)
Taxation recoverable	(31,674)
Increase in current liabilities	
Accounts payable	4,744,771
Deferred fees	1,615,255
Net cash provided by operating activities	6,194,908
CASH FLOWS FROM INVESTING ACTIVITIES	
Additions to fixed assets	(4,298,090)
Proceeds from disposal of fixed assets	365,622
Net cash used by investing activities	(3,932,468)
Net increase in cash	2,262,440
Cash taken over from the Securities Commission, being cash at beginning of the period	1,168,771
Cash at end of the period	3,431,211

NOTES TO THE FINANCIAL STATEMENTS

March 31, 2002

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

These financial statements are presented in Jamaican dollars and cover the period August 2, 2001 to March 31, 2002 (Unlike the Securities Commission which had a December 31 year-end date, the Commissioners have decided on a March 31, year-end date for the Financial Services Commission).

The Commission had in its employment 58 employees as at March 31, 2002, out of an establishment of 77 employees.

2. Basis of preparation and significant accounting policies

The financial statements are prepared under the historical cost convention, modified for the inclusion of certain fixed assets taken over at valuation, and in accordance with Jamaican generally accepted accounting principles ("GAAP"). GAAP are substantially codified in statements of standard accounting practice issued by the Institute of Chartered Accountants of Jamaica. The significant accounting policies used in the preparation of the financial statements are summarised below and, except as stated in notes 2(a) and (e) below, conform, in all material respects, to GAAP.

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

The significant accounting policies are as follows:

a) **Government grants:**
The government grants are accounted for on the cash basis.

b) **Depreciation:**
Fixed assets, with the exception of leasehold

improvements, 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%

Leasehold improvements are depreciated over the life of the lease.

c) **Capital expenditure:**
Amounts utilized from government grants for the purchase of fixed assets, including donated assets, advances to secure future purchases, are transferred to capital reserve. An amount equivalent to the annual depreciation charge on the relevant fixed assets is transferred from capital reserve to the general fund.

d) **Foreign currencies:**
Foreign currency balances outstanding at the balance sheet date are translated at the rates of exchange ruling on that date. Transactions in foreign currencies are converted at the rates of exchange ruling at the dates of those transactions. Gains and losses arising from fluctuations in exchange rates are included in the profit and loss account.

e) **Fees:**
Application fees for registration as dealers or investment advisers, which are payable on application, along with fees from commercial paper traders, are taken to income on receipt. Licence fees from dealers and investment advisers are deferred and recognised as income in the period to which they relate. Fees from traders on the stock exchange and fees from insurance companies are recognised as income in the year to which they relate. Renewal fees for life insurance companies are calculated based on gross first year premium income for life products and premium income for employee benefits products and are payable quarterly in arrears. For general insurance companies, renewal fees are calculated based on gross premium income and are also payable quarterly in arrears. The insurance fees applicable to and included in the income and expenditure account relate only to the quarter ended March 31, 2002.

f) **Pension costs:**
The Commission participates in a pension scheme (note 9) the assets of which are held separately from those of the Commission. Contributions to the scheme, are made on the basis provided for in the rules, and are charged to the profit and loss account when due.

g) **Securities purchased under resale agreements:**
Securities purchased under resale agreements are accounted for as collateralised financing.

3. Short-term investments

Short-term investments represent securities purchased under agreements to resell (repos). These represent purchases of Government of Jamaica Local Registered Stocks by a broker on behalf of the Commission. Under the agreements, these amounts will be resold within a year by the Commission to the broker on specified dates, at specified amounts.

The interest rate on the repos was 13.50% as at the period-end.

4. Taxation recoverable, net

Taxation recoverable represents withholding tax withheld by financial institutions on interest income earned on balances held with those institutions. The balance is stated net of taxation on the taxable earnings of the Securities Commission which was subject to income tax (see note 1).

5. Fixed assets

	Motor Vehicles $	Office furniture and equipment $	Computer equipment $	Total $
At cost or valuation:				
Vested on August 1, 2001 (see note 1)	4,690,314	3,271,696	2,728,745	10,690,755
Assets taken over at valuation (see note1)	-	3,205,766	593,000	3,798,766
Additions	1,908,775	1,804,818	584,497	4,298,090
Disposal	(2,562,073)	(3,956)	-	(2,566,029)
March 31, 2002	4,037,016	8,278,324	3,906,242	16,221,582
Broken down:				
At cost	4,037,016	5,072,558	3,313,242	12,422,816
At valuation	-	3,205,766	593,000	3,798,766
	4,037,016	8,278,324	3,906,242	16,221,582
Depreciation:				
Vested on August 1, 2001 (see note 1)	4,690,314	2,510,007	2,665,002	9,865,323
Charge for period	34,515	562,510	106,797	703,822
Eliminated on disposal	(2,267,465)	(1,230)	-	(2,268,695)
March 31, 2002	2,457,364	3,071,287	2,771,799	8,300,450
Net book value:				
March 31, 2002	1,579,652	5,207,037	1,134,443	7,921,132

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.

6. Reserves

	General Fund $	Capital Reserve [see note below] $	Total $
Balance transferred from Securities Commission (see note 1)	5,067,011	1,078,564	6,145,575
Periodic depreciation charge transfer	703,822	(703,822)	-
Surplus arising on valuation of fixed assets (see note 5)	-	3,798,766	3,798,766
Surplus for the period	23,160,833	-	23,160,833
Balance at March 31, 2002	28,931,666	4,173,508	33,105,174

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

7. Government grants

The government grants represent budgetary drawdowns received from the Ministry of Finance, Government of Jamaica.

8. Taxation

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

9. 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 period amounted to $545,878.

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

10. Financial Instruments

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or equity instrument of another enterprise.

For the purpose of the financial statements, financial assets have been determined to include cash, short-term investments, and accounts receivable. Its financial liability comprises of accounts payable only. Information relating to fair values and financial instruments risks is summarized below.

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

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

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

The Commission invests mainly in fixed interest rate bearing instruments and does not have any borrowings.

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, 2002, the net foreign currency asset was US$2,184.

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 barred by the Act from borrowing.

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) **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, short-term investments, accounts receivable, and accounts payable are assumed to approximate their carrying value due to their short-term nature.

FINANCIAL SERVICES COMMISSION

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