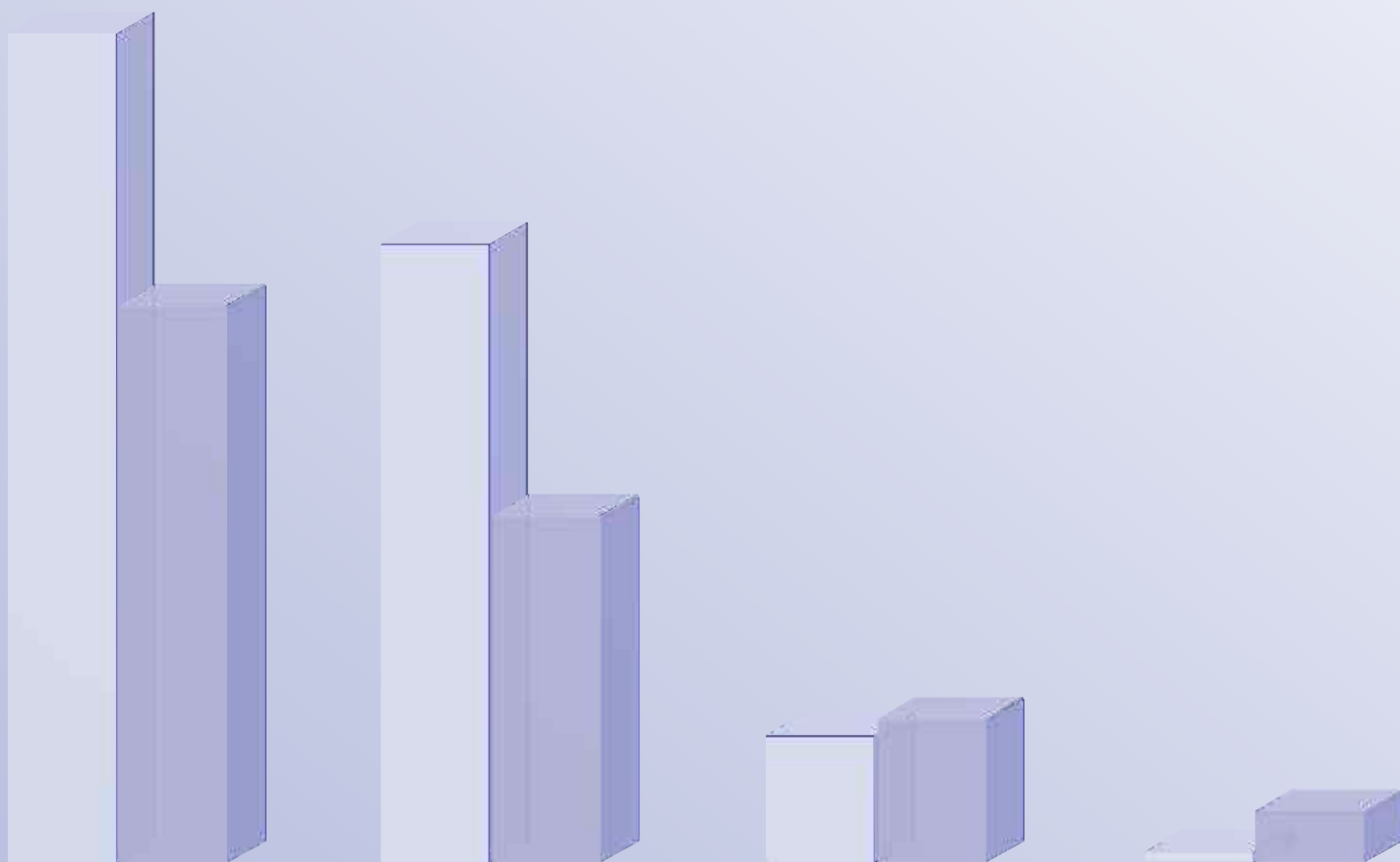




**FINANCIAL
SERVICES
COMMISSION**

Annual Report
2006/07



Annual Report 2006/07



Vision

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

Mission

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

Core Values

Accountability

Communication

Confidentiality

Excellence

Service

Integrity

Teamwork

Transparency

Table of Contents

Board of Commissioners	Page 4
Executive Management	Page 5
Message from the Chairman	Page 6
Executive Director's Report	Page 8
Regulatory Activities	Page 18
FSC Statutes & Regulations	Page 41
Compensation of Executive Management	Page 43
List of Registered Entities / Individuals as at March 31, 2007	Page 44
Auditor's Report & Financial Statements for the year ended March 31, 2007	Page 49



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)

Mr Everton McFarlane (Director, Research & Policy), Mrs Nicolette Jenez (Senior Director, Pensions),
Mr Brian Wynter (Executive Director), Mrs Angela Beckford (Chief Actuary)

STANDING (left to right)

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

ABSENT

Mrs Faye Sampson (General Counsel)

Executive Management

MESSAGE FROM THE CHAIRMAN

In presenting the sixth Annual Report of the Financial Services Commission ("FSC") we continue to view this document, which provides information on regulatory activities and performance, as an important vehicle for enhancing the transparency and accountability of the institution and as a means to stimulate dialogue on regulatory issues.



During the review period, financial markets operated in a macroeconomic environment that featured modest economic growth and sluggish asset price growth. An easing of monetary conditions as a result of a decline in the rate of inflation and an improvement in the country's overall external position as reflected in higher than programmed international reserve accumulation, led to a decline in the general level of interest rates which was also accompanied by a compression of interest margins. Monetary tightening in North American and European markets in response to inflationary pressures in the United States and the Euro Area provided additional competitive pressures for the local fixed income market. Successfully navigating the equity market also proved a challenging endeavour for investors

and intermediaries alike. Notwithstanding these challenging market conditions, the financial health of the insurance and securities sectors, on the whole, continued to improve. In particular, capital levels within these sectors increased and, importantly, remained at or in excess of minimum statutory levels. This partly reflected regulatory and supervisory efforts to induce licensed entities to increase their capital base.

During the review period, the FSC focused on some important areas of regulatory development and supervisory activities. In particular, with the approval of key pension regulations towards the end of the 2005/06 year, the FSC's attention turned to the registration and licensing of entities concerned with pension administration and investment, and on laying the groundwork for Phase II of pension reform. First-time registration and licensing is an unavoidably lengthy process, typically conducted over several years. The FSC has set itself a timetable covering three years for the completion of this process. By the end of the 2006/07 financial year significant progress had been made in challenging circumstances. There were also important achievements in the development of the regulatory framework for Phase II reform.

Supervisory activities generally continued to

place a strong emphasis on the examination and inspection process aimed at identifying areas of highest risk within authorised entities and devising suitable corrective measures. Additionally, there was an increased focus in securities supervision on the monitoring of and enforcement against unlicensed and unregistered entities. Litigation continues in relation to some enforcement actions and our staff remains vigilant in monitoring this area of securities market activity.

Looking ahead, the FSC is expected to continue to (a) improve its programme of prudential monitoring (b) develop its processes for market surveillance and enforcement and (c) refine the regulatory framework for relevant sectors. Regulatory and supervisory programmes will be executed with due regard to the imperatives for

transparency and accountability. Public consultation and investor education will continue to be critical components of this process.

I wish to thank the Board, management and staff of the FSC for their dedicated and professional work during the past year. To our many licensees and registrants, to the customers of financial entities and other stakeholders within government and without, I express the FSC's appreciation for the comments, dialogue and other forms of interest shown in our regulatory activities. Best wishes to all for the coming year.



Dr. Owen Jefferson
Chairman

EXECUTIVE DIRECTOR'S REPORT

Financial System Structure 2006¹

The industries regulated by the Financial Services Commission ("FSC") continued to play an important role in the



financial system. For convenience, financial institutions are classified according to their regulatory reporting status as (a) institutions regulated by the FSC, comprising entities offering services related to insurance, securities and pensions² and (b) deposit-taking institutions, which comprise banks, building societies and credit unions.³

Table 1: Total Assets by Type of Financial Institution, 2004-2006

Types of Financial Institution	2004		2005		2006	
	Assets (\$ Million)	Percentage of Total Financial System	Assets (\$ Million)	Percentage of Total Financial System	J\$ Million	Percentage of Total Financial System
FSC-Regulated Institution:¹						
Life Insurance Companies	67,873.4	7.4	78,335.9	7.9	94,718.6	8.2
General Insurance Companies ²	40,359.7	4.4	33,558.1	3.4	35,195.2	3.1
Securities Firms ³	301,221.3	32.7	342,247.2	34.3	393,075.3	34.1
Sub-Total	409,454.3	44.5	454,141.2	45.6	522,989.1	45.4
Deposit-Taking Institutions:						
Banks	350,507.0	38.1	357,858.3	37.7	438,436.6	38.1
Building Societies	80,028.0	8.7	89,304.3	9.0	105,617.4	9.2
Merchant Banks	51,231.7	5.6	44,913.0	4.5	46,732.9	4.1
Credit Unions	28,539.1	3.1	32,722.3	3.3	38,469.3	3.3
Sub-Total	510,306.0	55.5	542,797.9	54.4	629,256.1	54.6
TOTAL	919,760.3	100.0	996,939.0	100.0	1,152,245.2	100.0

Notes:

1: See footnote 2 in the text for a description of the FSC-regulated institutions not included in this table.

2: The total assets for general insurers in 2005 & 2006 do not include figures for Dyll Insurance company, which was placed in liquidation in 2005.

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

Source: Data compiled by Bank of Jamaica, Jamaica Credit Union League and FSC

¹For this review, all data on commercial banks, merchant banks and building societies were sourced from Bank of Jamaica (<http://www.boj.org.jm>). 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 data and analysis on FSC-regulated institutions provided in this report do not cover several types of entities that are regulated by the FSC. The entities that are not covered include: Individual dealers, Investment advisers, Investment representatives, Insurance sales representatives, Insurance brokers (including, facultative and reinsurance brokers), Insurance agents, Insurance consultants, Insurance loss adjusters, Pension fund trustees and Pension fund administrators. In table 1, the assets shown are balance sheet assets as reported at the end of the year and do not include pension fund assets. Pension fund assets are part of the funds under management at licensed securities entities shown in table 6.

³The 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.

At the end of December 2006 the total assets of the financial system, as defined above, amounted to \$1,152.2 billion or 168.9 percent of GDP (2005: \$996.9 billion or 164.8 percent of GDP), representing an increase of 15.6 percent relative to the levels at end-December 2005. Total assets at FSC-regulated institutions grew by 15.2 percent to \$523.0 billion while asset growth at deposit-taking institutions was slightly higher at 15.9 percent. At the end of December 2006, FSC-regulated institutions accounted for 45.4 percent of total financial system assets (see Table 1).

The General Insurance Industry

Profitability

During 2006, aggregate net income before taxes of general insurance companies amounted to \$1,144.1 million, which was \$743 million or 200.2 percent more than the corresponding level in 2005. This performance resulted from growth in all of the main income sources (underwriting income, net investment income and other income) coupled with a reduction in underwriting expenses. Total income grew by 10.5 percent to \$10.9 billion. Underwriting expenses amounted to \$9.4 billion in 2006, a 1.0% or \$90.9 million reduction compared to 2005.

For general insurance companies, underwriting income consists of net premium income and other service charges arising from the sale of insurance policies.⁴ Net premium income typically accounts for over 95 percent of underwriting income. In 2006, net premium income amounted to \$8.2 billion, representing growth of 11.6 percent over

the previous year. This was due in part to an increase in premium rates. All of the eleven active registered general insurance companies reported increases in premium rates since the start of 2006, with rate increases in a range of 10% to 40% for motor vehicle policies and a range of 10% to 20% for property policies. Higher values for insured assets, such as property, and an increase in business activities also contributed to the growth in net premium income for the general insurance industry.

Net investment income grew by 3.2 percent during 2006 (2005: -31.9 percent). This performance was mainly due to a 14.2 percent growth in investment assets. The main reason for the increase in investment assets was the return to normality of the industry that suffered in the previous years from catastrophic events, Hurricanes Ivan (2004), Dennis and Emily (2005). The cash flow required to pay claims in the affected years led to a decline in investments. The recovery in 2006 was due to cash flow now being available for investment.

Other income rose by 18.2 percent to \$342.3 million in 2006. Approximately 68.0 percent of this income was derived from foreign exchange gains. Figure 1 shows the percentage distribution of total income among the three streams of income for the general insurance companies.

Underwriting expenses are usually classified into three broad categories, namely, claims, commissions, and operating expenses. Claims, which normally account for the largest share of underwriting expenses,⁵ are extremely volatile and tend to fluctuate with the frequency and severity of natural events (for example,

⁴ For insurance companies, net premium income is defined as gross premiums earned net of reinsurance premiums paid.

⁵ In 2006, claims accounted for 60.15 percent of underwriting expenses and 67.9 percent of net premium income.

hurricanes) and man-made events. In 2006, ostensibly an “El Niño” year with lower than expected hurricane effects compared to non El Niño years, the value of claims fell by 8.2 percent. Operating expenses increased by 16.5 percent to \$3.9 billion, while commissions (the smallest element) registered a 64.3 percent reduction from \$312.3 million to \$111.4 million.

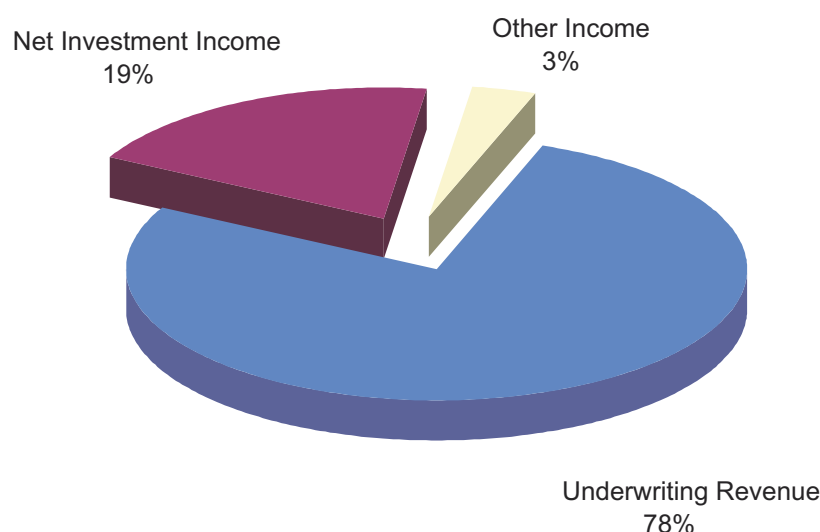
Capital

The capital adequacy of general insurance companies improved relative to the previous year. For regulatory purposes, the main indicator of capital adequacy is the Minimum Assets Test (“MAT”). The MAT establishes a minimum ratio of available assets of a predefined quality to liabilities. In 2006, the weighted average MAT ratio for the sector was 134.9 percent which exceeded the regulatory benchmark of 120 percent and was 6.9 percentage points above the result obtained in 2005.

The improvement in the MAT ratio was influenced by (a) an increase in shareholders' equity and (b) supervisory vigilance to improve the quality of underlying assets, for example, pressures to restrict investments with related-parties and also for the industry to comply with the requirement imposed by the Insurance Regulations that a minimum of 40 percent of each company's required assets should be invested in government securities.

Shareholders' equity increased by 17.9 percent during 2006. Two main factors accounted for this performance. The first factor was a 50.9 percent rise in investment reserves as companies posted appreciation in the fair value of available-for-sale investments. The second factor was an increase of 17.5 percent in capital and surplus, which includes share capital, share premium, and retained earnings. The increase in capital and surplus, in turn, resulted primarily from capital injections totalling \$1 billion into two companies

Figure 1: Composition of Total Income, General Insurance Companies, 2006



in order to satisfy regulatory requirements. Table 2 below shows selected key indicators for general insurance companies.

The Life Insurance Industry

Profitability

Aggregate net income before taxes of life insurance companies amounted to \$4.0 billion, 8.4 percent less than in 2005. Gross income less reinsurance premiums stood at \$27.2 billion, \$5.1 billion or 23.1 percent higher than in 2005 while total expenses were \$23.2 billion or 31.2 percent above the 2005 level.

As with the general insurance sector, the income stream of life insurers may be categorized as net premium income, net investment income and other income. Other income is derived mainly from fees for the management of segregated and

pension funds. Figure 2 illustrates the percentage distribution of total income among the three streams of income.

Net premium income of life insurers grew by 36.5 percent. This may be attributed to among other things, (a) an increase in sums assured on existing policies through, for example, indexation provisions and other renewals (b) an increase in the number of policies sold (c) an increase in the average size of new policies (d) an increase in the level of savings in products with a savings component and (e) new business growth in the health and annuities market segments.

During 2006, life insurers generated \$9.3 billion in net investment income, which represented an increase of 12.9 percent compared to the corresponding level for 2005. Growth in net investment income was heavily influenced by growth in invested assets. Other income grew by 11.6 percent to \$1.7 billion in 2006.

Table 2: Selected Key Indicators for General Insurance Companies, 2004 - 2006

Selected Indicators	\$ Millions		
	2004	2005 ^R	2006
Total Assets	40,359.7	33,573.0	35,168.2
Total Invested Assets	17,205.1	18,137.6	20,677.5
Total Liabilities	29,942.1	23,357.9	22,726.9
Capital & Surplus	6,120.5	7,279.7	8,550.4
Net Income	253.3	371.1	1,144.1

Notes:
R: Revised

Source: Financial Services Commission

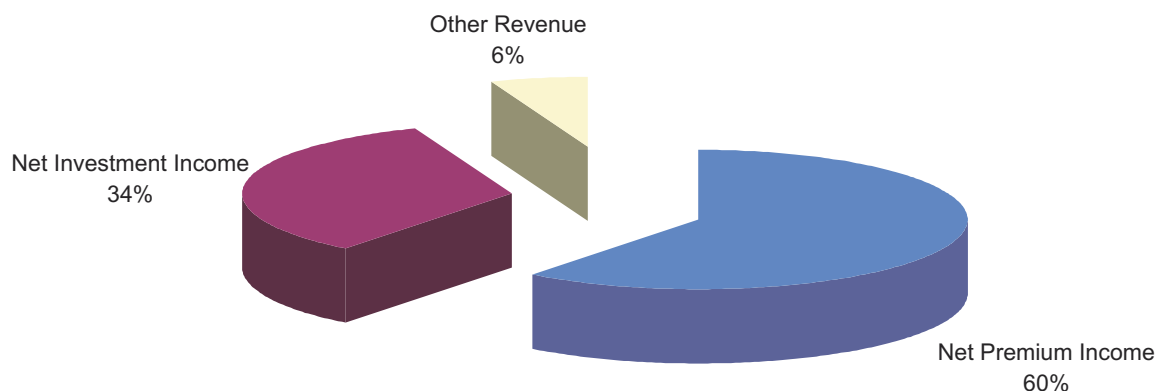
The three main components of total expenses for life insurers are policy benefits, commissions, and operating expenses. Operating expenses, the largest single component (46.7 percent of total expenses in 2006), grew by 16.7 percent to reach \$10.6 billion by the end of 2006. Commissions grew by 22.3 percent to \$2.2 billion. The increases in both operating expenses and commissions were partially influenced by the growth in new business, which was associated with an increase in the life insurance sales force and other marketing costs. Table 13 shows that there were 246 net new authorizations for insurance sales representatives, the majority of which were in the life insurance sector. Policy benefits grew by 55.4 percent to reach \$10.2 billion. The growth in policy benefits resulted from, *inter alia*, an increase in net actuarial liabilities and an increase in benefit payments. Net actuarial liabilities represent a provision for future policy benefit expenses, the growth of which is dependent, on other things, the expansion of new business, interest rate movements and inflation. During 2006, lower interest rates and new business growth were

important factors influencing a significant increase in provisions for net actuarial liabilities. The increase in benefit payments resulted from an increase in the both the number and value of claims.

Capital

During 2006, life insurance companies recorded improved levels of capital adequacy. In assessing the adequacy of capital in relation to liabilities of life insurance companies, the FSC relies on the Minimum Continuing Capital and Surplus Requirement ("MCCSR"). The MCCSR is a risk-based solvency test which determines the capital required based on an assessment of the level of risk embodied in the asset and liability profile of a life insurance company. The weighted average MCCSR for the life insurance industry was 391.1 percent, significantly above the regulatory benchmark of 120 percent and represented the highest level since formal capital regulations were passed.

Figure 2: Composition of Total Income, Life Insurance Companies, 2006



As was the case for general insurance companies, increases in investment reserves and capital and surplus were major factors influencing the improvement in capital adequacy. Capital and surplus increased by 18.7 percent mainly reflecting higher levels of retained earnings in the life insurance companies. Table 3 shows selected key indicators for life insurance companies.

The Securities Industry

Structure

The securities industry, for convenience, is categorized into two groups, namely (1) licensed securities dealers that engage in securities dealing as a principal activity⁷, and (2) licensed securities dealers that do not deal in securities as a principal activity but who are required to obtain a securities

dealer's licence in order to conduct some aspect of their business such as, for example, managing the investment portfolio of their own pension fund⁸. The first group will be referred to as “**securities firms**” and the second group will be referred to as “**non-securities firms**”. Table 4 shows the number of securities licensees within the two groups mentioned above and tables 5, 6 and 7 provide information on the structure of the securities industry in terms of assets, capital, and funds under management.

In interpreting the relative performance of securities firms and non-securities firms, 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. It should also be noted that the 2006 performance results for non-securities firms

Table 3: Selected Key Indicators for Life Insurance Companies, 2004 - 2006

Selected Indicators	\$ Millions		
	2004	2005 ^R	2006
Total Assets	67,873.4	78,335.9	94,478.6
Total Invested Assets	55,485.5	64,046.0	77,643.9
Total Liabilities	48,405.2	57,657.2	69,293.1
Capital & Surplus	16,600.9	19,740.2	23,425.8
Net Income	4,696.4	4,406.6	4,036.5

Notes:

R: Revised

Source: Financial Services Commission

⁷ This group includes Unit Trust Managers

⁸ This group consists of companies from a variety of industries ranging from manufacturing to financial services.

Table 4: Number of Securities Dealers by Type of Licensee, 2004 - 2006

Category of Securities Licensee	Number of Institutions		
	2004	2005	2006
Securities Firms	31	34	34
Non-Securities Firms	19	17	14
of which:			
Commercial Banks	5	4	3
Building Society	1	1	1
Merchant Banks	4	2	1
Insurance Companies	3	2	2
Others	6	8	7
Total	50	51	48

Source: Data compiled by the FSC

Table 5: Total Assets of the Securities Industry by Type of Securities Licensee, 2004 - 2006

Categories of Securities Licensees	Total Assets					
	2004		2005 ^R		2006	
	\$ Millions	% of Total	\$ Millions	% of Total	\$ Millions	% of Total
Securities Firms	301,221.3	38.5	342,247.2	48.2	393,075.3	59.2
Non-Securities Firms	481,153.6	61.5	368,012.0	51.8	271,404.9	40.8
of which:						
Commercial Banks	330,668.6	42.3	218,166.4	30.7	106,617.9	16.0
Merchant Banks	49,013.9	6.3	32,841.3	4.6	32,056.3	4.8
Building Society	41,200.0	5.3	44,261.1	6.2	53,649.6	8.1
Insurance Companies	45,187.5	5.8	49,511.5	7.0	57,076.8	8.6
Others	15,083.6	1.9	23,231.8	3.3	22,004.3	3.3
TOTAL	782,374.9	100.0	710,259.2	100.0	664,480.2	100.0

Notes:

R: Revised

Source: Financial Services Commission

Table 6: Total Capital of the Securities Industry by Type of Securities Licensee, 2004 - 2006

Categories of Securities Licensees	Total Capital					
	2004		2005 ^R		2006	
	\$ Millions	% of Total	\$ Millions	% of Total	\$ Millions	% of Total
Securities Firms	23,715.1	24.0	32,808.5	32.5	38,822.8	40.6
Non-Securities Firms	74,895.3	76.0	68,008.5	67.5	56,879.7	59.4
of which:						
Commercial Banks	39,395.1	40.0	26,979.1	26.8	15,531.4	16.2
Merchant Banks	5,262.4	5.3	3,813.0	3.8	3,944.9	4.1
Building Society	10,458.7	10.6	10,807.5	10.7	11,704.5	12.2
Insurance Companies	13,193.5	13.4	13,645.2	13.5	15,653.2	16.4
Others	6,585.6	6.7	12,763.7	12.7	10,045.8	10.5
TOTAL	98,610.4	100.0	100,817.0	100.0	95,702.5	100.0

Notes:

R:Revised

Source: Financial Services Commission

Table 7: Total Funds Under Management of the Securities Industry by Type of Securities Licensee, 2004 - 2006

Categories of Securities Licensees	Funds Under Management					
	2004		2005 ^R		2006	
	\$ Millions	% of Total	\$ Millions	% of Total	\$ Millions	% of Total
Securities Firms	358,571.6	76.0	398,045.5	73.7	433,761.0	74.7
Non-Securities Firms	113,321.0	24.0	142,021.0	26.3	146,982.6	25.3
of which:						
Commercial Banks	22,242.0	4.7	16,246.0	3.0	10,909.0	1.9
Merchant Banks	8,245.0	1.7	21,608.0	4.0	20,073.9	3.5
Building Society	0.0	0.0	0.0	0.0	0.0	0.0
Insurance Companies	44,752.0	9.5	50,352.0	9.3	57,139.0	9.8
Others	38,082.0	8.1	53,815.0	10.0	58,860.6	10.1
TOTAL	471,892.6	100.0	540,066.5	100.0	580,743.5	100.0

Notes:

R:Revised

Source: Financial Services Commission

Table 8: Summary Operating Results for Securities Firms, 2004 - 2006

	\$Million		
	2004 ^R	2005 ^R	2006
Net Interest Income	8,436.2	8,958.9	8,077.1
of which: Interest income	40,925.1	39,685.4	40,744.3
less: Interest expense	32,488.9	30,726.5	32,667.3
Other Income	4,871.4	6,021.5	6,680.8
Total Income (net of interest expense)	13,307.6	14,980.3	14,757.8
Operating & Other Expenses (taxes excluded)	4,912.1	6,420.7	6,943.6
Net income (before taxes)	8,395.5	8,698.0	7,965.5
	Annual change (%)		
Net Interest Income	79.7	6.2	-9.8
of which: Interest income	-1.8	-3.0	2.7
: Interest expense	-12.2	-5.4	6.3
Other Income	12.1	23.6	10.9
Total Income (net of interest expense)	47.5	12.6	-1.5
Operating & Other Expenses (taxes excluded)	29.5	30.7	8.1
Net income (before taxes)	79.0	3.6	-8.4

Notes:

R:Revised

Source: Financial Services Commission

reflects the surrender of licenses by several entities within this group. Table 7 provides data on funds under management in the securities industry. At the end of 2006, securities firms accounted for 74.7 percent of funds under management.

The discussion of industry performance provided in the next two subsections focuses on securities firms because of their importance in securities trading and funds management.

Profitability

Net income before taxes of securities firms amounted to approximately \$8.0 billion in 2006 (see Table 8). This represented a decline of 8.4 percent compared to 2005.

The fall in profitability relative to 2005 resulted from a decline in net interest income⁹ and an increase in operating and other expenses. Securities dealers are involved in a range of financial activities, including stock broking, fixed income trading, arranging commercial paper issuance for clients, providing investment banking services and managing investments on behalf of clients. Securities dealers finance significant fixed income securities investments by entering into repurchase agreements with retail and institutional clients. Income is generated from interest margins, fees, commissions and gains from foreign exchange and equity transactions. Firms generate the majority of their income from interest margins. However, the share of net interest income in total income has declined to 54.7 percent in 2006 from 63.4 percent in 2004. (See Figure 3 and table 8).

⁹ Interest income minus interest expense.

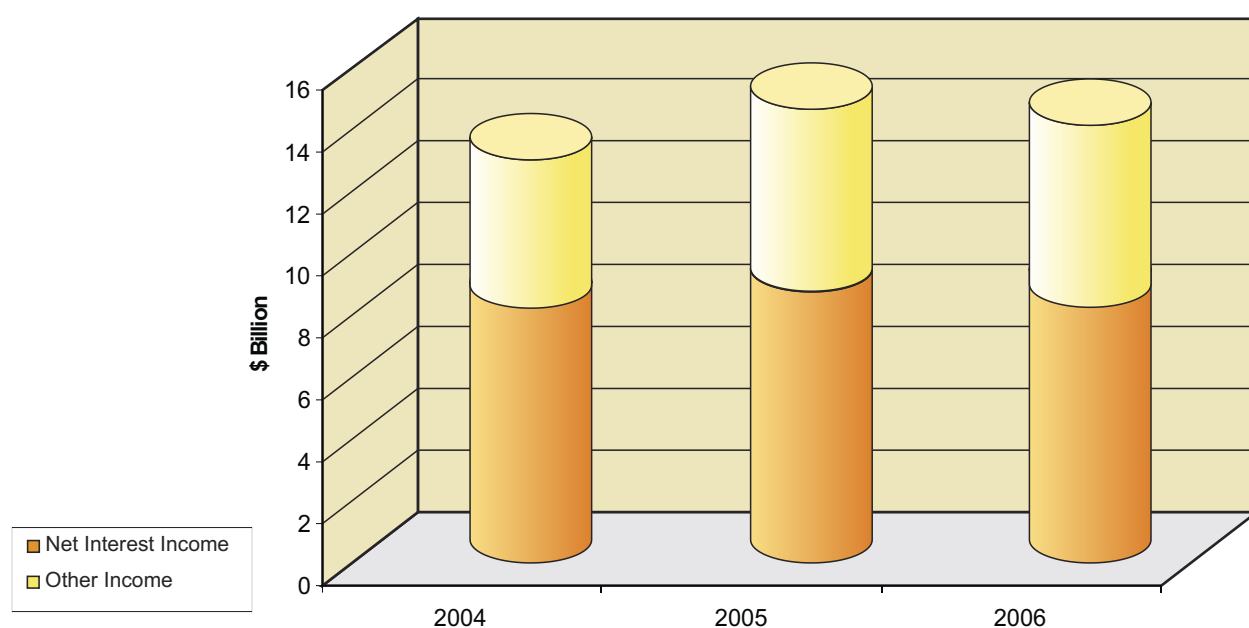
Net interest income of securities firms fell by 9.8 percent to \$8.1 billion in 2006. The compression of interest spreads resulted from a flattening of the yield curve that accompanied a general decline in interest rates. Net interest earnings from assets financed by repurchase agreements with retail clients would have been particularly affected by a flattening of the yield curve.¹⁰

Capital

At the end of 2006 aggregate capital of securities firms stood at \$38.8 billion representing an

increase of 18.3 percent compared to the level at the end of 2005. The FSC tests the adequacy of each firm's capital by specifying capital adequacy ratios that must be maintained by all licensees.¹¹ It is expected that licensees will maintain capital equivalent to at least 6.0 percent of total assets. In addition, licensees must maintain a ratio of capital to risk-weighted assets of at least 10.0 percent. At the end of 2006, the ratio of capital to total assets of securities firms stood at 9.8 percent (2005: 9.5 percent) and the ratio of capital to risk-weighted assets stood at 51.3 percent (2005: 48.8 percent).

Figure 3: Income of Securities Firms, by Type of Income, 2004-2006



¹⁰ Most repo liabilities are of short-term maturity (less than a year) while a significant share of the assets financed by repos are of longer maturity.

¹¹ For more details, see "Guidelines for Interim Capital Standards for Securities Dealers" (SR-GUID-04/07-0011) at <http://www.fscjamaica.org/securities.htm>.

Regulatory Activities

(a) Legislation and Regulations

In keeping with its mission, one of the FSC's strategic objectives is to implement and maintain an effective legal and regulatory framework. To this end the FSC constantly reviews and, when necessary, proposes amendments to the Acts and is empowered to make Regulations. Before any amendment to regulations made by the FSC becomes effective, the FSC invites the stakeholders in relevant industry to comment on the proposed amendment.

Insurance

For the insurance industry, two sets of insurance regulations were deemed to be in need of amendment in order to clear up ambiguities and achieve best practice in regulating the industry. The FSC is awaiting the industry's feedback on the proposed amendments. The affected regulations are:

- i. The Insurance Regulations, 2001
- ii. The Insurance (Actuaries) (General Insurance Companies) Regulations

(b) Bulletins and Guidelines

Bulletins and Guidelines Issued

Bulletins and guidelines are used by the FSC to provide information and guidance to licensees, registrants and the general public. These bulletins and guidelines are circulated to relevant industry entities and are posted on the FSC's website. The

following guideline was released during the review year:

- *Preparation of the Constitutive Documents of a Superannuation Fund or a Retirement Scheme (PR-GUID-06/02-0003)*. These guidelines provide clarifications on 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.

Pending Bulletins and Guidelines

Before the FSC issues a bulletin or guideline, the FSC ordinarily engages relevant industry stakeholders in consultation through the circulation of the proposed rules/guidance in the form of discussion papers. After the consultative process has concluded, the bulletin or guideline is then formally released to the industry and the public. During the review period, the following discussion papers were circulated for industry consultation:

Insurance Industry:

- *Claims Best Practice Guidelines for Motor Insurance Claims (IR-GUID 07/01-0009)*. Given the high number and frequency of complaints that the FSC receives about delays in motor vehicle claims settlement, the FSC has developed draft guidelines that present minimum standards for all general insurers to achieve in processing settlements of

motor vehicle claims. This is in keeping with the powers and mandate of the FSC as authorized by the various Acts.

- *Related Party Transactions and Conflict of Interest Procedures (IR - GUID -06/10 0008).* The bulletin is intended to assist insurance companies to understand their regulatory obligations with respect to requirements set out in the Insurance Regulations and outlines FSC expectations with respect to the Conflict of Interest Procedures that companies are required to file with the FSC.
- *Minimum Capital Test Guideline for General Insurance Companies (AR- GUID-07/02-0003).* In this paper, the FSC proposes to introduce a new risk-based capital test for the general insurance industry, namely the Minimum Capital Test ("MCT"). The paper states the benefits and rationale for using the MCT and outlines the general framework for the calculation of the MCT and the assessment of whether a general insurer has sufficient capital under the Insurance Act and Regulations.
- *Procedure for the Approval of New Insurance Policies and Insurance Policy Amendments under Section 90 of the Insurance Act 2001 (AR-GUID-07/01-0002).* The purpose of this paper is to outline the FSC's intentions to widen and strengthen responsibility of a life insurer's Board to include the development of a framework for approving new policies, monitoring and reviewing the performance of their existing insurance

policies as well as ensuring the equitable treatment of policyholders.

Securities Industry

- *Continuous Disclosure Obligations Regulations, 2006 (SR-CONSUL-06/01-0014).* This paper outlines the reporting requirements that should be satisfied by an issuer of securities;
- *Registration and Prospectus Disclosure Regulations, 2006 (SR-CONSUL-06/07-0016).* This paper states the full prospectus requirements that should be satisfied by an issuer of securities prior to the issuing of securities;
- *Proposed Amendments to the Unit Trust Act and Regulations (SR- CONSUL 06/08 -0017).* In order to lift the moratorium on unit trusts, the FSC considers it necessary to impose additional requirements for unit trusts managers; consequently there will have to be amendments to both the Act and Regulations. This paper states the proposed changes and provides a rationale for the changes;
- *Regulation XD Securities (Exempt Distributions) Regulations, 2006 (SR-CONSUL 06/11-0018).* This paper outlines the requirements to be satisfied if an issuer is to be exempted from submitting a full prospectus to the FSC for registration;
- *Draft Addendum to the Guidelines for Interim Capital Standards for Securities*

Dealers and the Guidelines for Margin Requirements for Repurchase Agreements (SR-CONSUL-06/04-0015). This paper proposes changes to previously released capital guidelines for securities dealers namely - *Guidelines for Interim Capital Standards for Securities Dealers (SRGUID- 04/07-0011)* (“the Capital Standards guidelines”) and *Guidelines for Margin Requirements for Repurchase Agreements (SR-GUID-04/07-0010)* (“Margin R guidelines”).

Pensions Industry

- *Transfer Plan on Discontinuance of Business (PR-GUID-07/01 -0004).* This draft guideline explains the required contents of the transfer plan to be submitted to the FSC.
- *Pensions Superannuation Funds (Funding and Solvency) Regulations (AR-CONSUL-07/02-0001).* This discussion paper solicits the views of the industry on the following issues relating to funding and solvency, such as:
 - statement of funding policies,
 - actuarial valuations,
 - funding and solvency recovery plan,
 - funds to which the regulations apply, and multi-sponsor funds

(c) Jamaica Stock Exchange Rules

The FSC approves rule changes that are made by the Council of the Jamaica Stock Exchange. In

2006, the Council amended Rule 407. This rule was amended to have the listed companies provide financial information to the market on a timelier basis and at shorter intervals.

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

In keeping with developments in the market place, AML/CFT activities were focused on improving regulated industries' understanding and capacity to counter the offence of fraud. FSC-regulated entities have very specific obligations with respect to the deterrence of fraudulent activity, in particular:

1. Section 6(2)(f) of the Financial Services Commission Act, 2001 imposes a legal obligation on the FSC to implement measures to reduce the possibility of fraud, theft and money laundering within regulated entities;
2. Several sections within the various acts and their attendant regulations administered by the FSC explicitly prohibit financial institutions, their officers and other individuals acting on their behalf from engaging in fraudulent acts; and
3. The money laundering legislation, for which the FSC is a designated Competent Authority, has fraud as one of the predicate offences.

A draft policy on fraud has been initiated, and is to

be circulated in the sectors as a discussion paper for comment before finalization. The issue of fraud was also specifically addressed in *The FSC Sentinel*,¹² and in addition, two one-day workshops were organized to educate licensees on AML/CFT requirements in relation to fraud and other financial crimes. (See section on Public Education)

(e) Authorizations

For the year the FSC issued 560 authorizations, of which 371 or 66.2 percent were related to the insurance industry, 148 or 26.4 percent for the securities industry with the remainder (7.4%) related to the pension industry. The number of authorizations (excluding pensions) for 2006 was

74 less than that issued during 2005.

Insurance Industry

Within the insurance sector, there were 371 authorizations with 98.4 percent representing insurance sales representatives. However, 119 sales representatives voluntarily cancelled their licenses as most of these were in transit, moving from one company to another or leaving the insurance sector. Consequently, there were 246 more insurance sales representatives in the industry. There were twelve registered general insurance companies in operation at the end of March 2007, one less than the previous year.

Table 11 below shows the number of licenses

Table 11: Number of Licensees and Registrants in the Insurance Industry as at March 31, 2007

	Life Insurance Cos.	General Insurance Cos.	Assoc. of Under-Writers	Insurance Brokers	Insurance Agents	Insurance Sales Reps.	Loss Adjusters	Insurance Consultants	Total
Licensed/Registered at 31/3/06	6	13	1	42	13	1,122	4	0	1,201
Additions	0	0	0	4	1	365	0	1	371
Terminations / Cancellations	0	1	0	1	4	119	0	0	125
Merged Entities	0	0	0	0	0	0	0	0	0
Licensed/Registered at 31/3/07	6	12	1	45	10	1,368	4	1	1,447

Notes:

1 Prior to the 2006/07 Annual Report, terminations and cancellations were shown as negative values

Source: Financial Services Commission

¹² This was the inaugural year of the FSC's electronic quarterly newsletter *The FSC Sentinel*. The role of *The FSC Sentinel* is to act as a medium for the sensitization of stakeholders about the issue of financial crime within the financial sectors regulated by the FSC, (namely the securities, insurance and pension sectors), and the potential detrimental effects on the financial institution, the financial sector, and the economy on a whole.

and registrants in the insurance industry. Box 1 shows the regulated entities that had a change in their registration status.

Securities Industry

Unlike the insurance industry, the securities industry had net cancellations in the number of registered entities and individuals, as shown in table 12. Of the seven voluntary cancellations of securities dealers, four were individuals. Box 1

shows the regulated entities that had a change in their registration status.

Pensions Industry

Registration and Licensing

During the review year the FSC issued 41 authorizations, of which 21 or 51.8 percent were in respect of administrators with the remaining 20 being issued to investment managers.

BOX 1: Name of Entities that Changed their Status in 2006 - 2007

Names of Entities that were Registered in the Fiscal Year 2006 - 2007	
Securities Dealers	
Money Express Financial Services Limited	
Money Masters Limited	
Mutual Funds	
Trinidad Selected Index Fund limited	
Insurance Brokers	
CGM Insurance Brokers Limited	
Lawe Insurance Brokers Limited	
JMMB Insurance Brokers Limited ¹	
Marathon Insurance Brokers Limited	
Names of Entities that Cancelled their Registrations in the Fiscal Year 2006 - 2007	
Securities Dealers	
ATL Group Pension Fund Trustees Nominee Limited	
National Commercial Bank Limited	
Insurance Companies	
Dyoll Insurance Companies Limited	
Insurance Brokers	
Evals Insurance Brokers Limited	
Insurance Agents	
Cooke & Andrew Insurance Agency Limited	
MedeCus Health Insurance Agency Limited	
Pat Lawe Insurance Agency	
Names of Entities that have Changed their Names in the Fiscal Year 2006 - 2007	
Securities Dealers	
Paul Chen Young & Company to Stocks & Securities Limited.	
Insurance Brokers	
International Insurance Brokers Limited to CGM Insurance Brokers Limited	
Insurance Companies	
United General Insurance Company Limited to Advantage General Insurance Company Limited	

Note

1: Although JMMB Insurance Brokers was already registered insurance broker, it was only during 2006-2007 fiscal year that it was registered as a facultative placement broker

Table 12: Number of Licensees and Registrants in the Securities Industry as at March 31, 2007

	Securities Dealers	Securities Dealers' Reps.	Investment Advisors	Investment Adviser's Reps.	Mutual Funds	Unit Trusts	Total
Licensed / Registered at 31/3/06	72	683	1	1	18	4	779
Additions	2	145	0	0	1	0	148
Terminations / Cancellations ¹	7	146	1	1	0	0	155
Merged Entities	0	0	0	0	0	0	0
Licensed/Registered at 31/3/07	67	682	0	0	19	4	772

Notes:

1: Prior to the 2006/07 Annual Report, terminations and cancellations were shown as negative values.

Source: Data compiled by the FSC

Winding-Up

The FSC has been receiving applications for approval of the winding up of pension plans. These are being processed in a according to established procedures. During the year 46 applications were approved with asset value totalling \$3.5 Billion. Nine schemes of distribution of surplus were also approved. These applications were issued without any change to the schemes submitted by the trustees of these plans.

(F) Investigations and Complaint Resolution

The FSC conducts investigations for various reasons including the following:

- **Investigations into Suspected Breaches of any Relevant Act**

One of the primary aims of an efficient and

effective supervisory regime is to ensure that all players comply with the relevant acts and regulations. During the review period, the FSC executed one hundred and forty three (143) investigations into suspected breaches of the Insurance and Securities Acts and their Regulations. Table 13 contains information on these suspected breaches.

- **Investigations into the fit and proper status of persons applying to be licensed or registered under any of the relevant Acts**

The quality of management is an essential factor for customer protection. The protection of clients can be significantly improved and risks minimised if the qualifications and reputation of managers are examined. During the period twenty-seven investigations were carried out in relation to persons applying for a license or registration under the Pensions, Securities and the Insurance Acts or seeking

Table 13: Investigations into Suspected Statutory and Regulatory Breaches, April 1, 2006 - March 31, 2007

Description of Suspected Breach	Related Legislation	Status of Investigation
14 entities for compensating unauthorized persons for placing and negotiating insurance business without registration ¹	Section 85 of the Insurance Act	Investigation in progress (see note 1 below)
122 unregistered persons and 2 unregistered entities performing the function of insurance intermediaries ¹	Section 70(1)-(2) of the Insurance Act	Investigations regarding the 122 Unregistered Reps are in progress (see note 1 below). Investigations regarding the 2 unregistered entities were closed (1 led to enforcement action while the other was found not to be in breach of the Act.)
1 entity carrying on insurance business without being registered	Section 7(1)(a) of the Insurance Act	Investigation in progress
4 entities dealing in securities and carrying on investment advice business without registration	Sections 7 and 8 of the Securities Act	2 entities are still being investigated. 2 Entities are currently before the court (these cases were carried from last year)

Notes:

1: Suspected breaches were based on onsite examinations conducted in the 3rd quarter of FY 2006/07

Source: Data compiled by the FSC

senior positions of responsibility within the securities, pensions and insurance industries. All three Acts stipulate that key representatives of these entities covered under these Acts must be fit and proper.

Based on the information supplied in the applications, the FSC deemed it fit to conduct 27 investigations. At the end of the year, twenty five (25) of these investigations were completed with the remaining two (2) in progress.

- Investigations of complaints received from the public**

The market conduct of any institution can have adverse effects on consumers' rights. The FSC welcomes the receipt of information from the public in relation to any perceived unfair treatment. For the year, a total of 307

complaints against licensees were reviewed, which included 63 cases that were brought forward from the previous year. Of the 307 cases reviewed, 276 or 90% of the complaints were resolved and the case files closed. All 63 cases that originated in 2005 are included in the 276 closed cases. Table 14 provides an analysis of complaints.

For the general insurance industry, 53 percent of these complaints related to claims. There were three main issues namely: (i) claims not being honoured (ii) delay in claim settlement, and (iii) the amount offered in the settlement. The 17 complaints for the life segment related to issues such as delay in claims payment and the value of a paid-up balance. For the securities industry, complaints related to two main issues, namely, unfair dealing with clients and offering misleading information.

Around 63 percent of the pension complaints pertained to benefit payments.

(g) Litigation

The FSC is charged with the responsibility of cultivating an attitude of compliance with the relevant Acts and Regulations. In the review period, it was necessary for the FSC to take more stringent enforcement measures to ensure compliance with provisions in relevant legislation administered by the FSC. The enforcement actions taken resulted in litigation in a number of cases, namely:

(i) OLINT/LEWFAM Cease and Desist Orders

Olint Corporation/David Smith/Overseas Locket International Corporation and Neil Lewis and Janice Lewis t/a LewFam Investments: In March 2006, the FSC issued Cease and Desist Orders (“CDOs”) on Olint Corporation/David Smith (“Olint”), Overseas Locket International Corporation (“OLIC”) and Neil Lewis and Janice Lewis t/a LewFam Investments (“LewFam”).

Olint and LewFam applied to the FSC for a stay of execution of the CDOs and were refused the stay. Olint subsequently applied to the Court for a stay of the CDOs. On November 3, 2006, having considered the arguments of both parties, the judge granted the stay of execution of the CDOs until March 26, 2007 or until further ordered. The order was made on condition that there shall be no increase in the membership of Olint as of the date of the judgment or until further ordered.

The appeals by Olint and LewFam against the Cease and Desist Orders commenced on 27th of March, 2007 and are being heard together. The matter was not completed by 30th of March 2007 as originally scheduled and had to be adjourned until the 4th of June 2007 for a further seven days.

Declaratory Judgement on Olint's activities

By way of a Fixed Date Claim Form filed by the FSC on the 25th of October 2006, the FSC sought declarations of the Court that Olint and OLIC were:

Table 14: Analysis of Complaints: April 1, 2006 - March 31, 2007

	General Insurance	Life Insurance	Securities	Pensions	Total
Total complaints reviewed	215	17	9	66	307
Number of cases closed	196	13	7	60	276
Percent closed, 2006/07	91%	76%	78%	91%	90%

Source: Data compiled by the FSC.

- (a) Issuing securities in the form of investment contracts or certificates of interest or participation in profit sharing agreements; and
- (b) Engaging in activities which fall under sections 7 and 8 of the Securities Act (“the Act”) without the requisite licence.

Olint applied to strike out the application. On the 20th of December 2006 judgment was delivered on this issue. The Court ruled in favour of the FSC, and the FSC was also awarded costs. Olint was granted leave to appeal the ruling but they did not pursue the appeal.

(ii) Dyoll Insurance Company Limited Criminal Proceedings

On September 8, 2006, charges were filed against Dyoll Insurance Company Limited (a Company in Liquidation). The company was charged with violating section 147(1) of the Insurance Act for its failure to comply with directions of the FSC to provide proof of an injection of \$150 million in capital into the company. The company was joined with four other defendants who were previously charged in this matter. A trial date was set for November 13, 2006; however, the defendants noted their intention to have the Supreme Court address preliminary points which could have an impact on the prosecution. As a result, no further trial dates were fixed pending the filing and resolution of these preliminary matters. To date, no documents relating to the preliminary points of the other four defendants has been served.

On November 14, 2006, the Liquidators, on behalf of Dyoll, filed an application (naming the Director of Public Prosecutions as Respondent) in the Supreme Court for Court Orders to Stay Criminal Proceedings against a Company in Liquidation. Case Management Conference was held on March 30, 2007 and was adjourned until October 4, 2007.

Compromise on the Treatment of Amounts Deposited with the FSC

The Committee of Inspection and Joint Liquidators of Dyoll are seeking to have a compromise whereby the creditors agree to place the additional deposit requested by the FSC from Dyoll on March 4, 2005, pursuant to Regulation 8(2) of the Insurance Regulations, in the general pool. The additional sum requested by the FSC was \$1.0 billion. Dyoll managed to deposit with the FSC investments valuing \$304,849,820.

On February 16 2007, the Court ruled, favouring the representations made on behalf of the FSC, that the issue of the compromise should be determined by way of a meeting of the local policy holders.

(iii) Lowell Lawrence vs. the FSC (Appeal)

On January 31, 2007, the Court of Appeal commenced the hearing of the matter. By agreement of the parties, the issue regarding the retrospective effect of the Financial Services Commission (Validation and Indemnity) Act (“the Validation Act”) was dealt with as a preliminary point. In the decision handed down on Thursday March 29, 2007, the court found that the Validation Act had retrospective effect. The hearing of the remaining grounds of appeal was adjourned *sine die*.

Supervisory Activities and Examinations

Insurance Supervision

For the review period, there were 19 off-site examinations and 7 on-site examinations. A number of deficiencies were observed during the course of these examinations, some of which were breaches of relevant Acts and regulations while others were not statutory violations but were nevertheless of concern to the FSC as they represented departures from what would be considered as “best practice” by the Commission. The deficiencies that were not statutory contraventions related mainly to operational management and internal control.

The observed statutory violations can be grouped into three areas, which are corporate governance, investments and anti-money laundering. Table 15 shows the most frequent violations that were observed under the three groups. The violations noted in the table below were seen in almost all the companies that were subjected to on-site examinations. Based on the examinations, it was revealed that two companies submitted incorrect information to the FSC and were in danger of breaching Section 147(c)(ii) of the Insurance Act.

Securities Supervision

In the securities sector, a total of 18 examinations were conducted, of which 6 were off-site examinations and 12 were on-site. While there was one less violation than last year, the FSC detected three offences under the anti-money laundering legislation. Table 16 indicates the number and the nature of violations that were observed. The main violations that were detected were:

1. Issue of Contract Notes

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

- Section 38(3)(c), which mandates dealers, when dealing as principal in a transaction with a non-licensee, to disclose that they are so acting;
- Section 38(3)(f), which establishes that the contract note issued must contain the number, amount and a description of the securities that are subject to the transaction.
- Section 38(3)(h) states that the contract note must specify the amount of the consideration.

2. Dealing as Principal

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

3. Transparency of Financial Position

Section 63(1)(A) of the Securities Act, mandates that every dealer keeps accounting records in such a manner that will correctly record and explain the transactions and financial position of the securities business carried on by the dealer.

TABLE 15: VIOLATIONS OF THE INSURANCE ACT & REGULATIONS, 2006-2007

Type of Deficiencies	Requirements of Act & Regulation	Number of Violations 2006/7
CORPORATE GOVERNANCE:		
Regulations 73, 74, & 75	These regulations stipulate the formation of an Audit, Conduct Review, and Loan committees and their functions.	4
Regulations 84 & 85	These directives outline the power of the Conduct Review Committee to approve or disapprove transactions.	4
Regulation 104 (2) (b)	This instruction dictates the some of the functions for the Investment and Loan Committee.	1
ANTI-MONEY LAUNDERING¹		
The Money Laundering Act Section 7	This section specifies the control mechanisms that should be implemented by an institution to prevent and detect money laundering. These mechanisms include but not limited to, procedure manuals, training of employees and appointment of "Designated Officer"	7
The Money Laundering Regulations Section 9	This section mandates that each institution should maintain proper record-keeping.	7
INVESTMENT:		
Regulation 42	This section requires that a Company shall not invest more than 5% of its total assets in a single counterparty.	2
Regulation 44	Directs a local insurer to obtain approval from the board or the appropriate committee before any investment and loan.	1
Regulations 45 & 46	This sections state that a minimum of 40% of the Minimum Capital Required shall be invested in government securities.	3
Regulation 68	It identifies permissible investments in corporations.	1
Regulation 69	Prohibits an insurer from conducting certain type of investments and extending loans to its officers. Section 23 of the Insurance Act also mandates the conditions under which insurers can extend loans.	2
Regulation 94 (10)	Advises that an insurer to value all real estate investments at least once a year unless market conditions dictate otherwise.	1

Notes:

1: In addition to the Money Laundering Act, the observed practices disregard the recommendations of the Financial Action Task Force and the Commission's Guidelines on Anti-Money Laundering and Counter-Financing of Terrorism (ER-GUID-03/12-0001)

Source: Financial Services Commission

Table 16: VIOLATIONS OF THE SECURITIES ACT & REGULATIONS, 2005/06 & 2006/07

Legal Provision Violated ¹	Description of Provisions	Number of Violations 2005/6	Number of Violations 2006/7
S9(3)(a)(ii)	Fit & Proper	0	1
S38	Issue of Contract Notes	3	7
S39	Provision of disclosure of dealers' interest in securities	1	0
S40	Provision governing dealers dealing as principal	0	2
S59 (A)	Audit and Conduct Review Committees	1	0
S63	Dealing without Dealer's Accounting Records	0	1
COB (8)	Request for Proposal	0	4
COB (10)	Client Statements	0	1
COB (11)	Securities Lending	0	1
COB (12)	Maintaining Proper Records	0	1
COB (13)	Presentation of financial reports	7	1
COB (14)	Filing of Quarterly Financial Reports	0	2
DOI (11-18)	Filing of information memorandum	13	0
MLA 7(1), 7(2)(B)	Personnel File for Designated Officer	0	1
MLR 4	Know Your Customer	0	2
Total		25	24

Notes:

1: References are to the Securities Act and Regulations. For example; section 38 of the Securities Act is referenced as "S38"; 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

Source: Financial Services Commission

4. Conduct of Business

The violations under the Securities (Conduct of Business) Regulations ("COB") that were observed are as follow

a. Request for Proposal (RFP) Forms

On opening an account with a dealer, each client is required to sign an RFP form. Several licensees used RFP forms which contravened regulation 8(2)(b-d) of the COB by not stating clearly the following:

- The kind of authority given to the portfolio manager (i.e., full discretion, partial discretion or no discretion);

- The risk appetite of the client (i.e., aggressive, medium or conservative).

b. Issuing a Statement of Account

Regulation 10 of the COB stipulates that dealers must provide their clients with periodic statements of account; every month when there is trading activity on the account or every three months if there is no such activity on the account.

c. Dealers' Accounting Records

Based on the requirements contained in regulation 12(1)-(6) of the COB, every licensee should maintain certain records,

which include, *inter alia*, daily records of security sales and purchases, cash disbursements and receipts, security ledgers, and client ledgers.

d. Presentation of Financial Reports

Regulations 13 and 14 of the COB require that:

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

5. Regulatory Controls

The Money Laundering Act demands that financial institutions establish and implement policies, procedures and controls to detect and prevent money laundering. This is to include a mechanism to evaluate personal employment and financial history of their employees.

6. Know Your Customers

The Money Laundering Regulations require that financial institutions employ identification procedures that will enable businesses to know their customers.

Pension Supervision

The reform of the Jamaican Pension industry is being conducted in two phases. The first phase formally commenced in 2005 and is still on-going. This phase involves, among other things, licensing and registration, examinations and investigations, approval of winding-up and surplus distribution, and offences and penalties. Other elements essential to effective regulation of the pension systems are also being implemented and include:

- Public education;
- Qualifications and reputation of covered persons¹³;
- Queries and complaints resolution;
- Transparency of accounts and disclosure of information; and
- Monitoring.

Between September 29, 2006 and March 31, 2007, the FSC received a total of 2,229 submissions for registration and licensing under the Pensions (Superannuation and Retirement Schemes) Act, 2004 (“Pensions Act, 2004”).¹⁴ Of this amount 130 were in respect of corporate entities, 519 for pension plans, and 1580 in respect of individual trustees. Corporate entities consist of administrators, investment managers and companies that act as trustees. Each is required to appoint a responsible officer who must be registered by the FSC. Eighteen of the 2,229 submissions did not meet the specifications for an application and were returned after consultation with the applicants. Table 17 below displays the number of submissions received by categories of registrants and licensees.

¹³ The term “covered persons” refers to key persons such as the accountant, company secretary, and Board members.

¹⁴ Person and entities wishing to be registered or licensed had to submit their applications to the FSC within 6 months of the passing of the regulations on March 29, 2006. Therefore the deadline for submission of applications for registration and licensing was September 29, 2006.

Table 17: Analysis of Applications by Categories of Registration and Licensees 2006-2007

Applications	Superannuation Funds (S.F)	Retirement Schemes (R.S)	Administrators (Adm)	Investment Managers (I.M)	Trustees	Corporate Trustees	Responsible Officers	Total
Total	514	5	31	30	1580	4	65	2,229
of Which:								
Completed Submissions	37	1	23	23	694	2	48	828
Incomplete Submissions	477	4	8	7	886	2	17	1,401
Returned	-	-	4	4	-	1	9	18
Total in house	514	5	27	26	1580	3	56	2,211

Source: Data compiled by the FSC

Applications for registration of superannuation funds consisted of 121 submissions for defined benefit plans and 386 for defined contribution plans. The application for 7 pension plans did not state whether the plan was a defined benefit or defined contribution plan. In connection with the 481 incomplete pension plan submissions, requests for extension of time to submit outstanding documents have been received for only 420 of these plans. While the length of the extension requested varies, it is expected that by September 2007 all outstanding documents will be submitted.

Of the 38 pension plan applications which were complete, 2 plans were established after the pension regulations came into force. These 38 pension plans were the subject of a concurrent review by the FSC and the Taxpayer Audit and Assessment Department (TADD), with the following elements:

1. *Fit and Proper Evaluation:* The FSC examined the trustees of each plan to

attest to them being persons of sound probity, able to exercise competence, diligence and sound judgement in regard to their roles. In the case of corporate trustees knowledge and experience in the business of pension plans was also evaluated.

2. *Business and Financial Appraisal:* the FSC analysed the financial statements, auditor's report, and actuarial valuation reports to determine among other things the solvency and viability of the pension plans and the financial health of their service providers.
3. *Legal Review:* The FSC conducted an evaluation of the constitutive documents such as the Trust Deed and Plan Rules to determine compliance with the Act and Regulations. The technical provisions of the constitutive documents were also assessed.

4. *Tax Assessment*: The TAAD inspected the constitutive documents to establish compliance with the Income Tax Act, the Income Tax (Superannuation Funds) Rules 1955, and whether the plans qualify for tax exemptions.

By the end of March 2007, the FSC had also completed *Fit and Proper Assessments* for:

- 316 of 694 completed applications for individual trustees
- 403 covered persons in connection with administrators, investment managers and corporate trustees.

Phase II of Pension Reform

The second phase of pension reform, which commenced during the 2006/07 fiscal year, is focused primarily, though not exclusively on, safeguarding the level of benefits to be received by pension plan members. A technical committee was established on the recommendation of the Minister of Finance and Planning and the work of this committee involved, *inter alia*, further stakeholder consultations, the preparation of drafting instructions, the examination of harmonization issues and the development of rules dealing with the adequacy of pension benefits and the solvency of pension plans. The technical committee meetings were chaired by the Minister of State for the Ministry of Finance and Planning, and were attended by representatives of:

- The Private Sector Organization of Jamaica;
- The Caribbean Actuarial Association (Jamaica Chapter);
- The Jamaica Employers' Federation;

- The Jamaica Conference of Trade Unions;
- The Attorney-General's Chambers;
- The Taxpayer Audit and Assessment Department;
- The Insurance Association of Jamaica;
- The Jamaica Bar Association;
- The Institute of Chartered Accountants of Jamaica;
- Coke & Associates/Eckler Partners;
- The Financial Services Commission (FSC);
- The Jamaica Association of Insurance and Financial Advisors;
- Self Administered Funds.

Arising out of the meetings of the technical committee and in keeping with Government's undertakings to the pensions industry, drafting instructions regarding proposed amendments to the Pensions Act and Regulations were prepared and subsequently sent to the Chief Parliamentary Counsel and the Ministry of Finance and Planning. The drafting instructions included the following:

- (a) Proposed amendments to existing provisions of the Act;
- (b) Proposed amendments relating to new items to be included in the Act;
- (c) Proposed amendments to existing provisions of the current Regulations;
- (d) Proposed amendments relating to new items to be included in the existing Regulations;
- (e) Regulations for retirement schemes;
- (f) Regulations for termination and winding-up of superannuation funds and retirement schemes;
- (g) Funding and Solvency Regulations for superannuation funds and retirement

- schemes; and
- (h) Amendments to the Third Schedule to the Registration, Licensing and Reporting Regulations, 2006.

The aforementioned proposed amendments addressed the following issues that were discussed by the committee:

- Vesting (i.e. members' entitlement to their employer's contributions after completion of a prescribed period of membership in the approved superannuation fund or retirement scheme);
- Locking in of compulsory contributions;
- Portability (i.e. giving members the right to transfer their accrued benefits to and from an approved superannuation fund, approved retirement scheme or any other pension plan as may be prescribed);
- Distribution of surplus in continuing pension plans;
- Eligibility of part-time employees to participate in approved superannuation funds;

- Non-discrimination;
- Merger of approved pension plans;
- Late Retirement Benefits;
- Indexation of pensions;
- Optional forms of Pensions;
- Civil penalty regime for contravention of the Act and Regulations by trustees;
- Regulations for Retirement Schemes;
- Regulations for the winding up of approved pension plans;
- Amendments to Act and existing Regulations; and
- Funding & Solvency Regulations.

Amendment to the Income Tax Act

Comments on the Bill to amend the Income Tax Act, based on the decision from the Pensions Taxation Sub-Committee, were submitted to the Ministry of Finance following a review by the FSC. The purpose of the Bill is to harmonize, among other things, conflicting provisions of the Income Tax Act and the Pensions Act regarding lump sum payments and contributions to Retirement Schemes.

Public Education

Public education is an integral component of the FSC's strategies for ensuring investor protection and fostering market integrity. Investors who are more knowledgeable about their rights, the risks and rewards of financial transactions and the means available to protect themselves, are better able to make financial choices that best match their circumstances and to impose discipline on financial service providers. Financial institutions which are knowledgeable about regulatory

requirements and their obligations to customers are better able to provide self discipline with regards to the management of the business affairs and their market conduct. The following provides a brief description of the different initiatives for each of the sectors regulated by the FSC.

Pensions: Educating Pensions Stakeholders

After September 29, 2006 only persons or entities

that had made an application for registration or licensing with the FSC would be entitled to continue operating and managing superannuation funds and retirement schemes. Therefore several activities were initiated to encourage pension's stakeholders to meet registration and licensing requirements under the Pensions Act, 2004. These included but were not limited to the following:

- The FSC hosted six workshops for pension trustees. These Workshops were held under the theme ***“Building Partnership through Training.”*** The workshops featured presentations on the pension legislation, duties of trustees, constitutive documents, registration and licensing, communicating with members, and the FSC's Complaints Unit. The workshops also addressed the questions and fears that trustees have about discharging their duties in light of their roles under the pension legislation.
- Two Pensions Compliance Workshops were also held by the FSC on September 15, 2006 and September 18, 2006 respectively. These seminars targeted Administrators, Individual and Corporate Trustees and Investment Managers of the private pension industry and were intended to sensitize participants to the pension registration and licensing process under the Pensions Act 2004.
- In addition, a mass media approach was utilized to encourage compliance by pension stakeholders. Print, radio and television commercials were used during

the period. A 15-minute feature was produced and aired by the Jamaica Information Service which gave the general public an understanding of what the new pensions legislation was intended to accomplish as well as the registration and licensing process. Printed material in the form of brochures and booklets was also produced and circulated to pension's stakeholders.

- The FSC partnered with DunnCox, Utech, and Duggan Consulting in staging a pension fair held on September 19, 2006 at the Jamaica Pegasus Hotel. The theme of this fair was ***'Protecting your future, Understanding your rights'***. The objective was to enlighten attendees on the significance of the Pensions Act, 2004. At this event, the FSC also participated in a live outside broadcast of a popular radio programme.
- In an effort to engage industry actuaries in meaningful dialogue on the draft pension and solvency regulations, a workshop entitled ***Pensions Funding and Solvency*** was held on Wednesday, April 19, 2006 at the Hilton Kingston Hotel. The main activities for the half-day event were a presentation on the draft pension funding and solvency regulations, and an interactive “hot topics” session.

Securities

A Consultation on Proposed Issuer Registration and Disclosure Requirements for the Securities industry was also held from November 29, 2006 to

November 30, 2006 at the Knutsford Court Hotel. The FSC used this seminar to solicit comments on a proposed issuer registration and disclosure regime for Jamaica. The proposed regime discussed at the seminar includes continuous disclosure requirements which are meant to apply to currently registered issuers. The proposed regime also contains requirements that apply to initial public offerings, subsequent issuances by new issuers, treasury securities and secondary offerings. The seminar was held as part of an IADB project which in part will implement improvements to the issuer registration and disclosure regime in the island. From this seminar the FSC achieved the dual goal of educating industry members on the proposed new regulations, and absorbing very useful feedback, to further fine-tune the regulations to fit the Jamaican financial sector.

The FSC was an exhibitor-sponsor at the Jamaica Stock Exchange's 2nd Annual Regional Conference on Investments and Capital Markets. The event took place at the Ritz Carlton Hotel in Montego Bay on January 10 to 12, 2007. The event attracted over 200 senior business and financial executives from Jamaica and across the Caribbean. The FSC's display featured information on our regulatory role in insurance, pensions and particularly securities. The conference participants engaged the FSC's staff in discussions about regulations in the securities market and changes effected under the Pensions Act of 2004.

General Anti Money Laundering

In addition to the abovementioned industry-specific initiatives, the FSC continued to dedicate the needed resources to enhance its

financial crime mitigation mandate as stipulated in Section 6(2) (f) of its enabling legislation. As was the case in previous years, the FSC continued to employ initiatives such as training, providing supervisory guidance and having discussions with regulated entities in order to actively address the prevention and detection of incidents of money laundering within regulated entities. Below is a brief description of the specific activities carried out during the 2006/07 financial year:

- This was the inaugural year of the FSC's electronic quarterly newsletter *The FSC Sentinel*. The role of *The FSC Sentinel* is to act as a medium for the sensitization of stakeholders about the issue of financial crime within the financial sectors regulated by the FSC, (namely the securities, insurance and pension sectors), and the potential detrimental effects on the financial institution, the financial sector, and the economy on a whole. For the publications completed to date, contributors to *The FSC Sentinel* have so far been from the staff of the FSC and other government agencies including the Ministry of Finance, the Financial Investigations Division, and the Office of the Director of Public Prosecutions.
- Financial Crime Mitigation Workshops were held at the Hilton Hotel on March 5 and March 6, 2007. The workshops targeted employees in the securities and insurance sectors who have special responsibilities for anti-money laundering, fraud prevention and detection programmes, such as

compliance and risk officers, and audit managers, etc.

The pool of presenters comprised practitioners from local and overseas regulatory agencies, law enforcement and other public bodies, and included representatives from the United States Department of the Treasury, the Financial Investigations Division, the Office of the Attorney General, the Commission for the Prevention of Corruption, and the Chair of the Organization of American States Anti-Corruption Committee, along with local consultants.

The FSC workshops were intended to highlight several issues related to fraud, and money-laundering, including regional initiatives to mitigate the risks posed by financial crimes. In addition the workshops looked at issues related to the recent passing of the Proceeds of Crime Bill and provided references for information technology solutions in combating financial crime. They also examined international standards and best practices on fraud prevention. The event attracted participants from different spheres, and as a result, the recorded attendance was 109 participants on Day 1, and 133 participants on Day 2.

- A seminar under the theme ***“Insurance Regulatory Compliance: An effective Way to Mitigate Risk and Improve Business Operations”*** was held at the Hilton Hotel on November 3, 2006. The seminar targeted insurance

intermediaries. It addressed the topics of Filing Requirements, Market Conduct and Anti-Money Laundering Procedures within the insurance sector. The intermediaries were also given information on the importance of being compliant. There were 57 participants.

Mass Media Activities

The mass media is viewed as a significant tool through which information of public interest is often presented. During the year, radio and television interviews, news releases and articles were presented to and utilized by the media on an ongoing basis. Through these media ongoing issues are often commented on as the FSC seeks to dispel public myths and to educate the public on our activities.

Website

The FSC website (www.fscjamaica.org) continues to be used as a very important public information tool for the general public and our licensees. The website is currently being redesigned and enhanced to ensure that it efficiently delivers maximum information of importance to the FSC's stakeholders.

Capacity Building

The FSC is committed to the sustained development of the technical competence and skills set of FSC staff. The staff benefited from a number of in-house and external training courses during 2006/07. In the area of financial crimes, for example, in-house training sessions covered several subjects that included the money laundering legislation, the regulatory framework, the Anti-Money Laundering & Counter-Financing of Terrorism Guidelines of the FSC with specific

emphasis on 'Knowing Your Customer', as well as the process of obtaining and retaining satisfactory evidence. The planned legislative overhaul to combat financial crime by way of the Proceeds of Crime Bill was also addressed.

It is expected that on-going capacity building initiatives will enhance the overall effectiveness and efficiency of the FSC. Table 18 below indicates the different topics covered in the training programme that was implemented in the review period.

Table 18: List of Training Opportunities Accessed by FSC Staff, 2006/07

Course/Seminar	Provider	Number of Staff Trained
AML/CFT Workshop	Offshore Group of Insurance Supervisors	2
Broker/Dealer Training	United States Securities & Exchange Commission	2
Financial Investigation	Caribbean Regional Training Institute	1
Onsite Inspection	Caribbean Regional Training Assistance Centre	2
Core Insurance Supervisory Issues	Financial Stability Institute	1
Help Desk Support & Troubleshooting	dotTech	1
Derivatives & Fundamental Analysis	Jamaica Stock Exchange	2
Derivatives	Holistic Risk Solutions Ltd.	2
Emotional Intelligence	Partners for Change	1
Financial Analysis	Fitz Ritson & Associates	3
Fraud Examination & Prevention	Jamaica Institute of Management	1
Certified Ethical Hacker	International Business Training Association	1
Insurance Regulatory Seminar	Offshore Group of Insurance Supervisors	1
Securities Market Enforcement	United States Securities & Exchange Commission	2
International Securities Market Regulation	Toronto Leadership Centre	1
Information Technology Security Awareness	International Business Training Association	2
Leadership & Management Essentials	Jamaica Institute of Bankers	6
Managing Corporate Reputation, Image & Identity	GovStrat	2
Technical Report Writing	Professional Training Institute	3
Project Management	dotTech	4
Reinsurance Seminar	Financial Stability Institute	1
International Securities Market Development	United States Securities & Exchange Commission	2
Supervision of Pension Systems	International Organization of Pensions Supervisors	1
Insurance Supervision Workshop	Caribbean Regional Technical Assistance Centre	2

Source: Financial Services Commission

Review of Financial Performance

The financial statements that appear on pages 51 to 67 in this annual report present the financial position, operating results and cash flows of the Commission in accordance with International Financial Reporting Standards for the financial year ended March 31, 2007. 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 of \$35.3 million compared to a net loss of \$19.1 million for 2005/06. This was due to an imbalance between the expenses incurred and the fees earned from pension regulation and supervision. For the year, the Commission earned \$62.0 million in pension fees but this was not sufficient to cover the pension related expenses of approximately \$112.0 million.

Revenue grants totalling \$20.3 million were received during the year. The Commission is a beneficiary of a Caribbean Development Bank (“CDB”)/Government of Jamaica (“GOJ”) loan agreement and an Inter-American Development Bank (“IDB”)/GOJ grant agreement. The revenue grants of \$11.9 million from the CDB/GOJ loan were used to cover the cost of professional fees and staff training related to several technical assistance projects. The IDB provided revenue grants of \$8.4 million which

were also used for professional fees and staff training related to several institutional strengthening projects.

Income and Expenditure

1. Income

Fee income for the year was \$335.3 million and was 29.6 percent higher than the previous year's fee income of \$258.8 million. Fee income from the securities industry for the year was \$122.4 million compared to \$107.5 million for 2005/06. Table 19 gives a breakdown of the fees earned from the securities industry.

The insurance industry contributed \$150.8 million in fee income for the year compared with \$151.3 million for the previous year. Table 20 gives a breakdown of the fees earned from the insurance industry.

With the promulgation of the pensions regulations on March 29, 2006, pension funds, investment managers, administrators and trustees were given six months to apply for registration or licensing with the Commission, the deadline date being September 29, 2006. By March 31, 2007, there had been 2,229 applications for registration and licensing from which the Commission earned application fees of approximately \$21 million. The Commission also earned \$41 million in licensing fees having licensed 21 administrators and 20 investment managers by year end.

Table 19: Fee Income from Securities Industry 2006/07 and 2005/6

Source	2006/07		2005/06	
	Income ('000)	% of Total	Income ('000)	% of Total
Dealer Licencees	83,327	68.0	73,781	68.7
Stock Exchange Transactions & JCSD	32,639	26.7	26,587	24.7
Applications (Non-refundable)	205	0.2	1,196	1.1
Commercial Paper	488	0.4	304	0.3
Mutual Funds	5,782	4.7	5,624	5.2
Totals	122,441	100.0	107,492	100.0

Table 20: Fee income from the Insurance Industry 2006/07 and 2005/06

Source	2006/07		2005/06	
	Income ('000)	% of Total	Income ('000)	% of Total
Renewal Fees - General Companies	82,306	54.5	82,434	54.5
Renewal Fees - Life Companies	56,965	37.8	49,648	32.3
Renewal Fees - Intermediaries	11,237	7.5	18,134	12.0
Applications	321	0.2	1,094	1.2
Totals	150,829	100.0	151,310	100.0

2. Expenses

Total expenses for the 2006/07 financial year were \$399.9 million, an increase of \$75.6 million or 23.3% over the previous year. The major items of expenditure were as follows:

i. Staff Costs.

Staff costs amounted to \$268.7 million (or 67.2 percent of total expenses), which was 24.1 percent higher than the previous year. The increase in staff costs was due to:

- An increase in the staff size from 101 at the start of the year to 113 at year end.
- Salary adjustments following the end of a Memorandum of Understanding which had placed a two year freeze on public sector salaries

ii. Professional Expenses

Professional expenses were \$19.6 million, an increase of 20.0 percent over the 2005/06 financial year due to the increased use of external attorneys occasioned by several investigations and enforcement actions being undertaken by the FSC.

iii. Project Expenses

Project expenses were \$22.1 million (2005/06: \$17.2 million) and consisted of professional fees and staff training provided by the GOJ under a technical assistance loan agreement with the CDB and a grant agreement with the IDB.

iv. Depreciation and Amortization Expenses.

Depreciation and amortization expenses amounted to \$20.5 million, representing an increase of 13.5 percent relative to the previous year. This resulted from the purchase of additional office furniture and computer equipment to support the increase in staff.

3. Liquidity

The Commission is not permitted to borrow and therefore must finance its expenditure (recurrent and capital) from fee income. At the end of the year the balance sheet showed current assets of \$195.8 million and current liabilities of \$144.3 million for a current ratio of 1.36:1 (2005/06: 2.26:1). Cash and resale agreements were \$125.1 million compared to \$83.4 million at the end of the 2005/2006 financial year.

Deferred fees were \$119.5 million at the end of the year compared to \$42.2 million at the end of the previous year due to the large inflows of pension fees in the last quarter of the year. Licensing fees for pension fund administrators and investment managers are paid annually (on the date of licensing) and are deferred and recognized as income in the period to which they relate.



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; The regulations 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; they provide detailed rules and regulations governing individuals and companies operating in the insurance industry.

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

The Insurance (Actuaries) (General Insurance Companies) Regulations - promulgated in 2002; they 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 -

They prescribe the amount payable by an insurer to an individual who satisfies the insurer that he is entitled to obtain probate of the will of the deceased person or to take out letters of administration.

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

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

The Securities (Conduct of Business) Regulations - promulgated in 1999 and last amended in 2003; they 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; they 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; they stipulate the rules for the business operation and supervision of mutual funds. The regulations also contain specific provisions concerning the protection of investors.

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

The Securities (Central Securities Depository) Regulations - promulgated in 2000 and amended in 2002; the regulations 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; the regulations govern the process of registration for unit trusts.

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

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

The Pensions (Superannuation Funds and Retirement Schemes) (Specified Pension Funds and Specified Pension Scheme) Regulations, 2005 - promulgated on March 11, 2006; these regulations define the meaning of “specified pension fund” or “specified pension scheme”.

The Pensions (Superannuation Funds and Retirement Schemes) (Registration, Licensing and Reporting) Regulations, 2006 - promulgated on March 29, 2006; The

regulations describe 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 - promulgated on March 29, 2006; they outline the operational procedures for those who preside over pensions funds and retirement schemes.

The Pensions (Superannuation Funds and Retirement Schemes) (Investment) Regulations, 2006 - promulgated on March 29, 2006; they 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 2006/2007

1. Basic Salary Range of Executive Management	
a) Senior Director, Director and General Counsel	\$3,177,300 - \$4,926,600
b) Chief Actuary	\$4,637,040 - \$6,309,540
c) Executive Director	\$6,902,000 - \$8,282,400
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	\$477,708 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, 2007

Dealers (Companies)

There were fifty-one (51) licensed securities dealers (Companies) as at March 31, 2007:

- | | |
|---|--|
| 1. Alliance Investment Management Limited | 27. Jamaica Money Market Brokers Limited |
| 2. Barita Investments Limited | 28. Jamaica National Building Society |
| 3. Barita Portfolio Management Limited | 29. JMMB Securities Limited |
| 4. Barita Unit Trusts Management Company Limited | 30. JN Fund Managers Limited |
| 5. Capital & Credit Fund Managers Limited | 31. Life of Jamaica Limited |
| 6. Capital & Credit Merchant Bank Limited | 32. MF&G Asset Management Limited |
| 7. Capital & Credit Securities Limited | 33. M/VL Stockbrokers Limited |
| 8. Capital Options Limited | 34. Mayberry Investments Limited |
| 9. Capital Solutions Limited | 35. Money Express Financial Services Limited |
| 10. Citifinance Limited | 36. MoneyMasters Limited |
| 11. CWJ Employees Co-operative Credit Union Limited | 37. NCB Capital Markets Limited |
| 12. DB&G Unit Trust Managers Limited | 38. NCB Insurance Company Limited |
| 13. Dehring, Bunting & Golding Limited | 39. Pan Caribbean Asset Management Limited |
| 14. E. W. Lewis Investments & Finance Limited | 40. Pan Caribbean Financial Services Limited |
| 15. First Global Bank Limited | 41. Prime Asset Management Limited |
| 16. First Jamaica Investments Limited | 42. RBTT Bank Jamaica Limited |
| 17. FirstCaribbean International Bank (Jamaica) Limited | 43. RBTT Securities Limited |
| 18. FirstCaribbean International Securities Limited | 44. Scotia Jamaica Investment Management Limited |
| 19. First Global Financial Services Limited | 45. Sterling Asset Management Limited |
| 20. Gleaner Company Limited | 46. Stocks and Securities Limited (formerly Paul Chen Young & Company Limited) |
| 21. Guardian Asset Management Limited | 47. UGI Finance & Investments Limited |
| 22. Guardian Life Limited | 48. Victoria Mutual Wealth Management Limited |
| 23. Ideal Finance Corporation Limited | 49. Village Resorts Limited |
| 24. Ideal Portfolio Services Limited | 50. West Indies Trust Company Limited |
| 25. Intertrade Finance Corporation Limited | 51. West Indies Union Investment Management Limited |
| 26. Jamaica Co-operative Credit Union Limited | |

Dealers (individuals not associated with a company)

There were seven (7) licensed securities dealers (individuals not associated with a company) as at March 31, 2007:

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

Dealers (individuals associated with a company)

There were nine (9) licensed securities dealers (individuals associated with a company) as at March 31, 2007:

- | | |
|-----------------------|--------------------|
| 1. Berry, Christopher | 6. Ming, Herman |
| 2. Berry, Konrod | 7. Shirley, Sandra |
| 3. Campbell, Ryland | 8. Cecile Watson |
| 4. Clarke, Oliver | 9. Wray, Wayne |
| 5. Lewis, Everton | |

Mutual Funds

There were eighteen (18) registered Mutual Funds as at March 31, 2007:

- | | |
|---------------------------------------|--|
| 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. Trinidad Select Index Fund Limited |

Unit Trusts

There were four (4) registered Unit Trust Fund Managers as at March 31, 2007:

- | | |
|--|---|
| 1. Barita Unit Trusts Management Limited | 3. Capital & Credit Fund Managers Limited |
| 2. DB&G Unit Trusts Management Limited | 4. Pan Caribbean Asset Management Limited |
-

Life Insurance Companies

There were six (6) life insurance companies registered as at March 31, 2007:

- | | |
|----------------------------------|--|
| 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 twelve (12) general insurance companies registered as at March 31, 2007:

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

Associations of Underwriters

There was one Association of Underwriters registered as at March 31, 2007:

1. Lloyds

Insurance Brokers

There were forty five (45) Insurance Brokers registered as at March 31, 2007:

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

Facultative Placement Brokers

- | | |
|--|---|
| 27. Allied Insurance Brokers Limited | 36. Guardian Insurance Brokers Limited |
| 28. Assurance Brokers Jamaica Limited | 37. JMMB Insurance Brokers Limited |
| 29. Billy Craig Insurance Brokers Limited | 38. Lawe Insurance Brokers Limited |
| 30. Caribbean Assurance Brokers Limited | 39. Marathon Insurance Brokers Limited |
| 31. CGM Insurance Brokers Limited | 40. Mutual Security Insurance Brokers Limited |
| 32. Desmond Mair Insurance Brokers Limited | 41. National Property & General Insurance Brokers Limited |
| 33. Excel Insurance Brokers Limited | 42. Spectrum Insurance Brokers Limited |
| 34. Firm Insurance Brokers Limited | 43. Thwaites Finson Sharp Insurance Brokers Limited |
| 35. Fraser Fontaine & Kong Limited Insurance Brokers | |

Overseas Reinsurance Brokers

44. Benfield Limited

Local Reinsurance Brokers

45. International Insurance Brokers Limited

Insurance Agents

There were ten (10) insurance agents registered as at March 31, 2007:

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

Insurance Managing General Agents

There were no Insurance Managing General Agents registered as at March 31, 2007.

Insurance Loss Adjusters

There were four (4) Insurance Loss Adjusters registered as at March 31, 2007:

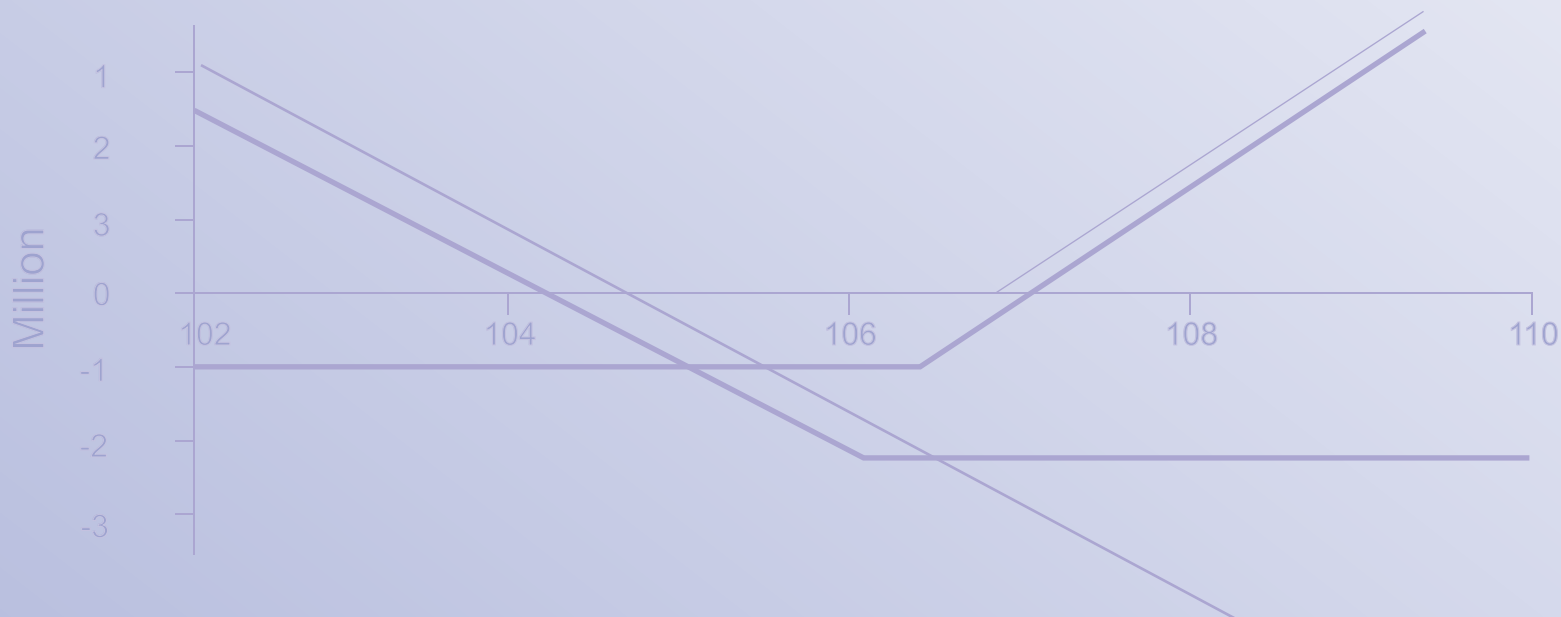
1. Caribbean Loss Adjusters Limited
2. Evan Evans T/A Evans Insurance Consultants Limited
3. Innovative Consulting Services Limited T/A International Claims Services
4. Trans Jam Loss Adjusters Limited

Insurance Consultants

There was one Insurance Consultant registered as at March 31, 2007:

1. Nicholas James Wood

Cash Flows from Operation Activities



Auditors' Report & Financial Statements

FOR PERIOD ENDED MARCH 31, 2007

INDEPENDENT AUDITORS' REPORT

To the Members of
FINANCIAL SERVICES COMMISSION

Report on the Financial Statements

We have audited the financial statements of Financial Services Commission ("the commission") set out on pages 51 to 67, which comprise the balance sheet as at March 31, 2007 the statements of income and expenditure and cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the commission as at March 31, 2007, and of its financial performance, changes in equity and cash flows for the year then ended in accordance with International Financial Reporting Standards.




July 18, 2007

FINANCIAL SERVICES COMMISSION

Balance Sheet
March 31, 2007

	<u>Notes</u>	<u>2007</u>	<u>2006</u>
CURRENT ASSETS			
Cash and cash equivalents		10,123,137	2,393,274
Resale agreements	3	115,000,000	81,000,000
Accounts receivable and prepayment	4	59,095,554	60,022,624
Taxation recoverable	5	<u>11,553,726</u>	<u>9,965,968</u>
		<u>195,772,417</u>	<u>153,381,866</u>
CURRENT LIABILITIES			
Accounts payable	6	24,760,872	25,587,244
Deferred fees		<u>119,554,589</u>	<u>42,193,387</u>
		<u>144,315,461</u>	<u>67,780,631</u>
NET CURRENT ASSETS		51,456,956	85,601,235
NON-CURRENT ASSETS			
Property, plant & equipment	7	16,876,539	17,158,750
Intangible assets	8	<u>15,127,254</u>	<u>17,965,884</u>
		<u>\$ 83,460,749</u>	<u>120,725,869</u>
Represented by:			
RESERVES	9	<u>\$ 83,460,749</u>	<u>120,725,869</u>

The financial statements on pages 51 to 67 were approved by the Commissioners on July 18, 2007, and signed on its behalf by:



Chairman
Dr Owen Jefferson



Executive Director
Brian Wynter

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, 2007

	<u>Notes</u>	<u>2007</u>	<u>2006</u>
INCOME			
Fees		335,034,261	258,802,356
Interest income		6,339,946	10,931,271
Exchange gain		-	755,448
Miscellaneous		269,944	-
Gain on disposal of property, plant & equipment		<u>620,221</u>	<u>571,197</u>
		342,264,372	271,060,272
GRANTS	10	<u>20,356,982</u>	<u>20,882,562</u>
		<u>362,621,354</u>	<u>291,942,834</u>
EXPENDITURE			
Advertising		5,746,256	1,480,977
Appeal Tribunal		1,920,979	1,698,283
Audit		950,480	552,585
Bank charges		153,534	287,381
Building maintenance		2,882,259	4,606,992
Commissioners' fees		2,121,927	2,023,264
Depreciation and amortisation		20,492,334	18,053,657
Motor vehicle expenses		4,597,837	3,006,676
Office expenses		14,695,834	12,721,534
Printing and stationery		2,669,894	2,594,693
Professional fees		19,629,892	16,335,594
Project expenses	10(i) & (iii)	22,149,751	17,225,139
Public Education		9,829,271	2,166,673
Utilities		11,111,439	9,574,087
Staff costs		268,710,675	216,521,261
Subscriptions		4,215,579	314,262
Travelling		519,774	19,780
Training and conferences		<u>7,488,759</u>	<u>15,115,637</u>
		<u>399,886,474</u>	<u>324,298,475</u>
Net loss from operations before transfer		(37,265,120)	(32,355,641)
Transfer from capital reserve of amount equivalent to depreciation charge on donated assets	9	<u>1,928,772</u>	<u>13,213,487</u>
Deficit for the year, being total losses recognised		\$(<u>35,336,348</u>)	(<u>19,142,154</u>)

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

FINANCIAL SERVICES COMMISSION

Statement of Cash Flows
Year ended March 31, 2007

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Deficit for the year	(37,265,120)	(32,355,641)
Adjustment for:		
Depreciation and amortisation	20,492,334	18,053,657
Gain on disposal of property, plant & equipment	(620,221)	(571,197)
Interest income	(6,339,946)	(10,931,271)
	(23,732,953)	(25,804,452)
(Increase)/decrease in current assets		
Resale agreements	(34,000,000)	(6,000,000)
Accounts receivable and prepayment	(162,655)	9,808,017
Taxation recoverable	(1,587,758)	(2,641,999)
Increase in current liabilities		
Accounts payable	(826,372)	12,071,109
Deferred fees	<u>77,361,202</u>	<u>6,297,077</u>
Net cash provided /(used) by operating activities	<u>17,051,464</u>	(6,270,248)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant & equipment	(13,207,177)	(8,661,816)
Additions to intangible assets	(4,307,605)	(22,010,554)
Proceeds from disposal of property, plant & equipment	763,510	571,197
Interest received	<u>7,429,671</u>	<u>10,263,872</u>
Net cash used by investing activities	(9,321,601)	(19,837,301)
Net increase/(decrease) in cash and cash equivalents	7,729,863	(26,107,549)
Cash and cash equivalents at beginning of the year	<u>2,393,274</u>	<u>28,500,823</u>
Cash and cash equivalents at end of the year	<u>\$10,123,137</u>	<u>2,393,274</u>

The accompanying notes form an integral part of the financial statements

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
Year ended March 31, 2007

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

During the previous years, the Government of Jamaica (“GOJ”) through its agencies, the Superintendent of Insurance and the Financial Sector Adjustment Company, donated certain property, plant and equipment to the Commission. These assets were brought in at valuation.

The Commission had in its employment 113 (2006:101) employees as at March 31, 2007, out of a Board approved establishment of 122 (2006:122) 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”).

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements (Continued)
Year ended March 31, 2007

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

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

During the year under review, certain new standards interpretations and amendments to the existing standards became effective. Management has assessed that IAS 19 Amendment, *Actuarial Gains & Losses, Group Plans and Disclosures*, IAS 39 Amendment, *The Fair Value Option* and IFRIC 4, *Determining whether an Arrangement Contains a Lease* were the only relevant amendments.

At the date of authorisation of the financial statements the following relevant new standards, amendments to standards and interpretations become effective for the financial years beginning after March 31, 2007 and have therefore not been applied in preparing these financial statements:

- *IFRS 7 Financial Instruments: Disclosures and the Amendments to IAS 1 Presentation of Financial Statements: Capital Disclosures* require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become effective for the company's 2008 financial statements, will require additional disclosures with respect to the commission's financial instruments.
- *IFRIC 9 Reassessment of Embedded Derivatives* requires that a reassessment of whether an embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. As at March 31, 2007 IFRIC 9, which becomes mandatory for the Commission's 2008 financial statements, is not expected to have a material impact on the financial statements.

(b) Basis of preparation:

These financial statements are prepared in Jamaica dollars (J\$), which is the functional currency of the Commission.

The financial statements are prepared on the historical cost basis, modified for the inclusion of certain property, plant & equipment at deemed cost on the IFRS transition date.

(c) Use of estimates and judgements:

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

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

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements (Continued)
Year ended March 31, 2007

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

(c) Use of estimates and judgements (cont'd):

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.

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.

(d) Grants:

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

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

(i) Owned assets:

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

Intangible assets include computer software and security system software.

(ii) Subsequent costs:

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

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements (Continued)
Year ended March 31, 2007

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

(f) Depreciation and amortisation:

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%

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

(g) Capital expenditure:

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

(h) Cash and cash equivalents:

Cash and cash equivalents comprise cash and bank balances.

(i) Resale agreements:

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

(j) Accounts receivable:

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

(k) Accounts payable:

Accounts payable are stated at amortised cost.

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements (Continued)
Year ended March 31, 2007

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

(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.

(m) Fees:

(i) Securities

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

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".

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements (Continued)

Year ended March 31, 2007

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

(m) Fees (cont'd):

(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.

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.

(iii) Pension

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

Note – for fee computation, “total assets” are as shown in the annual statements as at December 31, immediately prior to the renewal date.

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements (Continued)
Year ended March 31, 2007

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

(n) Impairment:

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

(o) Foreign currencies:

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

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements (Continued)
Year ended March 31, 2007

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

(p) 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 these financial statements, financial assets have been determined to include cash and cash equivalents, resale agreements, accounts receivable and prepayment. Similarly, financial liabilities include accounts payable and deferred fees.

(q) 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.

(r) Determination of fair value:

Fair value amounts represent estimates of the arm's length consideration that would be currently agreed between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists.

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements (Continued)
Year ended March 31, 2007

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 11.10% (2006: 12.30% and 12.65%) as at the year end. The market value of the underlying securities as at March 31, 2007 was \$115,279,828 (2006: J\$82,389,266).

4. Accounts receivable

	<u>2007</u>	<u>2006</u>
Trade receivables, net	52,524,001	51,903,036
Prepayments and deposits	5,390,700	5,073,886
Other receivables	882,421	1,657,545
Interest receivable	<u>298,432</u>	<u>1,388,157</u>
	<u>\$59,095,554</u>	<u>60,022,624</u>

Trade receivable is shown net of a provision for impairment losses of \$4,776,831 (2006: \$25,192).

5. Taxation recoverable

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

6. Accounts payable

	<u>2007</u>	<u>2006</u>
Trade and other payables	4,694,441	8,888,190
Employee benefits	<u>20,066,431</u>	<u>16,699,054</u>
	<u>\$24,760,872</u>	<u>25,587,244</u>

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements (Continued)
Year ended March 31, 2007

7. Property, plant & equipment

	<u>Motor vehicles</u>	<u>Office furniture and equipment</u>	<u>Computer equipment</u>	<u>Total</u>
At cost or deemed 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	(1,504,000)	-	-	(1,504,000)
March 31, 2006	3,455,875	21,129,330	31,460,765	56,045,970
Additions	269,943	9,939,671	2,997,563	13,207,177
Disposal	(1,908,775)	-	-	(1,908,775)
March 31, 2007	<u>1,817,043</u>	<u>31,069,001</u>	<u>34,458,328</u>	<u>67,344,372</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	(1,504,000)	-	-	(1,504,000)
March 31, 2006	2,596,471	12,268,830	24,021,919	38,887,220
Charge for year	363,408	4,583,160	8,399,531	13,346,099
Eliminated on disposal	(1,765,486)	-	-	(1,765,486)
March 31, 2007	<u>1,194,393</u>	<u>16,851,990</u>	<u>32,421,450</u>	<u>50,467,833</u>
Net book value:				
March 31, 2007	<u>\$ 622,650</u>	<u>14,217,011</u>	<u>2,036,878</u>	<u>16,876,539</u>
March 31, 2006	<u>\$ 859,404</u>	<u>8,860,500</u>	<u>7,438,846</u>	<u>17,158,750</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.

8. Intangible assets

These represent software cost capitalised as follows:

	<u>2007</u>	<u>2006</u>
Cost:		
At beginning of year	24,277,088	2,266,534
Additions	<u>4,307,605</u>	<u>22,010,554</u>
At end of year	<u>28,584,693</u>	<u>24,277,088</u>
Amortisation:		
At beginning of year	6,311,204	246,220
Charge for the year	<u>7,146,235</u>	<u>6,064,984</u>
At end of year	<u>13,457,439</u>	<u>6,311,204</u>
Net book values	<u>\$15,127,254</u>	<u>17,965,884</u>

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements (Continued)
Year ended March 31, 2007

9. Reserves

	<u>General</u>	Capital Reserve [see note below]	<u>Total</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	(19,142,154)	-	(19,142,154)
Balance at March 31, 2006	117,718,533	3,007,336	120,725,869
Periodic depreciation charge transfer	-	(1,928,772)	(1,928,772)
Deficit for the year	(35,336,348)	-	(35,336,348)
Balance at March 31, 2007	<u>\$ 82,382,185</u>	<u>1,078,564</u>	<u>83,460,749</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.

10. Grants

	<u>2007</u>	<u>2006</u>
GOJ revenue grants (i)	11,908,495	12,544,000
Capital grants (ii)	-	3,076,160
Funds received – IADB (iii)	<u>8,448,487</u>	<u>5,262,402</u>
	<u>\$20,356,982</u>	<u>20,882,562</u>

- (i) The Commission is a beneficiary of the Caribbean Development Bank (“CDB”)/GOJ loan agreement through the Ministry of Finance and Planning. The grants represent project expenses such as professional fees and training expenses paid by the CDB amounting to \$7,226,975 (2006:\$10,320,000) and \$4,681,520 (2006:\$2,224,000) respectively.
- (ii) Capital grant of \$Nil (2006: \$3,076,160) received during the year under the CDB/GOJ loan agreement through the Ministry of Finance, 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”)/GOJ funding agreement through the Ministry of Finance and Planning. Funds received during the year were used to finance professional fees and training expenses aggregating \$8,448,487 (2006: \$5,262,402) to cover institutional strengthening of the Commission.

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements (Continued) Year ended March 31, 2007

11. Taxation

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

12. Pension scheme

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

The 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 \$6,148,124 (2006: \$3,705,102).

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

13. Insurance Licence Deposit

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

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

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

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

As at March 31, 2007, securities so deposited and which were in the possession of the Commission amounted to \$1,378 million (2006: \$1,366 million)

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements (Continued) Year ended March 31, 2007

14. 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.

(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, 2007, the foreign currency asset was US\$53,345(2006: US\$110,312).

(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.

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements (Continued)
Year ended March 31, 2007

14. Financial instruments (cont'd)

(v) Market risk:

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

(vi) Cash flow risk:

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

The Commission 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.

15. Contingent liabilities

At March 31, 2007 there are various outstanding lawsuits filed against the Commission. One such suit is a claim for damages aggregating approximately US\$5 million or J\$339 million (2006: US\$5 million or J\$327 million). Subject to the immunity conferred by the Act these suits may have financial implications for the Commission in the event the applications are successful. The outcome of these suits cannot be determined at this time. Consequently, these have not been provided for in these financial statements.

NOTES



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