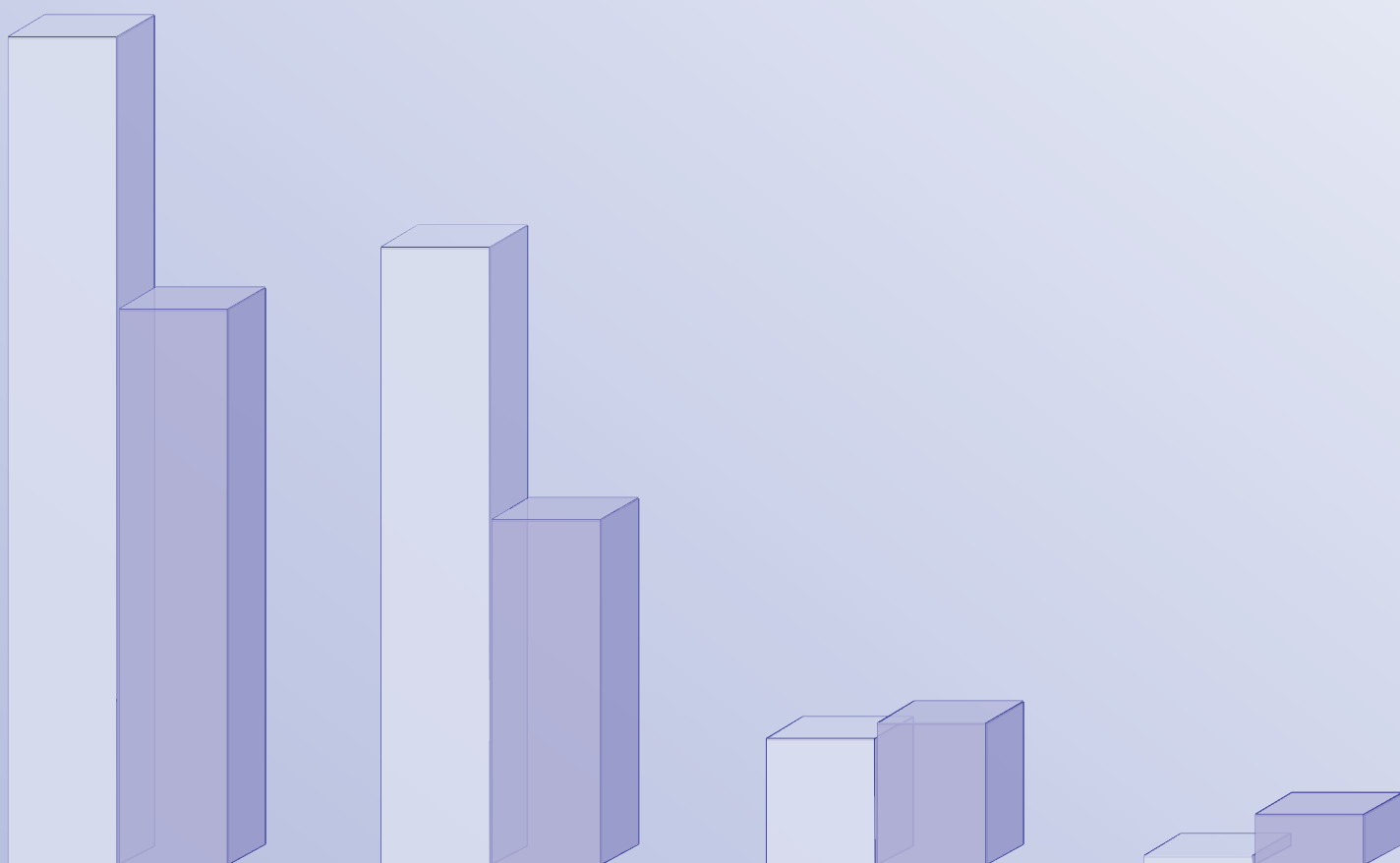




Annual Report
2005/06



Annual Report 2005/06



Vision

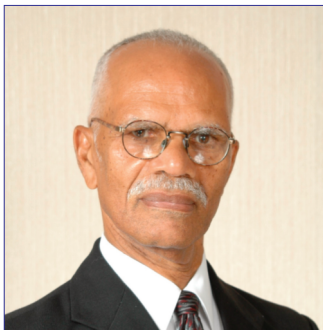
To be a strong, credible, impartial and effective regulator.

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



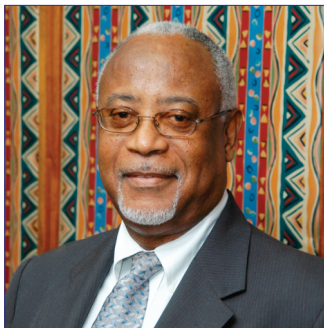
Celia Brown-Blake



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 Faye Sampson (General Counsel), Mrs Nicolette Jenez (Senior Director, Pensions),
Mr Brian Wynter (Executive Director), Mrs Angela Beckford (Chief Actuary),

STANDING (left to right)

Mrs Janet Johnson-Haughton (Director, Regulatory Process & Compliance),
Mr George Roper (Senior Director, Securities), Mr Leon Anderson (Senior Director, Insurance),
Mr Everton McFarlane (Director, Research & Policy),
Mrs Shelia Martin (Senior Director, Corporate Services)

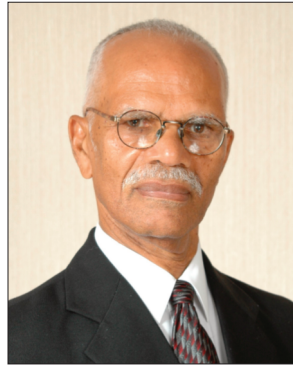
Executive Management

MESSAGE FROM THE CHAIRMAN

2005/06: A Brief Retrospective

It is my pleasure to present the annual report of activities and operating results of the Financial Services Commission ("the Commission") for the year ended March 31, 2006. The Commission began the year faced with a number of significant challenges to its mission of protecting users of financial services in the insurance, pensions and securities areas and fostering the integrity, stability and health of the financial system. Chief among these challenges were the need: (a) to improve the Commission's market surveillance capability and enforcement processes in order to strengthen its standing as a credible regulator and improve public confidence, (b) to continue to build an effective compliance culture among regulated entities, (c) to have in place an effective legal and regulatory framework for insurance and securities activities and, in particular, to develop a comprehensive legal framework to facilitate the effective supervision of pensions as a prescribed financial service, and (d) to improve public education and consumer protection by broadening the reach of public education initiatives.

There is still work to be done to meet these challenges but, as will be seen from the activities and output presented in this report, the Commission made important strides in many of these areas during the review year. Notably, after an extensive period of additional stakeholder consultations, Parliament approved important amendments to the *Pensions (Superannuation Funds and Retirement Schemes) Act* and affirmed



the initial set of regulations that allow the FSC to begin active supervision of the pensions sector. This supervisory function will begin in the 2006/07 financial year with the registration and licensing of superannuation funds, retirement schemes, investment managers and administrators.

Market surveillance responsibilities were also broadened to include the investigation of pension-related complaints, even while maintaining the traditional surveillance of insurance and securities markets. Improvements were noted in the rate of closure for life insurance and securities complaints while the rate of closure for general insurance complaints worsened. However, overall the Commission investigated and resolved a larger number of complaints than in the previous year. In addition, the Commission's investigations led to effective enforcement actions being applied in several instances, and its actions have withstood legal challenges in the courts. The Commission continues to be actively engaged in several matters that are still before the courts.

The Commission's public education programme had to face the challenge of dedicating substantial resources to outreach initiatives for the pensions industry in order to prepare stakeholders for the impending regulatory changes while at the same time continuing to provide support for the users of insurance and securities services. The Commission's public education initiatives used a number of different communication channels and sought also to broaden its outreach to younger age groups, notably at the tertiary education level. The Commission also hosted the 2nd Annual Conference of Caribbean Securities Regulators. The conference provided a forum for Caribbean regulators, market participants and other interested parties to discuss regulatory issues

related to investor protection and market development. It featured an international audience drawn from across the Caribbean and North America and included the participation of the International Monetary Fund and international standard-setting bodies such as the International Organization of Securities Commissions.

The Commission's achievements during the year occurred against the background of a difficult labour market environment in which public sector wage restrictions continued to hinder the Commission's ability to recruit and retain supervisory staff. Despite the challenge, by the end of the review year the Commission had been able to increase its staff complement by 17, an increase of 20% compared with the staff level at the end of the previous financial year. The additional staff partially alleviated bottlenecks for supervisory functions in the insurance, securities and pension areas but the staff complement of 101 at the financial year-end was still 21 persons or 17% short of the Commission's full establishment.

It is noteworthy that independent assessments of the supervisory effectiveness of the Commission have been quite favourable. In particular, during the second and third quarters of 2005/06, Jamaica participated in an extensive International Monetary Fund/World Bank Financial Sector Assessment Programme ("FSAP") exercise in which the international institutions assessed systemic vulnerability and risks in the Jamaican financial system. The FSAP exercise involved three field missions and continuous post-mission follow-up and the participation of the Commission's licensees and registrants.

The summary report of the FSAP exercise provided the following supervisory assessments. For the insurance sector, it was noted that *"supervision of insurance has strengthened markedly in recent years and the regulatory and supervisory framework is closely aligned with*

international best practices. With the ever-growing sophistication of the insurance market, supervision rightly focuses on ensuring that companies have appropriately developed risk management systems and incentives to report their operations in a transparent manner. Prudential requirements appropriately seek to ensure sufficient capital coverage."

For the securities sector, the report noted that *"substantial progress has been made in strengthening oversight of the securities market and aligning the supervisory framework with international best practices. The Securities Act with its various amendments and regulations provides for quite a comprehensive scheme of regulation that facilitates effective supervision of Jamaica's securities markets. The [Commission's] approach of combining prudential requirements and conduct of business rules that emphasize disclosure and governance structures, together with the general improvements in accounting and valuation standards, have helped to strengthen the industry."*

A review of the performance of the insurance and securities sectors during 2005 using selected key indicators for capital and income suggests that the financial health of these sectors, in the aggregate, continued to improve despite challenges posed by lower rates of return in fixed income and equity markets. . In particular, aggregate capital in regulated industries has shown a marked increase and suggests that the resilience of the insurance and securities sectors to economic shocks has improved.

The Commission is a self-financing public entity and seeks to finance its operations primarily by levying fees on regulated entities using a structured and transparent approach to cost recovery. During the 2005/06 year, the Commission received revenues of \$291.9

Million, of which \$258.8 or 88.6% were from fees with the remainder representing grants, interest income and gains on asset disposal. Total expenditures amounted to \$324.3 million, resulting in an operational deficit of \$32.4 million, which was financed by a drawdown of reserves.

Medium-term Priorities: 2006/07 and Beyond

The Commission will, over the medium-term, continue to: (i) improve its supervisory resources and practices and the capacity of the regulatory regime to adapt to the requirements of changing market conditions and structure, (ii) strengthen its reputation for impartiality and effectiveness through timely and fair investigative and enforcement action, and (iii) strengthen its outreach to the Jamaican public and to regional and international stakeholders. The Commission's priorities will also be shaped by areas for improvement identified in the course of the recent FSAP exercise.

In particular, for the insurance sector, the immediate priorities will be (a) stronger monitoring of governance and risk management systems of insurers, (b) enhancing reporting requirements, including greater use of stress testing, (c) improving the minimum capital requirements for general insurance companies and (d) strengthening the requirements for and supervisory monitoring of the reinsurance programmes of the general insurance companies.

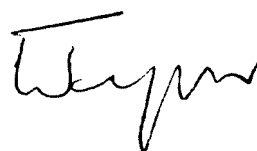
In the case of the securities sector, the main priorities relate to, *inter alia*: (a) further strengthening the prudential capital regime for securities dealers better to address interest rate and liquidity risks, (b) designing and implementing a revised framework for the regulation of collective investment schemes, (c) strengthening the regulatory framework for the issuance of securities, including improved disclosure standards and reporting requirements, (d) increasing the capability of the Commission to induce greater compliance by regulated entities and to enforce sanctions where compliance is deficient, and (e) undertaking a programme of enhanced monitoring of market intermediaries, collective investment schemes,

issuers of securities and stock market activity.

For the pensions sector, the main priority will be the licensing and registration of pensions entities. Further work will also be done to strengthen the regulatory framework through the development of additional regulations and guidelines. Legislation will also be developed for the remainder of the comprehensive private pensions reform as envisaged by the Pensions Reform White Paper.

The dynamics of the financial landscape require that the Commission is alert and responsive. Therefore underlying the specific sectoral priorities will be the Commission's continued commitment to (a) continual review of all relevant governing legislation to improve supervisory coverage and effectiveness, (b) strengthen regional and international supervisory collaboration and continually strive to benchmark supervisory effectiveness against international standards, (c) organizational development to streamline supervisory processes and improve institutional capacity to deliver supervisory functions, and (d) continued improvement to human resource capabilities through recruitment and training.

Even as we continue to look forward to challenging and exciting times, the Commission can take pride in its contribution to fostering and preserving integrity and stability in the financial sector. I wish to thank members of the board, management and staff of the Commission for their continued dedication and hard work in pushing the Commission forward on its drive to be a strong, credible, impartial and effective regulator.



Dr. Owen Jefferson
Chairman

EXECUTIVE DIRECTOR'S REPORT

Financial Sector Review, 2005¹

Financial System Structure

The Jamaican financial sector includes a variety of institutions. The Commission regulates entities involved in the provision of insurance, securities and pensions services. These entities include general and life insurance companies, insurance agents and brokers, securities dealers, investment advisers, mutual funds, unit trusts, superannuation funds, retirement schemes and pension fund administrators and investment managers. Deposit-taking activity conducted by commercial banks, building societies, merchant banks and credit



unions is supervised by the Bank of Jamaica ("BOJ")².

Table 1 provides an indication of the structure of the financial system in terms of the asset composition of the financial sector by type of institution. The insurance and securities sectors together have steadily increased in relative size, accounting for 46.0% of total financial system assets at end-December 2005 compared with 42.7% at the end of 2003. This primarily reflects growth in the life insurance and securities sectors. The general insurance sector was affected by Hurricane Ivan in 2004 leading to a deterioration of operating performance but a large increase in assets due to sizable reinsurance recoverables. In 2005, the asset base of the general insurance sector returned to normal as insurance claims were settled and reinsurance recoverables were liquidated.³

Table 1: Total Assets by Type of Financial Institution, 2003-2005

Types of Financial Institution	2003		2004		2005	
	J\$ Million	Percentage of Total Financial System	J\$ Million	Percentage of Total Financial System	J\$ Million	Percentage of Total Financial System
Banks	320,090.6	39.6	350,507.0	38.2	375,858.3	38.0
Building Societies	65,696.4	8.1	80,028.0	8.7	89,304.3	9.0
Merchant Banks	44,420.2	5.5	51,231.7	5.6	44,913.0	4.5
Credit Unions	32,722.3	4.0	28,539.1	3.1	24,165.1	2.4
Life Insurers	51,158.5	6.3	67,873.4	7.4	78,335.9	7.9
General Insurers	26,968.5	3.3	40,359.7	4.4	33,558.1	3.4
Securities Firms	267,447.0	33.1	300,071.0	32.7	342,967.4	34.7
TOTAL	808,503.5	100.0	918,610.0	100.0	989,102.0	100.0
<i>of which: Insurance & Securities</i>	<i>345,574.0</i>	<i>42.7</i>	<i>408,304.0</i>	<i>44.4</i>	<i>454,861.4</i>	<i>46.0</i>
<i>Other</i>	<i>462,929.5</i>	<i>57.3</i>	<i>510,306.0</i>	<i>55.6</i>	<i>534,240.6</i>	<i>54.0</i>

Source: Bank of Jamaica & Financial Services Commission

¹For this review, all data on commercial banks, merchant banks and building societies were based on unaudited reports and were taken from the Bank of Jamaica website. Data on credit unions were sourced from the Jamaica Cooperative Credit Union League. Data on insurance companies and securities entities were based on data supplied in statutory filings to the Commission. Insurance data were based on audited reports while securities data were based on unaudited quarterly statements.

²The BOJ is awaiting approval of regulations for the supervision of credit unions. Credit unions are deposit-taking institutions. The BOJ also regulates cambios and remittance companies.

³Total Assets for 2004 were skewed by an amount of \$11.2 billion which represents recoverables from reinsurers due to Hurricane Ivan. Total Liabilities for 2004 were also skewed by \$11.2 billion representing Unpaid Claims and adjustment Expenses due to Hurricane Ivan (see Table 2).

The General Insurance Sector

At the end of December 2005, there were two less general insurance companies in operation compared to end-December 2004, reflecting the liquidation of Dyoll Insurance Company (currently in process) and the merger of two other companies. For the year ending in December 2005, net income generated by the general insurance industry amounted to \$371.1 million, representing growth of 46.5% compared with 2004. This growth partially reflects a normalization of activity within the sector as profitability had declined by 89.4% in 2004 in the immediate aftermath of Hurricane Ivan.

The improvement in performance is primarily attributable to a 9.3% decline in expenses as total industry revenues declined by 7.3%. There are three main contributors to industry revenues, viz: net premium income, net investment income, and other income.

Net premium income amounted to \$7,392 million

during 2005, an increase of 3.7% compared with 2004. Gross premiums actually grew by 14.5% in 2005, mainly reflecting the impact of higher premium rates and an increase in real estate values. However, net premium income growth was constrained by the extent to which general insurance companies ceded premiums for reinsurance coverage.

Net investment income fell by 31.9% in 2005 to reach \$2,005.3 million. Although the amount of invested assets grew by 5.2% to \$18,103.6 million, net investment income was affected by, among other things, portfolio reallocation toward government securities and a decline in asset rates of return. For example, yields on six-month Treasury Bills declined to an average of 12.60% in 2005 compared with an average rate of 14.20% in 2004. Average returns in the stock market, which may be proxied by the annual change in the Jamaica Stock Exchange (“JSE”) index, also declined. Other income declined by 18.3% in 2005. Figure 1 shows the evolution of general industry income for the period 2003-2005.

Table 2: Selected Key Indicators for the General Insurance Industry, 2003 - 2005

	J\$ Millions		
	2003	2004	2005
Total Assets	26,968.5	40,359.7	33,558.1
Total Invested Assets	17,101.3	17,205.1	18,103.7
Total Liabilities	17,959.2	29,942.1	23,357.9
Book Capital & Surplus	6,820.6	6,120.5	7,279.7
Net Income	2,384.4	253.3	371.1

Source: Financial Services Commission

Apart from operating results, the generally improved performance of the sector in 2005 is also evident in trends in book capital and surplus, which grew by 5.6%. This is in contrast to the 10.3% decline in book capital and surplus experienced in 2004. Total assets decreased by some 16.9% in 2005 but this decline can be attributed to (a) the removal of Dyoll's assets from industry data as these assets are currently being liquidated⁴ and (b) the reduction in recoverables from reinsurers following the passage of Hurricane Ivan in 2004.

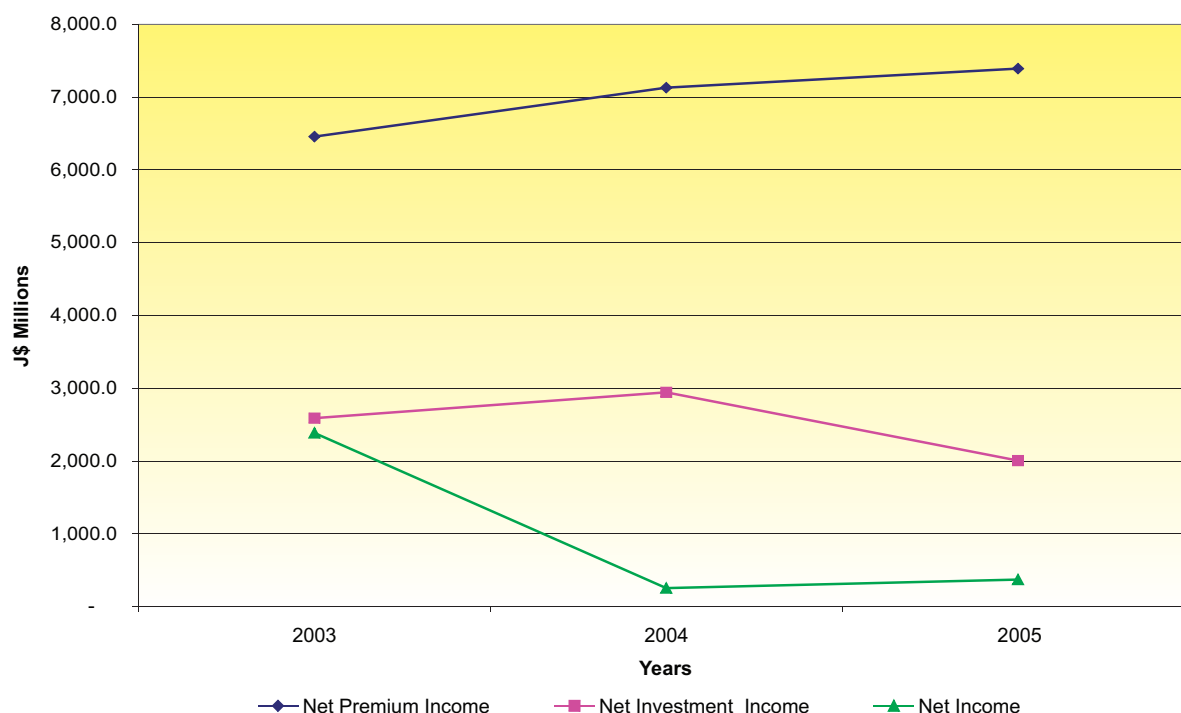
The Life Insurance Sector

Assets of the life insurance sector continued to grow in 2005, albeit at a slower pace than in 2004. Total assets grew by 15.4% during 2005 compared with growth of 32.7% during 2004.

However, operating results were less favourable. Net income fell by approximately 6.2% in 2005 after experiencing growth of 29.2% in 2004. The fall in net income may be primarily attributable to lower net investment income which, similar to the general insurance industry, was adversely affected by falling asset returns. Net investment income declined by 8% in 2005, notwithstanding a 15.7% increase in invested assets.

In contrast, gross and net premium income increased by 11.9% and 11.8%, respectively, in 2005. The correspondence in gross and net premium growth indicates the low level of reliance placed by the life insurance industry on reinsurance coverage. Eight new life insurance products were approved by the Commission during the year (see section on "Insurance Product Approvals"). Figure 2 shows the evolution of life

Figure 1: Income Earned by General Insurers, 2003-2005



⁴As reported on Dyoll financial statements at the end of 2004, Dyoll assets amounted to \$4,344.7 million, which represented approximately 10.8% of general insurance industry assets. If these assets were to be excluded from the industry total, then total industry assets at end of 2004 would be \$36,014.9 million. This would imply that the decline in assets observed in 2005 would be 6.8% rather than 10.3%.

Table 3: Selected Key Indicators for the Life Insurance Industry, 2003 - 2005

	J\$ Millions		
	2003	2004	2005
Total Assets	51,158.5	67,873.4	78,335.9
Total Invested Assets	45,737.2	55,359.3	64,046.0
Total Liabilities	38,106.6	48,405.2	57,657.2
Book Capital & Surplus	12,074.5	16,600.9	19,740.2
Net Income	3,634.4	4,697.0	4,406.6

Source: Financial Services Commission

Figure 2: Income Earned by Life Insurers, 2003-2005



insurance industry income during the period 2003-2005.

The Securities Sector

For convenience, licensees in the securities industry may be dichotomized into “securities-dealing firms” and “non-securities-dealing firms”. The securities-dealing firms are licensees who actively engage in securities trading as a principal business activity. Non-securities-dealing licensees are entities that do not trade in securities

as a business enterprise, per se, but who are nevertheless required to obtain a securities dealer's license in order to conduct some aspects of their activities, for example, managing the entity's pension fund. The non-securities-dealing group includes companies from a variety of industries ranging from manufacturing to financial services. Tables 4 and 5 below provide information on the structure of the securities industry in terms of asset size and capital base by type of firm. The capital base of the securities industry has progressively strengthened, with

Table 4: Total Assets of the Securities Industry by Type of Securities Licensee, 2003-2005

Categories of Securities Licensees	Total Assets					
	2003		2004		2005	
	\$ Millions	% of Total	\$ Millions	% of Total	\$ Millions	% of Total
Securities Firms	267,447.2	37.6	300,071.1	38.3	342,967.4	48.2
Non-Securities Firms	442,948.1	62.4	482,695.0	61.7	367,335.7	51.8
of which:						
Commercial Banks	317,629.6	44.7	330,528.0	42.2	218,494.0	30.8
Merchant Banks	43,468.7	6.1	49,698.0	6.3	32,839.9	4.6
Building Society	32,838.1	4.6	41,200.0	5.3	44,261.0	6.2
Insurance Companies	36,877.2	5.2	46,168.0	5.9	49,061.0	6.9
Others	12,134.6	1.7	15,101.0	1.9	22,679.8	3.2
TOTAL	710,395.4	100.0	782,766.1	100.0	710,303.1	100.0

Source: Financial Services Commission

Table 5: Total Capital of the Securities Industry by Type of Securities Licensee, 2003-2005

Categories of Securities Licensees	Total Assets					
	2003		2004		2005	
	\$ Millions	% of Total	\$ Millions	% of Total	\$ Millions	% of Total
Securities Firms	10,861.9	14.8	22,832.1	23.0	32,877.6	32.6
Non-Securities Firms	62,568.1	85.2	76,281.0	77.0	68,012.9	67.4
of which:						
Commercial Banks	35,973.7	49.0	39,372.0	39.7	27,099.6	26.9
Merchant Banks	4,733.7	6.4	5,584.0	5.6	3,771.0	3.7
Building Society	7,095.1	9.7	10,459.0	10.6	10,808.0	10.7
Insurance Companies	9,346.3	12.7	14,132.0	14.3	13,650.0	13.5
Others	5,419.2	7.4	6,734.0	6.8	12,684.2	12.6
TOTAL	73,430.0	100.0	99,113.1	100.0	100,890.5	100.0

Source: Financial Services Commission

total capital increasing by 37.4% between 2003 and 2005 and with capital-to-asset ratios of 10.3%, 12.7% and 14.2% in 2003, 2004 and 2005, respectively. The share of assets (and capital) accounted for by securities firms have also steadily increased in relation to non-securities. However, total assets of the securities industry registered a decline in 2005 which may be attributed to a decline in assets for the commercial bank and merchant bank groups of licensees as a result of the voluntary surrender of dealer licenses and restructuring decisions.

Tables 4 and 5 suggest that non-securities entities account for a much greater share of industry assets and capital than do securities firms. However, it should be noted that the balance sheets of non-securities firms include assets that are not associated with securities trading and reflect the activities of the entities in their respective primary economic sectors. The importance of securities firms is more clearly highlighted by examining data on Funds Under Management ("FUM"). Table 6 shows FUM for the period 2003-2005. Securities firms have typically accounted for over

70 percent of FUM in the securities sector.

Given their importance in securities trading and funds management, the discussion of industry performance focuses on securities firms as defined above.

The Performance of Securities Firms, 2005

The asset and capital base of securities firms increased by 14.5% and 43.4%, respectively, in 2005 compared with 2004. The improvement in the sector's capital base, in particular is an encouraging sign of a greater resilience to adverse shocks. Between 2003 and 2005, the capital base of securities firms grew at an annual average of 73.2%.

Profitability within the securities industry also showed signs of improvement. During 2005, the net income of securities firms increased by 3.0% to J\$8,849.0 million (see table 7). Net interest income amounted to \$9,275.5 representing an increase of 4.8% while other income increased by 26.3% to reach \$5,919.5 million. Figure 3 shows the evolution of net income for securities firms during the period 2003-2005.

Table 6: Total Funds Under Management of the Securities Industry by Type of Securities Licensee, 2003-2005

Categories of Securities Licensees	Total Assets					
	2003		2004		2005	
	\$ Millions	% of Total	\$ Millions	% of Total	\$ Millions	% of Total
Securities Firms	301,806.2	78.3	344,886.0	75.3	382,472.3	73.7
Non-Securities Firms	83,735.0	21.7	113,321.0	24.7	142,021.0	26.3
of which:						
Commercial Banks	40,449.0	10.5	22,242.0	4.9	16,246.0	3.0
Merchant Banks	11,731.0	3.0	8,245.0	1.8	21,608.0	4.0
Building Society	-	0.0	-	0.0	-	-
Insurance Companies	31,555.0	8.2	44,752.0	9.8	50,352.0	9.3
Others	-	0.0	38,082.0	8.3	53,815.0	10.0
TOTAL	385,541.2	100.0	458,207.0	100.0	540,066.5	100.0

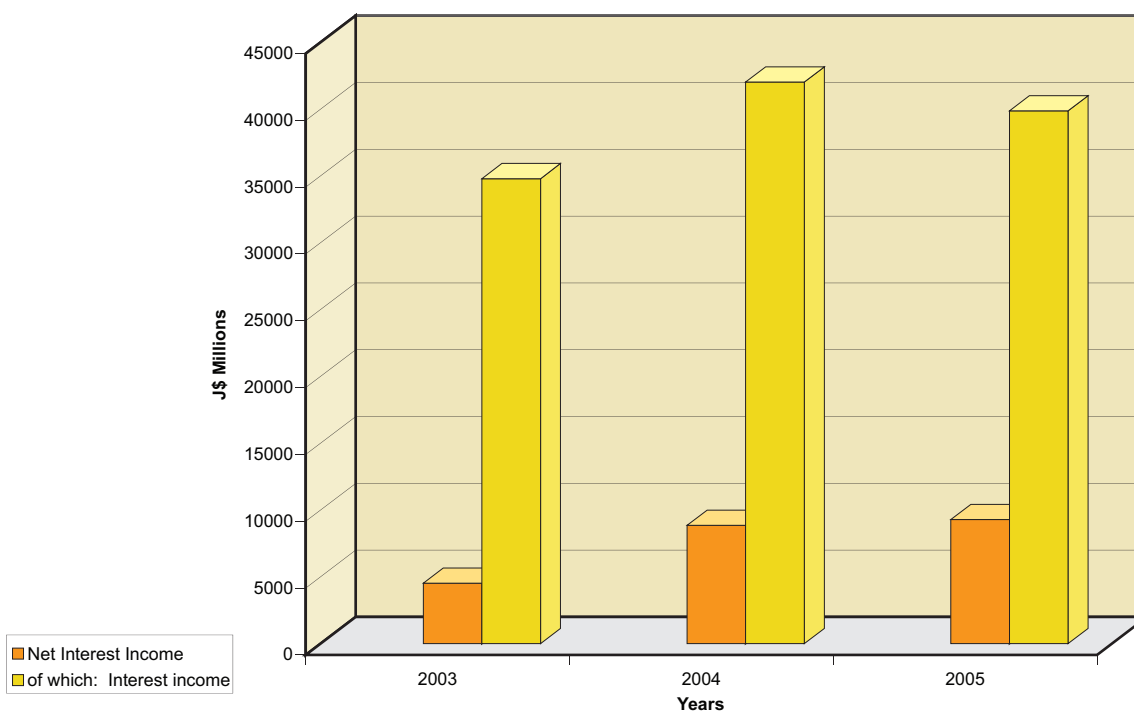
Source: Financial Services Commission

Table 7: Summary Operating Results for Securities Firms, 2003 - 2005

	2003	2004	2005
	J\$ million		
Net Interest Income	4,514.3	8,851.0	9,275.5
of which: Interest income	34,788.5	42,009.9	39,852.9
less: Interest expense	30,274.2	33,158.9	30,577.4
Other income	4,105.2	4,685.1	5,919.5
Total income (net of interest expense)	8,619.5	13,536.2	15,195.0
Other Expenses	3,505.5	4,948.0	6,346.0
Net income	5,114.0	8,588.2	8,849.0
	Annual change (%)		
Net Interest Income	-	96.1	4.8
of which: Interest income	-	20.8	-5.1
Interest expense	-	9.5	-7.8
Other income	-	14.1	26.3
Total income (net of interest expense)	-	57.0	12.3
Other Expenses		41.1	28.3
Net income		67.9	3.0

Source: Financial Services Commission

Figure 3: Income Earned by Securities Firms, 2003- 2005



Highlights of Activities 2005/2006

Regulatory Activities

(a) Legislation and Regulations

Pensions

The *Pensions (Superannuation Funds and Retirement Schemes) Act, 2004* ("the *Pensions Act*") was brought into force on March 1, 2005. However, the full implementation of Phase I (the Regulatory Phase) of Jamaica's pension reform was delayed to facilitate additional dialogue with stakeholders to resolve an extensive list of concerns which included, among other things, concerns relating to:

- (i) the cost associated with bringing the industry in line with the requirements of the *Pensions Act* and regulations;
- (ii) the perceived burden of compliance, particularly on trustees; and
- (iii) legal issues surrounding offences and penalties.

In March 2006, after extensive dialogue among relevant stakeholders during an eleven - month period, Parliament affirmed an initial set of regulations that allow the Commission to begin active supervision of the pensions sector. The *Pensions (Superannuation Funds and Retirement Schemes) (Specified Pension Funds and Specified Pensions Scheme) Regulations, 2005* were approved on March 11, 2006, while the following three additional Pensions Regulations were approved on March 29, 2006:

- i. *Pensions (Superannuation Funds and Retirement Schemes) (Registration, Licensing and Reporting) Regulations, 2006*
- ii. *Pensions (Superannuation Funds and*

Retirement Schemes) (Governance) Regulations, 2006;

- iii. *Pensions (Superannuation Funds and Retirement Schemes) (Investment) Regulations, 2006.*

In addition to the approval of pension regulations, Parliament also passed several important amendments to the *Pensions Act* which included, among other things, the removal of (a) criminal sanctions for trustees for breaches of obligations under the Pensions Act and (b) the requirement for the investment manager of a self-administered fund to have a securities dealer's license as a pre-requisite for being licensed by the Commission as an investment manager.

General

The *Financial Services Commission (Overseas Regulatory Authority) (Disclosure) Regulations 2005* became effective on May 6, 2005. These regulations set out the conditions under which the Commission may provide confidential information and documents to an overseas regulatory authority. Previously, in December 2004, the *Financial Services Commission Act ("FSC Act")* had been amended to allow the Commission to disclose information to a wider group of prescribed entities and individuals, including:

- i. the Financial Investigations Division (for purposes of an investigation of an offence under the *Money Laundering (Prevention) Act*);
- ii. any designated authority as prescribed by the Minister of Finance and Planning after consultation with the Commission's Chairman; and
- iii. an Overseas Regulatory Authority.

(b) Bulletins and Guidelines

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

Pensions

The Commission released the following guidelines to the pensions industry:

- ***Preparation of the Constitutive Documents of a Superannuation Fund or a Retirement Scheme (PR-GUID-06/02-0003).*** These guidelines illustrate the conditions under which the terms “fund” and “scheme” should be used in accordance with the Pensions Act 2004 and recommend that the terms should not be used interchangeably.

Securities

The Commission released the following guidelines to the securities industry:

- ***Regulatory Oversight of Credit Rating Agencies (SR-GUID-05/10-0014).*** These guidelines explain the regulatory model that will be employed by the Commission to monitor the operations of officially recognised credit rating agencies.
- ***Addendum to the Guidelines for Issuers of Securities (SR-GUID-05/10-0015).*** These guidelines further clarify the exempt status of private placements whereby private placement of securities will no longer be exempted from registration with the Commission. The

guidelines also describe the filing and disclosure requirements for issuing securities through private placement.

General

The Commission released a bulletin to inform regulated entities and the public of revisions made to the Guidelines on Anti-money Laundering and Counter-Financing of Terrorism. The AML/CFT Guidelines were amended with the revised version taking effect on October 4, 2005. The rationale for the amendments was to incorporate the provisions of the recently passed Terrorism Prevention Act, 2005 and those recommendations arising from the International Monetary Fund/World Bank mutual evaluation exercise of Jamaica's AML/CFT regulatory regime conducted in April 2005.

(c) Anti-Money Laundering / Combating the Financing of Terrorism (“AML/CFT”)

The Commission's AML/CFT activities are implemented through its Financial Crimes Unit. Measures to support the continued strengthening of the AML/CFT regulatory framework within the financial sectors regulated by the Commission during the year 2005/6 included but were not limited to the following areas:

1. Mutual Evaluation by the International Monetary Fund/World Bank

During April 2005, Jamaica participated in an International Monetary Fund/World Bank Mutual Evaluation of the AML/CFT regulatory regime. The Caribbean Financial Action Task Force (“CFATF”), being the regional body of the Financial Action Task Force (“FATF”), conducted the Mutual Evaluation exercise on its behalf.

The Mutual Evaluation involved 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 conducted in April 2005 was 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.

This exercise culminated in a Mutual Evaluation Report which was tabled and accepted on November 2, 2005 at the XXII CFATF Plenary.

Since the country report has not yet been released into general circulation, we will limit our comment to indicate that the AML/CFT regime of Jamaica which includes the financial sectors supervised by the Commission is largely compliant with the FATF Recommendations.

2. Continued Collaboration with Other Agencies

The Financial Crimes Unit continued to collaborate with local and overseas agencies by providing information for questionnaires and surveys and by meeting with local and international stakeholders.

3. Assessment of Board Approved Anti-Money Laundering Policies and Procedures Manuals of Regulated Entities in the Insurance and Securities Sector

Approximately 93% of the regulated entities of the Commission submitted their Board approved AML/CFT Policies & Procedures Manual to the Commission in 2004. During 2005/06, these manuals were reviewed as part of an off-site phase of the examination process and letters outlining

the deficiencies noted were forwarded to the regulated entities and the Commission commenced on-site followup examinations. Amended AML/CFT Policies & Procedures Manuals for some licensees and registrants in the securities and insurance sectors have been re-submitted to the Commission for further review.

4. Capacity Building

Following the establishment of the Financial Crimes Unit in 2003, members of the unit embarked on a course of specialised training. During the review period, two members of staff were certified by the Association of Certified Anti-Money Laundering Specialists as Certified Anti-Money Laundering Specialists, which signifies expertise in areas such as money laundering/terrorist financing methods, best practices for the prevention of money laundering/terrorist financing, global survey of key legislation, and global AML standards.

(d) Jamaica Stock Exchange Rule Changes

The Commission approved several rule changes that were made by the Council of the Jamaica Stock Exchange. In 2005, the Council revised its rules in accordance with the Companies Act, 2004. The amendments were done to Rules 402, 402(C), 405(F), 406, 413 and Appendix 3 of the JSE's Listing Agreement.

Rule 402 was modified to reflect the minimum capital requirement, while Rule 402(C) now advises any company that it can be de-listed if it fails to maintain the minimum capital requirement and the minimum number of shares or stockholders as required in Rule 402(A) and (B). Rule 405(F), which dealt with 'Definitive Certificates', has been removed. Rule 406 was

amended to tighten the days extended for credit and to properly reflect the current method of charges in respect to the supplementary fees. Rule 413 states the requirements of a listed company when it purchases or otherwise acquires shares issued by it. The Listing Agreement stipulates the terms and conditions for companies listed on the stock exchange.

(e) Authorizations

During the year the Commission issued 593 authorizations, of which 353, or 60%, were in the insurance sector with the remaining 240 authorizations being issued for entities in the securities sector. Within the insurance sector, 340, or 96%, of the authorizations were for insurance sales representatives and within the securities

sector, 231 securities dealers' representatives were authorized, representing 96% of total securities sector authorizations.

There were 361 terminations or cancellations and one merger, which brought the number of net authorizations during the year to 232. As a result, the number of entities registered or licensed by the Commission at the end of March 2006 stood at 1,980. Table 8 below outlines the changes in the number of licensees and registrants for the insurance and securities industries.

Authorization of Insurance Entities

In the general insurance industry, the number of companies declined as a result of a merger of two companies which was approved by the Commission. Thirteen new insurance brokers were registered, while three insurance brokers

Table 8: Number of Licensees and Registrants as at March 31, 2006

	Life Insurance Cos.	General Insurance Cos.	Assoc. of Under-Writers	Insurance Brokers	Insurance Agents	Insurance Sales Reps.	Loss Adjusters	Securities Dealers	Securities Dealers' Reps.	Investment Adviser	Investment Adviser's Rep.	Mutual Funds	Unit Trusts	Total
Licensed/Registered at 31/3/05	6	14	1	32	14	917	4	79	664	0	0	14	4	1,749
Additions Terminations /	0	0	0	13	0	340	0	3	231	1	1	4	0	593
Cancellations	0	0	0	(3)	(1)	(135)	0	(10)	(212)	0	0	0	0	(361)
Merged Entities	0	(1)	0	0	0	0	0	0	0	0	0	0	0	(1)
Licensed/Registered at 31/3/06	6	13	1	42	13	1122	4	72	683	1	1	18	4	1,980

Note: Merger - Globe Insurance Company of The West Indies Limited & Globe Insurance Company of Jamaica Limited merged to form Globe Insurance Company of Jamaica Limited

¹ Under the CAMELS 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.

Table 9: New Insurance Policies Approved by the Commission, 2005/06

Name of Company	Name of Product	Type of Product
Guardian Life Limited	Medecus Health	Group Health
Guardian Life Limited	Guardian Provider	Critical Illness Plan
Guardian Life Limited	Guardian Life Saver	Non-Medical, equity-linked universal-life
Guardian Life Limited	Guardian Life Evolution	Equity-linked, universal-life
Life of Jamaica Limited	Platinum Investor	Investment policy
NCB Insurance Company Limited	Employee Care - Life	Group Life
NCB Insurance Company Limited	Life Pro	Whole life policy
Scotia Jamaica Life Insurance Company Limited	Single Premium Deferred Annuity	Deferred Annuity

Source: Financial Services Commission

and one insurance agent cancelled their registrations. Some of the sales representatives who had voluntarily cancelled their registrations re-registered to do business for another registrant. Similar to last year, there were no registered insurance managing general agents.

Authorization of Securities Entities

During the review year, ten securities dealers cancelled their licenses and three new securities dealers were licensed. In the case of securities dealers' representatives, the additions included new individuals as well as representatives who changed employment from one securities dealer to another. One company was licensed as an investment adviser, the first such authorization in the Commission's history. Four mutual funds were added while the number of unit trusts remained the same.

Insurance Product Approvals

During the year, the Commission approved eight new insurance products offered by four insurance companies. The new offerings included Group

Health, Group Life, Equity-linked and Annuities products (see Table 9).

(f) Opportunity to be heard

Under the relevant Acts, in many cases applicants who are informed by the Commission that it intends to refuse to grant registration may opt for an opportunity to be heard before the Commission. The applicants are afforded the opportunity to make submissions to the Commission in response to the Commission's stated intentions. During the review period there were two securities and five insurance applicants who took up the opportunity to be heard.

In respect of the insurance applicants, two were found to be not fit and proper, one applicant was found to be fit and proper and the remaining two applicants' re-registration applications were approved. With respect to the securities applicants, one applicant's registration was granted and the other applicant's license was cancelled.

None of the rejected applicants made any appeal to the Appeal Tribunal. The Appeal Tribunal is an independent body established by section 19 of the

Financial Services Commission Act to hear appeals relating to decisions, rulings or directions made by the Commission under any of the relevant Acts.

(g) Litigation

Breaches of the Insurance Act. Arising from an investigation into misleading information supplied to the Commission, charges were laid against three former board members and the former chief financial officer of the entity for breaches of section 147 of the Insurance Act. Trial proceedings are expected to begin in the 2006/07 year. If convicted, they face a fine not exceeding \$3 million or imprisonment for a term not exceeding three years.

Dyoll Insurance Company Limited (In Liquidation). During the 2005/06 year, the process of liquidating Dyoll continued. Joint Liquidators ("JL") in Jamaica and the Cayman Islands were appointed by the courts. The process was marked by legal actions brought against the Commission by the JL in an attempt to set aside previous actions and decisions which were taken by the Commission, in particular, the use of the prescribed deposit to meet the claims of local policyholders.

The *Insurance Act* provides that the prescribed deposit is available to meet the liabilities of the insurer in respect of policyholders' claims and in a winding up process, in the first instance, to meet the liabilities of local policyholders. In the case of Dyoll, the Commission held an initial deposit of

J\$45.3 million and, on March 4, 2005, requested an increased deposit and received an amount in excess of J\$300 million.

The JL petitioned the Court for a ruling on the interpretation of the meaning of local policies and on the use of the prescribed deposit. The Commission contended that the additional deposit was part of the prescribed deposit and that the prescribed deposit, during a liquidation, must first be used to settle the claims of local policies. The JL challenged the Commission's interpretation and contended that the additional deposit should be used to settle the claims of creditors on a proportional basis. The Court's ruling on the interpretation of the meaning of local policies and on the use of the prescribed deposit confirmed the position held by the Commission.⁵ The Joint Liquidators also sought judicial review of the legality of the Commission's action in increasing the prescribed deposit.⁶

Overseas, a decision by the Grand Court of Cayman is still awaited as to the application of the prescribed deposit held by the Cayman Island Monetary Authority, which regulates insurance business in the Cayman Islands.

Supervisory Activities and Investigations

Insurance Supervision

The Commission conducts both on-site and off-site examinations for registrants in the insurance industry.⁷ Within the insurance sector, a total of 22 examinations were completed. Eighteen of these

⁵ The court ruled that the additional deposit was a part of the prescribed deposit and that local policies were those that were approved within the geographical space of Jamaica. In addition, the prescribed deposit must first be utilized to settle the claims of local policies.

⁶ Subsequent to the end of the 2005/06 financial year, the JL and the Committee of Inspection have agreed that the judicial review application is to be withdrawn. On an application by the JL and the Committee of Inspection, an order was made postponing the judicial review application and setting it for case management in July 2006. The Committee of Inspection and JL have agreed to seek to develop a scheme of arrangement or a compromise agreement which will permit for the increased prescribed deposit to be distributed *pari passu* to all Dyoll creditors and in such an event the judicial review application will be obviated.

⁷ An off-site examination involves a review of quarterly and annual filings and selected documents submitted by the licensees and registrants. 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. The decision on the areas targeted in on-site examinations is usually based on issues revealed from off-site examinations as well as on a random basis.

were off-site examinations (that is, one examination was done on each general and life insurance company) while four were on-site. Subsequent to these examinations, a plan of action to address identified deficiencies and violations in a timely manner was prepared and submitted to each registrant. The Commission continues to monitor registrants to ensure compliance with the agreed plan.

In addition to detailed examinations, the Commission routinely monitors the financial performance of registered insurers and intermediaries on the basis of periodic financial returns. The financial data is subjected to a range of early warning tests relating to, among other things, the adequacy of the companies' capital, earnings and liquidity and emerging problems are noted for closer scrutiny.

Securities Supervision

In the securities sector, a total of 15 examinations were conducted, of which 12 were off-site examinations and three were on-site. The number of violations detected declined by 58% but this apparent reduction is heavily influenced by the fact that, with a greater emphasis on risk-based supervision, the Commission had been more selective in its conduct of on-site examinations in the securities sector. Table 10 below indicates the number and the nature of violations that were observed. The observed violations were:

1. Issue of Contract Notes

Three violations of the Securities Act were observed in relation to the issue of contract notes

Table 10: VIOLATIONS OF THE SECURITIES ACT & REGULATIONS, 2004/05 & 2005/06

Legal Provision Violated ¹	Description of Provisions	Number of Violations 2004/5	Number of Violations 2005/6
S07	Dealing without Dealer's Licence	1	0
S08	Dealing without Licensing of Investment Advisers	1	0
S10	Requirement to register dealer representatives	2	0
S38	Issue of Contract Notes	5	3
S39	Provision of disclosure of dealers' interest in securities	3	1
S40	Provision governing dealers dealing as principal	2	0
S59 (A)	Audit and Conduct Review Committees	0	1
S63	Dealing without Dealer's Accounting Records	1	0
COB (13)	Presentation of financial reports	43	7
DOI (11-18)	Filing of information memorandum	1	13
L & R	Licensing and Registration Regulations	1	0
Total		60	25

Notes:

1: References are to the Securities Act and Regulations. For example; section 7 of the Securities Act is referenced as "S07"; COB refers to the Conduct of Business Regulations; DOI refers to the Disclosure of Interest Regulations; and L & R refers to the Licensing and Registration Regulations.

Source: Financial Services Commission

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.

2. Disclosure of Dealers' Interest in Market Circulars

In this situation, a dealer was 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.

3. Audit and Conduct Review Committees

The Securities Act was amended to include section 59 which mandates that every company licensed under sections 7 and 8 must establish an audit committee and a conduct review committee. One violation was detected.

4. Presentation of Financial Reports

Regulations 13(1) and (2) 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". Seven violations of this requirement were noted.

5. Information Memorandum

Issuers of commercial paper are required to file an Information Memorandum in the format stated in regulations 11 - 18 of the Securities (Disclosure of Interest) Regulations. Thirteen violations were noted.

Pensions Supervision

In anticipation of the promulgation of the Pensions Regulations, the Commission implemented activities in order to strengthen the capacity of the Commission and to ensure a smooth procedure that would minimize the administrative burden in the process of registration and licensing of existing pension funds and retirement schemes. These activities included:

- Recruitment of additional staff;
- Training staff in the requirements and procedures for registration, licensing and supervision;
- The preparation of a procedures manual for pensions registration and licensing containing, among other things, detailed information on application procedures, fit and proper approval guidelines and the analysis of constitutive documents and business plans.
- The conduct of mock runs to identify opportunities to improve the intended procedures and to improve the efficiency of staff in preparation for the actual registration process.

Table 11: Investigations into Suspected Statutory and Regulatory Breaches, 2005/06

Description of Suspected Breach	Related Legislation	Status of Investigation
4 unregistered persons performing the function of insurance intermediaries	Section 70(1)-(2) of the Insurance Act.	Investigation is still on going
2 individuals for conducting business as a representative without registration	Section 10 of the Securities Act	Investigation is still on going
1 entity and 4 individuals for providing misleading information	Section 147 of the Insurance Act	See section on Litigation.
1 entity carrying on insurance business without being registered	Section 7(1)(a) of the Insurance Act.	Investigation is still on going
5 entities dealing in securities and carrying on investment advice business without registration	Sections 7 and 8 of the Securities Act	Investigation is still on going
1 entity for market abuse comprising insider trading and the use of manipulative or deceptive practices	Various sections of the Securities Act	Investigation is still on going

Source: Financial Services Commission

Investigations

The Commission carries out investigations in several areas which include but are not limited to the following:

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

Investigations into Suspected Breaches of any Relevant Act

During the review period, the Commission conducted 18 investigations into suspected breaches of the Insurance Act, the Insurance Regulations and the Securities Act. Table 11 contains information on the suspected breaches.

As noted in the table, several of these investigations were still in progress at the end of the 2005/06 review period, while others were completed and enforcement action taken, where this was warranted. The Commission is empowered by the relevant Acts to impose sanctions on any entity or individual who has contravened the relevant Acts. The Commission took the following steps based on the results of its investigations into alleged breaches:

- An entity and an individual were offered the opportunity to pay a fixed penalty in accordance with section 21 of the FSC Act in lieu of prosecution for engaging in the business of insurance as an insurance intermediary without being registered by the Commission to do so, in contravention of section 70 of the Insurance Act. Both accepted the offer and paid the fixed penalty of \$100,000 each.
- In accordance with section 68(1B) of the Securities Act, cease and desist orders were issued on March 24, 2006 to four entities which the Commission had reason to believe were conducting securities business in breach of the

Securities Act. The Commission's decision to issue cease and desist orders resulted from an investigation that indicated that these entities, while they purported to be carrying out foreign currency trading activities, were engaged in securities activities in breach of sections 7 and 8 of the Securities Act. These sections prohibit the carrying on of a securities or investment advice business without being licensed to do so by the Commission. The entities have mounted a series of legal challenges against the Commission's actions which so far have not been successful. Subsequent to the year-end, the entities applied to the courts for a stay of the cease and desist orders. The matter was heard by a judge in chambers who has reserved judgment. The entities have also commenced an appeal against the Commission's orders.

In the previous reporting period, the Commission had commenced enforcement action against an individual for engaging in the business of selling insurance products on behalf of an unregistered foreign entity. The individual rejected the Commission's offer of the opportunity to pay a fixed penalty in accordance with section 21 of the FSC Act in lieu of prosecution and challenged the constitutionality of the Commission's authority to offer the fixed penalty at a hearing before the Full Court of the Supreme Court on April 11-12, 2005. The court handed down its ruling on October 28, 2005 stating that the individual's application against the Commission was misconceived and should be dismissed. The court also awarded costs to the Commission. The individual has appealed this ruling.

Investigations into Fit and Proper Status

Both the Insurance Act and the Securities Act stipulate that each of the persons managing or controlling entities covered under these Acts must be fit and proper to do so. Not all applicants for fit

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

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

In carrying out its investigations the Commission will, amongst other things, take into account evidence that an applicant was:

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

During the reporting period 13 fit and proper 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. At the end of the year, ten of these investigations were completed, with the remaining three still in progress.

Investigations into alleged improper conduct of licensees

Two investigations were conducted where prejudicial and negligent practices by insurers were alleged. The investigations were completed and the allegations against the insurers were

proved to be false. Six registered insurance sales representatives were investigated for illegally soliciting business related to insurance products of an unregistered foreign entity. The investigation is still on-going.

Investigations of complaints received from the public

During the year, the Commission reviewed 258 complaints from the public against licensees, an increase of 40 compared with 2004/05. Of the total amount reviewed, 20 general insurance complaints and three securities complaints were carried forward from 2004/2005. All of these complaints were resolved in the 2005/06 financial year.

The percentage of total complaints resolved amounted to 66%, a ten percentage point decline compared with 2004/05. The decline in the overall rate of resolution of complaints reflects a combination of (a) the larger number of complaints being investigated and (b) the resource intensity of several large cases, notably in the securities sector.

The percentage of complaints resolved for the general insurance industry declined from 88% in 2004/05 to 64% in 2005/06, while the percentage of life insurance and securities complaints resolved increased by 18 and 61 percentage points, respectively. Table 12 provides an analysis of the complaints by industry for 2005/06.

Since the coming into effect of the Pension Act the Commission has received a number of pension-related complaints. These complaints relate to, *inter alia*:

- undue delays in the payment of benefits;
- the failure of the sponsor over a number of years to pay over employers' and employees' contributions;
- information being withheld from members;
- pension plans being in an inactive state for years, while trustees cannot be located;
- pension funds being terminated and members not being refunded their contributions; and
- matured benefits not being paid.

Other Investigations

One investigation was conducted in relation to an entity applying for registration of a product/fund under regulation 33(2) of the Securities (Mutual Funds) Regulations. The investigation was completed and led to a process which included an opportunity to be heard. (See section on "Opportunity to be Heard").

Table 12: Distribution of Complaints by Sector, 2005/06

	General Insurance	Life Insurance	Securities	Pensions	Total
Total complaints reviewed	175	23	20	40	258
Number of cases closed	112	16	20	23	171
Percent closed	64.0%	69.5%	100.0%	57.5%	66.0%

Source: Financial Services Commission

Public Education

Insurance

The Commission organized and conducted a *Capital & Risk Management* seminar in March 2006 in which 66 persons participated. The seminar was aimed at both providers and users of insurance services and was part of a broader mandate to promote the adoption of procedures designed to control and manage risk in insurance operations. The seminar was also used as an opportunity to introduce to the industry proposals for new regulatory capital standards.

Securities

The 2nd annual conference of Caribbean securities regulators was organized and hosted by the FSC in Kingston between November 7 and 8, 2005. The conference was organized under the theme “*Securities Market Regulation: Balancing Protection and Development*”. The primary objective of the conference was to provide a forum for Caribbean regulators, market participants and other interested parties to discuss issues related to investor protection and overall market development. The discussions also explored the differences between the respective regulatory jurisdictions and also aimed to improve the participants' grasp of key industry matters, particularly prudential and disclosure standards, as well as the implications of the Caribbean Single Market and Economy for securities dealers. The conference was also the occasion for the annual meeting of the Caribbean Group of Securities Regulators. The conference attracted 110 participants from 12 countries (including Jamaica) and featured presenters from Caribbean regulators and securities market professionals as well as international bodies such as the International Organization of Securities Commissions and the International Monetary Fund.

Pensions

Given the scale of the undertaking for Phase I of the pension reform, a major focus of the Commission's efforts at public education during 2005/06 was aimed at stakeholders in the pensions industry (trustees, administrators and investment managers, other professional service providers and plan members). The overall aim was to widen and deepen the understanding of the implications of legislative proposals and to keep stakeholders apprised of developments in licensing and registration requirements and procedures. The Commission employed a range of communication methods, which included:

- i. a series of eight pension workshops in Kingston and St Andrew and in the parishes of St James and Manchester which attracted a total of 543 participants;
- ii. the use of electronic media to outline the importance of regulation for the pensions sector and to elaborate the rationale for key provisions in the regulations, with special emphasis on provisions which had elicited negative feedback from stakeholders;
- iii. telephone calls to prospective registrants and licensees to advise them on registration and licensing procedures; and
- iv. posting critical documents on the Commission's website such as bulletins and guidelines related to registration and licensing, a document checklist and a list of frequently asked questions (FAQ).

AML/CFT

Members of the Commission's Financial Crimes Unit participated as presenters in training

workshops organized by the Caribbean Regional Drug Law Enforcement Training Centre (“Redtrac”) and the Jamaica Association of Insurance and Financial Advisors (“JAIFA”). For the Redtrac training programme on “*Techniques of Financial Investigation*”, which was coordinated by representatives from the US Department of the Treasury, the Commission's staff made a presentation on “*The Regulatory Framework for Non-Banking Financial Institutions*”. For the JAIFA workshop, the Membership Communication Committee of JAIFA was provided with an “*Overview of the Money Laundering Legislation*”.

General

In an effort to increase public awareness regarding the Commission and its mandate, the Commission conducted a public education initiative that targeted young adults who were attending tertiary institutions. During a seven-month period, a team from the Commission visited eight tertiary institutions for a series of talks which were attended by a combined total of 1,300 persons. The central theme for the series of talks was: “*Securing Your Financial Future: Understanding the FSC*”.

Table 13: Training Summary, 2005/06

Course/Seminar	Provider	Number of Staff Trained
Procurement Workshop	Bank of Jamaica	1
Financial Investigations	Caribbean Regional Drug Training Centre	2
Implementing Business Continuity & Business Recovery Management	Certified Information Security	1
Insurance Regulation	Offshore Group of Insurance Supervisors (OGIS)	1
Reinsurance	Financial Stability Institute	1
Insurance Supervision	Financial Stability Institute	1
Seminar Training Program	International Organization for Securities Commissions (IOSCO)	1
Jamaican Securities Course	Jamaican Institute of Management	4
Securities Market Surveillance	NASD	2
Investment Companies & Regulation	National Association of Securities Dealers (NASD)	2
Crisis Communication Strategy	Public Relations Society of America	1
Asset Liability Management	Society of Actuaries	1
Securities Supervision	Toronto Leadership Centre	1
Network+, MS 2000 Network and OS Essentials	TrainX	1
Securities Market Development	United States Securities & Exchange Commission (USSEC)	2
Securities Enforcement & Oversight	USSEC/Securities Commission of Barbados	3
Training Manager Certificate program	VNU Learning	1
Pensions Regulations	World Bank	2
Information Technology Security for Managers	The Jamaica Institute of Bankers	2
Fair Valuation Techniques	The Institute of Chartered Accountants of Jamaica	5
Enterprise-wide Risk Management & Internal Control	GovStrat	4
IFRS Update 2006	KPMG Peat Marwick	8

Source: Financial Services Commission

Finance and Administration

Human Resource Management

As one of its strategic objectives, the Commission aims to build a competent staff, committed to professionalism and teamwork. Recruitment, training and performance management are key aspects of the process used by the Commission to further its human resource objectives. During the review year, the Commission recorded a net increase of 17 persons, with a staff complement at March 31, 2006 of 101 persons. Additional staff was deployed mainly to the insurance, securities, and pensions supervisory divisions. The Commission also continued to improve its capabilities to assess the quality of its human resource base through the development and implementation of a performance-based management system. With respect to training, the Commission spent \$9.9 million on training in the form of courses, seminars and workshops, a summary of which is shown in Table 13 below. The Commission also spent approximately \$7.4 million for conferences. Combined expenditure on training and conferences accounted for 5.3% of total operating expenses.

Review of Financial Operations

The financial statements present the results of operations of the Commission for the financial year ended March 31, 2006. The following comments provide an analysis of the performance during the year and should be read in conjunction with the financial statements.

Highlights

The Commission ended the financial year with a net loss from operation of \$32.3 million compared to the net income of \$35.1 million for the previous year. The net loss was due to a lack of revenue to finance pensions-related expenses of approximately \$72.1 million.

Capital and non-capital (or revenue) grants received during the year totalled \$20.9 million. The Commission is a beneficiary of a Caribbean Development Bank ("CDB")/Government of Jamaica loan agreement and an Inter-American Development Bank ("IDB")/Government of Jamaica grant agreement. Revenue grants arising from the CDB loan totalling \$12.5 million were used to cover the cost of professional fees and staff training related to several technical assistance projects while a capital grant of \$3.1 million was used for the purchase of computer equipment. The IDB provided revenue grants amounting to \$5.2 million, of which \$4.7 million was used to cover the cost of professional fees related to several institutional strengthening projects.

Financial Review, 2005/6

1. Revenue

Fee revenue, which accounted for 95.5% of total revenue from operations, was \$258 million and was 11% higher than the previous year. The securities industry generated \$107.5 million in revenue which was 16% higher than the previous year. Table 14 gives a breakdown of the fees earned from the securities industry.

The insurance industry contributed \$151.3 million in revenue, which was 7.8% higher than the previous year. Table 15 gives a breakdown of the fees earned from the insurance industry.

2. Expenses

Total expenses for the 2005/6 financial year was \$324.3 million, an increase of \$77.7 million or 31.5% over the previous year. The major expenses, which accounted for 87% of total expenses, were as follows:

- Staff costs amounted to \$216.5 million for 2005/6 compared to \$163.2 million for the previous year, an increase of \$53.3 million or 32.7% due to an increase in the

Table 14: Revenue from Securities Industries, 2004/5 & 2005/6

Source	2004/2005		2005/2006	
	Revenue ('\$000)	% of Total	Revenue ('\$000)	% of Total
Dealer Licencees	55,382	60	73,781	69
Stock Exchange Transactions & JCSD	31,043	33	26,587	25
Application & Filing Fees	1,063	1	1,196	1
Commercial Paper etc.	175	0	304	0
Mutual Funds	5,067	5	5,624	5
Totals	92,730	100	107,492	100

staff complement from 84 at the end of 2004/5 to 101 at the end of 2005/6. Staff costs accounted for 67% of total expenses for the year.

- Professional fees were \$16.3 million compared to \$9.3 million for 2004/5, an increase of \$7 million or 75.5% due mainly to the increased use of external attorneys occasioned by Dyoll's insolvency (see section on "*Litigation*") and special investigations into suspected breaches of the securities act (see section on "*Investigations*"). Professional fees accounted for 5% of total expenses.
- Project expenses totalled \$17.2 million and accounted for 5.3% of total expenses and were in line with the previous year's total of \$17.8 million. Project expenses represented professional fees and staff training provided by the Government of Jamaica under a technical assistance loan agreement with the CDB and a grant agreement with the IDB.
- Depreciation and amortization expenses amounted to \$18 million compared to \$10.8 million for 2004/5 an increase of 7.2% or 66.7% due to the significant acquisition of software systems (intangible assets). Depreciation and amortization expenses accounted for

Table 15: Revenue from Insurance Industry, 2004/5 & 2005/6

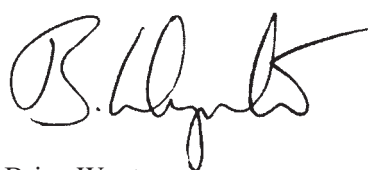
Source	2004/2005		2005/2006	
	Revenue ('\$000)	% of Total	Revenue ('\$000)	% of Total
Renewal Fees – General Companies	77,635	55	82,434	54
Renewal Fees – Life Companies	50,395	36	49,648	33
Renewal Fees – Intermediaries	10,995	8	18,134	12
Filing & Application Fees & Misc. Fees	1,360	1	1,094	1
Totals	140,385	100	151,310	100

5.6% of total expenses.

- Training and conference expenses were \$15.1 million an increase of \$3.3 million or 28.4% compared to the previous year. Expenditure for training and conference accounted for 4.6% of total expenses.

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 the end of the year the balance sheet showed current assets of \$153.4 million and current liabilities of \$67.8 million for a current ratio of 2.26:1 which was lower than the previous year of 3.64:1. Cash and resale agreements at the end of the year were \$83.4 million compared to \$103.5 million. The reduction in the cash and resale agreements balances during 2005/6 reflected the lack of revenue inflows from the pensions industry, which resulted in a drawdown of the Commissions' liquidity in order to finance a portion of the pension-related expenses.



Brian Wynter
Executive Director

FSC Statutes & Regulations

The statutory duties and responsibilities of the Commission and the regulatory provisions governing financial services in the areas of insurance, securities, and pensions 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 (Prescribed Sum) Regulations - promulgated in 2004; it prescribes 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 regulations also contain specific provisions concerning the protection of investors.

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; governs the process of registration for unit trusts.

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

The Pensions (Superannuation Funds and Retirement Schemes) Act - enacted in 2004 and last amended in 2006; it provides for the licensing, operation and supervision of entities in the pensions industry.

The Pensions (Superannuation Funds and Retirement Schemes) (Specified Pension Fund and Specified Pension Scheme) Regulations, 2005 - were promulgated in March 2006 defined the meaning of “specified pension fund” or “specified pension scheme”.

The Pensions (Superannuation Funds and Retirement Schemes) (Registration, Licensing and Reporting) Regulations, 2006 - were promulgated in March 2006; state the conditions for the licensing and registration of schemes, funds, investment manager, administrators and other key persons.

The Pensions (Superannuation Funds and Retirement Schemes) (Governance) Regulations, 2006 - were promulgated in March 2006; outline the operational procedures for those who preside over superannuation funds and retirement schemes.

The Pensions (Superannuation Funds and Retirement Schemes) (Investment) Regulations, 2006 - were promulgated in March 2006; provide detailed rules and guidelines for trustee and investment managers to prudently invest and manage the assets that fall under their responsibility.

COMPENSATION OF EXECUTIVE MANAGEMENT 2005/2006

1. Basic Salary Range of Executive Management	
a) Senior Director, Director and General Counsel	\$2,670,000 - \$4,140,000
b) Chief Actuary	\$4,140,000 - \$5,640,000
c) Executive Director	\$5,800,000 - \$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 coverage on the Commission's group health plan.

LIST OF REGISTERED ENTITIES/INDIVIDUALS AS AT MARCH 31, 2006

Dealers (Companies)

There were fifty-two (52) licensed securities dealers (Companies) as at March 31, 2006:

1. Alliance Investment Management Limited
2. ATL Group Pension Fund Trustees Nominee Limited
3. Barita Investments Limited
4. Barita Portfolio Management Limited
5. Barita Unit Trusts Management Company Limited
6. Capital & Credit Fund Managers Limited
7. Capital & Credit Merchant Bank Limited
8. Capital & Credit Securities Limited
9. Capital Options Limited
10. Capital Solutions Limited
11. Citifinance Limited
12. Citimerchant Bank Limited
13. CWJ Employees Co-operative Credit Union Limited
14. DB&G Unit Trust Managers Limited
15. Dehring, Bunting & Golding Limited
16. E. W. Lewis Investments & Finance Limited
17. First Global Bank Limited
18. First Life Insurance Company Limited (First Jamaica Investments Limited)
19. FirstCaribbean International Bank (Jamaica) Limited
20. FirstCaribbean International Securities Limited
21. First Global Financial Services Limited
22. Gleaner Company Limited
23. Guardian Asset Management Limited
24. Guardian Life Limited
25. Ideal Finance Corporation Limited
26. Ideal Portfolio Services 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. JMMB Securities Limited
32. JN Fund Managers Limited
33. Life of Jamaica Limited
34. MF&G Asset Management Limited
35. M/VL Stockbrokers Limited
36. Mayberry Investments Limited
37. National Commercial Bank Jamaica Limited
38. NCB Capital Markets Limited
39. NCB Insurance Company Limited
40. Pan Caribbean Asset Management Limited
41. Pan Caribbean Financial Services Limited
42. Paul Chen Young & Company Limited
43. Prime Asset Management Limited
44. RBTT Bank Jamaica Limited
45. RBTT Securities Limited
46. Scotia Jamaica Investment Management Limited
47. Sterling Asset Management Limited
48. UGI Finance & Investments 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 eight (8) licensed securities dealers (individuals not associated with a company) as at March 31, 2006:

- | | |
|----------------------|---------------------|
| 1. Bailey, Lorreston | 5. McIntosh, Howard |
| 2. Harrison, Verley | 6. Moss, Kathleen |
| 3. Issa, Christopher | 7. Riley, C. Roy |
| 4. Johnson, Roy | 8. Scott, Ewart |

Dealers (individuals associated with a company)

There were twelve (12) licensed securities dealers (individuals associated with a company) as at March 31, 2006:

- | | |
|-----------------------|--------------------|
| 1. Berry, Christopher | 7. Lewis, Everton |
| 2. Berry, Konrod | 8. Ming, Herman |
| 3. Campbell, Ryland | 9. Shirley, Sandra |
| 4. Clarke, Oliver | 10. Taffe, Joseph |
| 5. Croskery, Hugh | 11. Watson, Cecile |
| 6. Jarrett, Earl | 12. Wray, Wayne |

Investment Advisers

There was one (1) licensed investment adviser as at March 31, 2006.

1. Today's Money Marketing Services Limited

Mutual Funds

There were eighteen (18) registered Mutual Funds as at March 31, 2006:

- | | |
|---------------------------------------|---------------------------------------|
| 1. AIC Advantage Group Fund | 10. Grace Caribbean Fixed Income Fund |
| 2. AIC Money Market Corporate Class | 11. JMMB Select Index fund |
| 3. AIC Balanced Group Fund | 12. Scotia US Growth Mutual fund |
| 4. AIC Diversified Group Fund | 13. Scotiabank Canadian Growth Fund |
| 5. AIC Focused Group Fund | 14. Scotiabank Global Growth Fund |
| 6. CI Sector Balanced Funds | 15. Scotiabank Money Market Fund |
| 7. CI Sector Diversified Equity Funds | 16. Scotiabank US Dollar Bond Fund |
| 8. CI Sector Fixed Income Funds | 17. Scotiabank, Mutual Funds, SPC |
| 9. CI Sector Focused Equity Funds | 18. Sterling Global Fund Limited |

Unit Trusts

There were four (4) registered Unit Trust Fund Managers as at March 31, 2006:

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

Life Insurance Companies

There were six (6) life insurance companies registered as at March 31, 2006:

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

General Insurance Companies

There were thirteen (13) general insurance companies registered as at March 31, 2006:

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

Associations of Underwriters

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

1. Lloyds

Insurance Brokers

There were forty two (42) Insurance Brokers registered as at March 31, 2006:

- | | |
|--|---|
| 1. Allied Insurance Brokers Limited | 14. International Insurance Brokers Limited |
| 2. Assurance Brokers of Jamaica Limited | 15. Jamaica Citadel Insurance Brokers Limited |
| 3. Billy Craig Insurance Brokers Limited | 16. JMMB Insurance Brokers Limited |
| 4. Caribbean Assurance Brokers Limited | 17. Marathon Insurance Brokers Limited |
| 5. Covenant Insurance Brokers Limited | 18. Maritime General Insurance Brokers Limited |
| 6. Desmond Mair Insurance Brokers Limited | 19. Mutual Security Insurance Brokers Limited |
| 7. Evals Insurance Brokers Limited | 20. National Property & General Insurance Brokers Limited |
| 8. Excel Insurance Brokers Limited | 21. Orion Insurance Brokers Limited |
| 9. Firm Insurance Brokers Limited | 22. Progressive Insurance Brokers Limited. |
| 10. Fraser Fontaine & Kong Limited Insurance Brokers | 23. Solid Life and General Insurance Brokers Limited |
| 11. GEM Insurance Brokers Limited | 24. Spectrum Insurance Brokers Limited |
| 12. Genesis Insurance Brokers Limited | 25. Thwaites Finson Sharp Insurance Brokers Limited |
| 13. Guardian Insurance Brokers Limited | 26. Zenith Insurance Brokers Limited |

Facultative Placement Brokers

- | | |
|--|---|
| 27. Allied Insurance Brokers Limited | 34. Fraser Fontaine & Kong Limited Insurance Brokers |
| 28. Assurance Brokers Jamaica Limited | 35. Guardian Insurance Brokers Limited |
| 29. Billy Craig Insurance Brokers Limited | 36. International Insurance Brokers Limited |
| 30. Caribbean Assurance Brokers Limited | 37. Mutual Security Insurance Brokers Limited |
| 31. Desmond Mair Insurance Brokers Limited | 38. National Property & General Insurance Brokers Limited |
| 32. Excel Insurance Brokers Limited | 39. Spectrum Insurance Brokers Limited |
| 33. Firm Insurance Brokers Limited | 40. Thwaites Finson Sharp Insurance Brokers Limited |

Overseas Reinsurance Brokers

41. Benfield Limited

Local Reinsurance Brokers

42. International Insurance Brokers Limited

Insurance Agents

There were thirteen (13) insurance agents registered as at March 31, 2006:

- | | |
|---|--|
| 1. Associated Owners Insurance (Agents) Limited | 8. Mutual Enterprises (Insurance) Agents Limited |
| 2. Cooke & Andrew Insurance Agency Limited | 9. Nationwide Insurance Agents and Consultants Limited |
| 3. Crichton Insurance Agency Limited | 10. NUCS Co-operative Insurance Services Limited |
| 4. Doran Ferguson T/A Apex Insurance Agents | 11. Pat Lawe Insurance Agency |
| 5. First Union Insurance Agency | 12. Paul Anthony Simpson, General Insurance Agent |
| 6. MedeCus Health Insurance Agency Limited | 13. Riviera Insurance Agency Limited |
| 7. Mutual Agency (Insurance) Limited. | |

Insurance Managing General Agents

There were no Insurance Managing General Agents registered as at March 31, 2006.

Insurance Loss Adjusters

There were four (4) Insurance Loss Adjusters registered as at March 31, 2006:

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, 2006:

1. Nicholas James Wood

Cash Flows from Operation Activities

Auditors' Report & Financial Statements

FOR PERIOD ENDED MARCH 31, 2006



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

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

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, 2006, set out on pages 41 to 55, 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, 2006, and of the results of its operations and its cash flows for the year then ended.



July 26, 2006

KPMG, a Jamaican partnership,
is the Jamaican member firm of KPMG
International, a Swiss cooperative.

Raphael E. Gordon
Patrick A. Chin
R. Tarun Handa

Gary A. Fenton
Patricia O. Dailey-Smith
Cynthia L. Lawrence

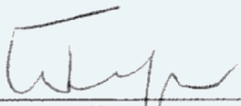
Elizabeth A. Jones
Linroy J. Marshall
Rajan Trehan

FINANCIAL SERVICES COMMISSION

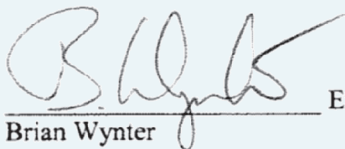
Balance Sheet
March 31, 2006

	<u>Notes</u>	<u>2006</u>	<u>2005</u>
CURRENT ASSETS			
Cash and cash equivalents		2,393,274	28,500,823
Resale agreements	3	81,000,000	75,000,000
Accounts receivable and prepayment		60,022,624	69,163,242
Taxation recoverable	4	<u>9,965,968</u>	<u>7,323,969</u>
		<u>153,381,866</u>	<u>179,988,034</u>
CURRENT LIABILITIES			
Accounts payable	5	25,587,244	13,516,135
Deferred fees		<u>42,193,387</u>	<u>35,896,310</u>
		<u>67,780,631</u>	<u>49,412,445</u>
NET CURRENT ASSETS		85,601,235	130,575,589
PROPERTY, PLANT & EQUIPMENT	6	17,158,750	20,485,607*
INTANGIBLE ASSETS	7	<u>17,965,884</u>	<u>2,020,314*</u>
		<u>\$120,725,869</u>	<u>153,081,510</u>
Financed by:			
RESERVES	8	<u>\$120,725,869</u>	<u>153,081,510</u>

The financial statements on pages 2 to 16 were approved by the Commissioners on July 26, 2006, and signed on its behalf by:



Dr Owen Jefferson Chairman



Brian Wynter Executive Director

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

FINANCIAL SERVICES COMMISSION

Income and Expenditure Account and Statement of Total Recognised Gains and Losses
Year ended March 31, 2006

	<u>Notes</u>	<u>2006</u>	<u>2005</u>
INCOME			
OPERATIONS			
Fees		258,802,356	233,115,097
Interest income		10,931,271	11,985,237
Exchange gain		755,448	-
Gain on disposal		<u>571,197</u>	<u>150,000</u>
		271,060,272	245,250,334
GRANTS	9	<u>20,882,562</u>	<u>36,494,530</u>
		<u>291,942,834</u>	<u>281,744,864</u>
EXPENDITURE			
Advertising		1,480,977	1,582,700
Appeals		1,698,283	4,242,950
Audit		552,585	450,000
Bank charges		287,381	150,509*
Building maintenance		4,606,992	4,313,075
Commissioners' fees		2,023,264	1,712,336
Depreciation and amortisation		18,053,657	10,827,097
Motor vehicle expenses		3,006,676	2,804,568
Office expenses		12,721,534	6,333,383*
Policy and research		-	206,580
Printing and stationery		2,594,693	1,935,489
Professional fees		16,335,594	9,306,360*
Project expenses	9(i) & (iii)	17,225,139	17,852,958*
Public seminars and meetings		2,166,673	1,225,738
Utilities		9,574,087	6,778,730*
Staff costs		216,521,261	163,183,230
Subscriptions		314,262	1,928,575
Travelling		19,780	11,098
Training and conferences		<u>15,115,637</u>	<u>11,767,780*</u>
		<u>324,298,475</u>	<u>246,613,156</u>
Net (loss)/income from operations before transfer		(32,355,641)	35,131,708
Transfer from capital reserve of amount equivalent to depreciation charge on donated assets	8	<u>13,213,487</u>	<u>7,727,021</u>
(Deficit)/surplus for the year, being total (losses)/gains recognised for the year		<u>\$(19,142,154)</u>	<u>42,858,729</u>

* Reclassified to conform with current year's presentation.

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

FINANCIAL SERVICES COMMISSION

Statement of Cash Flows
Year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
(Deficit)/surplus for the year	(32,355,641)	35,131,708
Adjustment to reconcile surplus for the year to net cash provided by operating activities:		
Depreciation and amortisation	18,053,657	10,827,097
Gain on disposal of property, plant & equipment	(571,197)	(150,000)
Interest income	(10,931,271)	(11,985,237)*
	(25,804,452)	33,823,568
(Increase)/decrease in current assets		
Resale agreements	(6,000,000)	(9,000,000)
Accounts receivable and prepayment	9,808,017	(24,924,514)*
Taxation recoverable	(2,641,999)	(3,099,606)
Increase in current liabilities		
Accounts payable	12,071,109	274,377
Deferred fees	<u>6,297,077</u>	<u>11,468,440</u>
Net cash provided by operating activities	(<u>6,270,248</u>)	<u>8,542,265</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant & equipment	(8,661,816)	(5,074,668)*
Additions to intangible assets	(22,010,554)	(2,266,534)*
Proceeds from disposal of property, plant & equipment	571,197	150,000
Interest received	<u>10,263,872</u>	<u>12,500,229*</u>
Net cash used by investing activities	(19,837,301)	<u>5,309,027</u>
Net (decrease)/increase in cash and cash equivalents	(26,107,549)	13,851,292
Cash and cash equivalents at beginning of the year	<u>28,500,823</u>	<u>14,649,531</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	\$ <u>2,3 93,274</u>	<u>28,500,823</u>

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

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
Year ended March 31, 2006

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.

The Commission had in its employment 101 (2005:84) employees as at March 31, 2006, out of a Board approved establishment of 122 (2005:100) employees.

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

(a) Statement of compliance:

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

At the date of approval of the financial statements for issue, certain new and revised standards and interpretations were in issue but were not effective until after balance sheet date.

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements (Continued)
Year ended March 31, 2006

2. Statement of compliance, basis of preparation and accounting policies (cont'd)

(a) Statement of compliance (cont'd):

Those which are considered relevant to the commission and their effective dates are as follows:

		<u>Effective date</u> (periods beginning on or after the following dates).
IFRS 7	Financial Instruments: Disclosure	January 1, 2007
IAS 39 Amendment	The Fair Value Option	January 1, 2006

The adoption of IFRS 7 could result in additional disclosures for financial instruments. Except for such additional disclosures, the adoption of these standards and interpretations are not expected to have a material impact on the financial statements.

(b) Basis of preparation:

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 estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Management has exercised judgement in the application of IFRS that has significant effect on the financial statements and estimates with a significant risk of material adjustment in the next financial year as discussed below:

(i) Allowance for impairment losses on receivables:

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

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements (Continued)
Year ended March 31, 2006

2. Statement of compliance, basis of preparation and accounting policies (cont'd)

(b) Basis of preparation (cont'd):

(i) Allowance for impairment losses on receivables (cont'd):

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

(c) 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.

(d) Property, plant & equipment and intangible assets:

(i) Owned assets

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

Intangible assets include computer software and security system software.

(ii) Property, plant & equipment and intangible assets are depreciated/ amortised 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 and software	25%

(e) 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.

(f) 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.

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements (Continued) Year ended March 31, 2006

2. Statement of compliance, basis of preparation and accounting policies (cont'd)

(g) 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 1st \$2 billion of assets; and
– 2 basis points on the next \$13 billion of assets; and
– 2/100th 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

Fees for 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.

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements (Continued)
Year ended March 31, 2006

2. Statement of compliance, basis of preparation and accounting policies (cont'd)

(g) Fees (cont'd):

(ii) Insurance (cont'd)

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.

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.

(h) Resale agreements:

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

(i) Accounts receivable:

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

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements (Continued) Year ended March 31, 2006

2. Statement of compliance, basis of preparation and accounting policies (cont'd)

(j) 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.

(i) Calculation of recoverable amounts:

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

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

(ii) Reversals of impairment:

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

(k) Accounts payable:

Accounts payable are stated at cost.

(l) Provisions:

A provision is recognised in the balance sheet when the Commission has a legal or constructive obligation as a result of a past event, 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.

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements (Continued)
Year ended March 31, 2006

2. Statement of compliance, basis of preparation and accounting policies (cont'd)

(m) Related parties:

A party is related to the commission if:

(i) directly or indirectly, the party:

- controls, is controlled by, or is under common control with the commission;
- has an interest in the commission that gives it significant influence over the commission; or
- has joint control over the commission.

(ii) the party is a member of the key management personnel of the commission. Such personnel are persons having authority and responsibilities for planning, directing and controlling the activities of the commission whether directly or indirectly and whether through an executive or non-executive role.

(iii) the party is a close member of the family of any individual referred to in (i) or (ii) above.

(iv) the party is a post-employment benefit plan for the benefit of employees of the commission, or any entity that is a related party of the commission.

The commission has a related party relationship with the Government of Jamaica and its agencies, commissioners, directors and key management personnel.

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 12.30% and 12.65% (2005: 13.60% and 13.25%) as at the year end. The market value of the underlying securities as at March 31, 2006 was \$82,389,266 (2005: JS75,631,882).

4. Taxation recoverable

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

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements (Continued)
Year ended March 31, 2006

5. Accounts payable

	<u>2006</u>	<u>2005</u>
Trade and other payables	8,888,190	3,330,102
Employee benefits	<u>16,699,054</u>	<u>10,186,033</u>
	<u>\$25,587,244</u>	<u>13,516,135</u>

6. Property, plant & equipment

	<u>Motor vehicles</u>	<u>Office furniture and equipment</u>	<u>Computer equipment</u>	<u>Total</u>
At cost:				
March 31, 2005	4,959,875	16,625,767	27,302,512*	48,888,154*
Additions	-	4,503,563	4,158,253	8,661,816
Disposal	<u>(1,504,000)</u>	<u>-</u>	<u>-</u>	<u>(1,504,000)</u>
March 31, 2006	<u>3,455,875</u>	<u>21,129,330</u>	<u>31,460,765</u>	<u>56,045,970</u>
Depreciation:				
March 31, 2005	3,354,161	8,809,381	16,239,005*	28,402,547*
Charge for year	746,310	3,459,449	7,782,914	11,988,673
Eliminated on disposal	<u>(1,504,000)</u>	<u>-</u>	<u>-</u>	<u>(1,504,000)</u>
March 31, 2006	<u>2,596,471</u>	<u>12,268,830</u>	<u>24,021,919</u>	<u>38,887,220</u>
Net book value:				
March 31, 2006	<u>\$ 859,404</u>	<u>8,860,500</u>	<u>7,438,846*</u>	<u>17,158,750*</u>
March 31, 2005	<u>\$1,605,714</u>	<u>7,816,386</u>	<u>11,063,507*</u>	<u>20,485,607*</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.

* Reclassified to conform with current year's presentation.

7. Intangible assets

These represent software cost capitalised as follows:

	<u>2006</u>	<u>2005</u>
Cost:		
At beginning of year	2,266,534	-
Additions	<u>22,010,554</u>	<u>2,266,534</u>
At end of year	<u>24,277,088</u>	<u>2,266,534</u>
Amortisation:		
At beginning of year	246,220	-
Charge for the year	<u>6,064,984</u>	<u>246,220</u>
At end of year	<u>6,311,204</u>	<u>246,220</u>
Net book values	<u>17,965,884</u>	<u>2,020,314</u>

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements (Continued)
Year ended March 31, 2006

8. Reserves

	<u>General</u>	<u>Capital Reserve [see note below]</u>	<u>Total</u>
Balance at March 31, 2004	94,001,958	23,947,844	117,949,802
Periodic depreciation charge transfer	-	(7,727,021)	(7,727,021)
Surplus for the year	<u>42,858,729</u>	<u>-</u>	<u>42,858,729</u>
Balance at March 31, 2005	136,860,687	16,220,823	153,081,510
Periodic depreciation charge transfer	-	(13,213,487)	(13,213,487)
Deficit for the year	<u>(19,142,154)</u>	<u>-</u>	<u>(19,142,154)</u>
Balance at March 31, 2006	<u>\$117,718,533</u>	<u>3,007,336</u>	<u>120,725,869</u>

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.

9. Grants

	<u>2006</u>	<u>2005</u>
Government of Jamaica ("GOJ") revenue grants (i)	12,544,000	17,852,958
Capital grants (ii)	3,076,160	18,641,572
Funds received – IADB (iii)	<u>5,262,402</u>	<u>-</u>
	<u>\$20,882,562</u>	<u>36,494,530</u>

(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 project expenses such as professional fees and training expenses paid by the CDB amounting to \$10,320,000 (2005: \$14,262,526) and \$2,224,000 (2005: \$3,590,432) respectively.

(ii) Capital grant of \$3,076,160 (2005: \$18,641,572) received during the year from Caribbean Development Bank, represent purchase of computer equipment and is included in property, plant & equipment and accounts receivable and prepayment, respectively.

(iii) The Commission is a beneficiary of the Inter-American Development Bank ("IADB")/Government of Jamaica funding agreement through the Ministry of Finance and Planning. Funds received during the year were used to finance professional fees of \$4,681,139 to cover institutional strengthening of the Commission.

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements (Continued) Year ended March 31, 2006

10. Taxation

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

11. Pension scheme

Effective June 1, 1996, the Securities Commission commenced operations of a contributory pension scheme for employees who are eligible in accordance with the rules of the Plan. On August 2, 2001, the Financial Services Commission assumed responsibility for the Plan (see note 1).

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

Contributions by the Commission for the year amounted to \$3,705,102 (2004: \$2,544,796).

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

12. Insurance Licence Deposit

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

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

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

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

As at March 31, 2006, securities so deposited and which were in the possession of the Commission amounted to \$1,366 million (2005: \$1,472 million)

13. 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 and cash equivalents, resale agreements, and accounts receivable and prepayment. Financial liability consists of accounts payable only. Information relating to fair values and financial instruments risks is summarized below.

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements (Continued) Year ended March 31, 2006

13. Financial instruments (cont'd)

(i) Credit risk:

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

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

(ii) Interest rate risk:

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

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

(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, 2006, the foreign currency asset was US\$110,312 (2005: US\$159,815).

(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.

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements (Continued)
Year ended March 31, 2006

13. Financial instruments (cont'd)

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

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

14. Contingent liabilities

At March 31, 2006 there are various outstanding lawsuits filed against the Commission. One such suit is a claim for damages aggregating approximately US\$5 million or J\$32.7 million. Subject to the immunity conferred by the Financial Services Commission Act these suits may have financial implications for the Commission in the event the applications are successful. The outcome of these suits cannot be determined at this time. Consequently, these have not been provided for in these financial statements.

NOTES



39-43 Barbados Avenue, Kingston 5, Jamaica, W.I.
Tel: (876) 906-3010-2/906-7264-6 • Fax: (876) 906-3018
Email: publications@fscjamaica.org • Website: <http://www.fscjamaica.org>