



Promoting Integrity in  
Jamaica's Financial Sector

# annual report 2012-2013



## VISION:

To be an impartial, credible and relevant regulator, effectively engaging stakeholders to support a robust financial services sector

## MISSION:

To regulate and supervise the securities, insurance and pensions industries for the protection of their users thereby enhancing public confidence through the efforts of a competent workforce

## CORE VALUES:

|                 |            |
|-----------------|------------|
| FAIRNESS        | EXCELLENCE |
| ACCOUNTABILITY  | INTEGRITY  |
| CONFIDENTIALITY | TEAMWORK   |
| COMMUNICATION   |            |

## STATUTORY DUTIES:

For the purpose of protecting customers of financial services, the Financial Services Commission is mandated, by Section 6 of the Financial Services Commission Act, to discharge the following duties:

- Supervise and regulate prescribed financial institutions;
- Promote the adoption of procedures designed to control and manage risk, for use by the management, boards of directors and trustees of such institutions;
- Promote stability and public confidence in the operations of such institutions;
- Promote public understanding of the operation of prescribed financial institutions;
- Promote the modernization of financial services with a view to the adoption and maintenance of international standards of competence, efficiency and competitiveness.

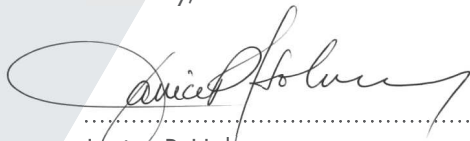
July 31, 2013

Dr The Honourable Peter Phillips M.P.  
Minister of Finance and Planning  
Ministry of Finance and Planning  
30 National Heroes Circle  
Kingston 4

Dear Minister:

In accordance with Section 13(1) of the Financial Services Commission Act, 2001, I have the honour to submit to you the Annual Report of the Financial Services Commission for the Financial Year 2012/2013 and a copy of the Commission's Financial Statements for the year ended March 31, 2013, duly certified by its Auditors.

Sincerely,

A handwritten signature in black ink, appearing to read 'Janice Holness', written over a horizontal dotted line.

Janice P. Holness  
Executive Director

# Table of Contents

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|                                       |    |
|---------------------------------------|----|
| Abbreviation.....                     | 3  |
| Message from the Chairman.....        | 4  |
| Executive Director's Message.....     | 5  |
| Board of Commissioners.....           | 6  |
| Executive Management.....             | 7  |
| Corporate Governance .....            | 8  |
| Strategic Objectives.....             | 9  |
| Insurance, Securities & Pensions..... | 9  |
| Regulatory Activities.....            | 19 |
| Investigations & Enforcement.....     | 23 |
| Review Of Financial Performance ..... | 28 |
| Executive Compensation.....           | 31 |
| Appendix A .....                      | 32 |
| Appendix B .....                      | 37 |
| Appendix C.....                       | 38 |
| Financial Statements.....             | 39 |

# ABBREVIATIONS

|                   |  |       |   |
|-------------------|--|-------|---|
| AHAC              | American Home Assurance Company                                    | I&E   | Investigation and Enforcement Division                |
| AML/CFT           | Anti-Money Laundering/Combating the Financing of Terrorism         | IFRS  | International Financial Reporting Standards           |
| Black Sand        | Black Sand Acquisition Inc   | IMF   | International Monetary Fund                           |
| BOJ               | Bank of Jamaica  | INFE  | International Network on Financial Education          |
| CAR               | Capital to Risk Weighted Assets Ratio                              | IOSCO | International Organization of Securities Commissions  |
| CD                | Certificates of Deposit  | JSE   | Jamaica Stock Exchange                                |
| CFTC              | Commodities Futures and Trades Commission                          | LdM   | Lascelles De Mercado & Company Limited                |
| CIS               | Collective Investment Scheme                                       | LRS   | Local Registered Stocks                               |
| COK               | COK Sodality Co-operative Credit Union Limited                     | MCCSR | Minimum Continuing Capital and Surplus Requirement    |
| DB                | Defined Benefit  | MCT   | Minimum Capital Test                                  |
| DC                | Defined Contribution   | MMOU  | Multilateral Memorandum of Understanding              |
| EEF               | Extended Fund Facility   | MOFP  | Ministry of Finance and Planning                      |
| FATCA             | Foreign Account Tax Compliance Act                                 | NDX   | National Debt Exchange                                |
| FFK               | Fraser Fontaine and Kong   | NII   | Net Investment Income                                 |
| FSC               | Financial Services Commission                                      | NPI   | Net Premium Income                                    |
| FUM               | Funds Under Management   | OECD  | Organization for Economic Cooperation and Development |
| FX GOJ securities | Foreign Currency Denominated Government of Jamaica Debt Securities | TOM   | Securities (Take-Overs and Mergers) Regulations       |
| GDP               | Gross Domestic Product   | UFO   | Unlawful Financial Organizations                      |
| GOJ               | Government of Jamaica  | US    | United States   |
| GPW               | Gross Premium Written  | USD   | United States Dollars                                 |

# Message from the Chairman

The 2012-2013 Fiscal-Year was an eventful and challenging year. Jamaicans celebrated fifty years of political independence at a time when the record breaking performance of Jamaican athletes at the London Olympics bolstered our national pride. Our celebrations provided some relief from our efforts to come to terms with and reverse our significant burden of public debt. An essential component of the Government of Jamaica's reform programme is an Extended Fund Facility (EFF) with the International Monetary Fund (IMF), the protracted negotiation which was concluded in the final quarter of 2012-13 with IMF Board approval in the first quarter of 2013-14.

As a prior condition for the EFF, the Government of Jamaica conducted the National Debt Exchange (NDX), where the holders of selected local bonds in Jamaican and United States (US) currencies exchanged their bonds for new benchmark bonds with the same principal amount, but in most cases, with a longer maturity and lower coupon. In addition to progressively raising the rate of growth in real gross domestic product (GDP) and per capita income, the programme also aims to restore hope, expand economic opportunities and protect the vulnerable. In this context, the Financial Services Commission (FSC) worked with other regulators to facilitate and maintain the stability of the domestic financial system.

The generation of stronger economic growth is necessary for the restoration of public debt sustainability and the operations of the FSC are fully aligned with this imperative for growth. This alignment includes the continuing commitment to enhance the regulatory and supervisory framework for the non-deposit taking financial sector; continue to promote financial stability and market confidence; and the expansion of economic opportunities. To this end, the FSC in 2013-2014 will intensify its efforts to achieve, among others, the following:

- Finalization of the proposed legislative amendments to the Securities Act in order to:
  - i. Combat the establishment and proliferation of unlawful financial organizations, (UFOs);
  - ii. Meet the requirements to become a signatory to the International Organization of Securities Commissions (IOSCO) Multilateral Memorandum of Understanding (MMOU);
  - iii. Establish a comprehensive legal framework for the regulation of Collective Investment Schemes (CIS); and
  - iv. Implement measures to enhance the Prudential Regulation of the Securities Industry;



- Completion of the review of the proposed amendments to the Pensions (Superannuation Funds and Retirement Schemes) Act (the Pensions Act) and attendant Regulations in order to have Phase II of the Pension Reforms implemented;
- Execution of the necessary steps through the Ministry of Finance and Planning (MOFP) to amend the Insurance Act and attendant regulations to have insurance companies implement stress testing and asset liability management, having concluded discussions with both life and general (non-life) insurance companies;
- Participation and active contribution in public and private partnership committees to establish, among others, the Jamaica's International Finance Services Centre and Jamaica's Venture Capital Programme; and
- Continuation of the FSC's public education campaign as a means of empowering stakeholders and protecting users of financial services.

On behalf of the Board of Commissioners, I warmly welcome the Executive Director, Ms Janice P. Holness, who brings to the position, extensive and very relevant skills and experience which will help the FSC to be a strong, credible, impartial and effective regulator. I thank my fellow directors, the management and the staff for their dedication, professionalism and diligence in performing their duties. To our many licensees and registrants, the customers of financial institutions 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. We look forward to our continuing collaboration in Jamaica's national interest.

Colin Bullock  
Chairman

# Executive Director's Message

I am pleased to present the Annual Report and Financial Statements of the Financial Services Commission (FSC) for the year ended March 31, 2013. Since my tenure began just nineteen (19) days before the end of the fiscal year, I want to thank the FSC's management and staff for their work during the past fiscal year. I also want to take a moment to thank the FSC's Board of Commissioners for the opportunity they extended to me to lead the FSC. It is indeed a privilege.

We are faced with many challenges at this time, given the impact of the global regulatory shifts. However, this evolving environment creates the opportunity to bring about meaningful changes within our market by partnering with all stakeholders. Most importantly throughout these changes, the FSC maintained its singular focus of providing enhanced regulation and supervision of financial services in the areas of insurance, securities and pensions.

The FSC's enhanced regulation and supervision of financial services has improved in quality and resulted in a more efficient and effective regulatory environment. Empirical data show that the quality of regulation is one of the contributing factors to a competitive, dynamic and sound financial market. An improved financial market is one of the pathways to facilitate stability, investments, economic growth and development, thereby restoring hope and generating further economic opportunities for our citizens. These factors are critical to achieving Vision 2030 Jamaica, and the FSC is fully committed to providing the support necessary.

Under my leadership in the 2013-2014 fiscal year, the FSC will intensify its efforts and focus on achieving the following broad objectives:

- Effective legislation governing the insurance, pensions and securities industries;
- Increased compliance by licensees and registrants;
- Swift and appropriate enforcement actions where violations are detected or reported;
- Viable financial institutions and a stable financial sector;
- High standards of disclosure by licensees and registrants;
- Extensive financial education to empower Jamaicans to make sound financial decisions;
- Significantly increasing the level of public understanding, trust and confidence in the non-deposit taking financial services sector;
- Effective collaboration with the supervised industries to ensure



awareness of, and preparedness to implement significant regulatory changes due to international requirements for revision to regulatory standards; and

- Productive, cooperative and collaborative relationships with all stakeholders including the government; local, regional and international inter-governmental agencies; international standard setting bodies; and the media.

However, none of this is possible without a dedicated staff with the capacity to operate at levels which mirror or surpass international standards. In this regard, the FSC's employees have, and will continue to benefit from exposure to cutting edge techniques. This commitment is in line with our newly minted mission: "To regulate and supervise the securities, insurance and pensions industries for the protection of their users, thereby enhancing public confidence through the efforts of a competent workforce."

I look forward to a very productive year working with all stakeholders.



Janice P. Holness  
Executive Director



# Board of Commissioners



**Mr Colin Bullock**  
Chairman



**Ms. Janice P. Holness**  
Executive Director



**Hon. Mr. Justice Karl  
Harrison (Ret'd)**



**Mr Winston Hayden**



**Mrs Diahann  
Gordon-Harrison**



**Mr Erwin Jones**



**Mrs Donna  
Scott-Mottley**



**Mr Michael Vacciana**



# Executive Management



**Sitting (L-R):**

**Loretta Reid-Pitt**  
General Counsel

**Janice P. Holness**  
Executive Director

**Leon Anderson**  
Deputy Executive Director

**Standing (L-R):**

**Lorice Edwards-Brown**  
Director, Investigation & Enforcement

**Rosemarie Henry**  
Senior Director, Insurance

**Nicolette Jenez**  
Senior Director, Pensions

**Sonia Nicholson**  
Senior Director, Securities

**Angela Beckford**  
Chief Actuary

**Janet Johnson-Haughton**  
Senior Director,  
Compliance & Internal Control

**Shelia Martin**  
Senior Director, Corporate Services

# Corporate Governance

The FSC is governed by a Board of Commissioners consisting of a Chairman, the Executive Director (ex officio) and up to eight (8) other members. Each Commissioner, with the exception of the Executive Director, is appointed by the Minister of Finance and Planning for a term of up to five years and may be reappointed to serve additional terms. The Board of Commissioners appoints the Executive Director and has the basic functions of providing operational oversight to the FSC in making policy and supervisory decisions as it relates to the regulation and supervision of the insurance, securities and private pensions industries.

In order to ensure the appropriate depth of review of all matters within the Board's purview, five (5) Board Committees – Securities, Insurance, Pensions, the Human Resources and Administration, and Finance and Audit Committee - were originally established in 2001. However in the 2012-2013 fiscal year, the decision was taken to separate the Finance and Audit Committee into two committees; namely the Board Finance Committee and the Board Audit Committee. Three of these six committees – namely the Securities, Insurance and Pensions Committees -

provide oversight and guidance with respect to supervision and regulation of the respective industries. The Human Resources and Administration Committee has the responsibility to consider, recommend and report on all matters relating to staff, including salaries and benefits, personnel policies and procedures, management information systems, procurement, contracts, accommodation and other administrative issues.

The objective of the Finance Committee is to consider, recommend and report on all matters relating to the financial affairs of the FSC including the monthly and annual financial statements and the yearly budget. This Committee also reviews and recommends the fee structure for the regulatory services provided by the FSC. Last, but not least, is the Audit Committee whose objective is to oversee the organization's audit process, internal controls, processes and procedures.

The members of each committee and the number of meetings held by the committees are shown in Tables 1 and 2 respectively. Tables 42 and 43 on page 31 provide information on the remuneration paid to Commissioners and the Executive Management Team.

**Table 1: Composition of the Board Committees, 2012-2013**

| Commissioners                           | Finance | Audit | Human Resources & Administration Committee | Pensions | Insurance | Securities |
|---|---------|-------|--|----------|-----------|------------|
| Mr Colin Bullock                        | *       | *     | Chair                                      |          |           |            |
| Ms Janice P. Holness                    | *       | *     | *  | *        | *         | *          |
| Mr Michael Vacciana                     | *       | *     |  |          | Chair     | *          |
| Mrs Donna Scott-Mottley                 |         |       |  | *        | *         |            |
| Hon. Mr Justice Karl Harrison (Retired) |         |       |  | Chair    |           | *          |
| Mr Winston Hayden                       | Chair   | Chair |  |          | *         |            |
| Mr Erwin Jones                          |         |       | *  | *        |           |            |
| Mrs Diahann Gordon-Harrison             |         |       | *  |          |           | Chair      |

**Table 2: Number of Board and Committee Meetings Held in 2012/2013<sup>1</sup>**

| Committee  | # of Meetings | Committee                        | # of Meetings |
|------------|---------------|----------------------------------|---------------|
| Full Board | 12            | Human Resources & Administration | 4             |
| Securities | 7             | Finance & Audit                  | 3             |
| Insurance  | 5             | Finance                          | 2             |
| Pensions   | 7             | Audit                            | 2             |

<sup>1</sup> The Commissioners deemed it appropriate that the Board Finance and Audit Committees be separated into two (2) distinct committees, namely – the Board Finance Committee and the Board Audit Committee.

# Strategic Objectives

The FSC developed corporate strategic objectives for the next three years which when achieved, will enable the FSC to more effectively perform the duties in accordance with its mandate as outlined in the Financial Services Commission Act. In developing its three year strategic objectives, the FSC took into account the overall vision of the Government of Jamaica as outlined in "Vision 2030 Jamaica" as well as the relevant strategic objectives outlined in the Corporate Plan of the Ministry of Finance and Planning. The strategic objectives were developed from four different perspectives:

1. **Stakeholders.** Strategic priorities were identified in order to create value from the perspective of the stakeholders (internal and external). Stakeholders include, but are not limited to, users of financial services in the areas of insurance, securities and pensions; licensees; registrants; and the Ministry of Finance and Planning. The objectives include:
  - Propose legislative amendments in order to improve the regulatory environment to enhance the stability of the financial sector while facilitating innovation and growth;
  - Educate stakeholders by hosting seminars, workshops and public forums as well as to continue the financial education programme in schools and to issue public advisories; and
  - Improve the FSC's responsiveness to internal and external customers by meeting service standards and the Citizen's Charter
2. **Financial Stewardship.** The aim is to remain financially stable (that is, self-financing) and prudent in managing our financial resources.
3. **Internal Business Processes.** The focus is to implement significant improvement in the various systems, policies and procedures in the FSC in order to achieve and improve customer satisfaction and internal efficiency. The objectives linked to this strategy are:
  - The development and enhancement of operating policies and procedures for all business processes including service standards;
  - The finalization and implementation of recommendations to enhance enforcement process flow which will result in more timely decision-making with respect to market conduct violations and other breaches; and
  - Improvement in internal and external communication.
4. **Build Organizational Capacity.** This is intended to create an environment that supports positive organizational change, innovation and growth. The main objectives are:
  - Provision of a supportive infrastructure – facilities,
  - Acquisition and improved utilization of technology; and
  - Optimizing human capital by improving technical capacity and developing and implementing a succession plan.

## Insurance, Securities & Pensions<sup>2</sup>

In addition to the weak global and local economic environments, influenced by low business confidence, there were adverse weather conditions, such as Hurricane Sandy and a prolonged drought, which adversely affected agricultural productivity. Consequently, Gross Domestic

Product (GDP) in 2012 was 0.3 per cent less than the real GDP generated in 2011. Table 3 depicts the trend in selected key macroeconomic indicators for Jamaica.

**Table 3: Selected Key Macroeconomic Indicators for Jamaica, calendar years 2008-2012**

| Selected Macroeconomic Indicators                   | 31-Dec-08 | 31-Dec-09 | 31-Dec-10 | 31-Dec-11 | 31-Dec-12 |
|---|-----------|-----------|-----------|-----------|-----------|
| Inflation (%)                                       | 16.8      | 10.2      | 11.7      | 6.0       | 8.0       |
| T-Bill Yield (6 mths, end of period) (%)            | 24.5      | 16.8      | 7.5       | 6.5       | 7.2       |
| JSE Market Index (points)                           | 80,152    | 83,322    | 85,221    | 92,597    | 92,101    |
| JSE Junior Market Index (points)                    | -         | 150       | 379.9     | 748.9     | 647.8     |
| Mean Unemployment Rate (%)                          | 10.6      | 11.4      | 12.4      | 14.1      | 14.1      |
| Exchange Rate (JMD vs. USD, monthly average)        | 76.6      | 89.6      | 85.9      | 86.75     | 92.65     |
| Net Remittance (US\$'M) (end of period)             | 1,708.10  | 1,554.50  | 1,658.10  | 1,757.00  | 1,770.60  |
| Net International Reserves (US\$'M) (end of period) | 1,772.90  | 1,736.40  | 2,171.40  | 1,966.11  | 1,126.58  |

<sup>2</sup> This section of the Annual Report examines the financial condition and performance of the three regulated industries – insurance, securities and pensions - during the calendar year 2012. The data and analysis in this section is based on provisional and unaudited data unless indicated otherwise by the superscript "A" in the tables.

Aggregate total assets of the regulated Jamaican financial sectors, as seen in Table 4, continue to grow. The total assets of the FSC-regulated institutions<sup>3</sup> grew nominally by four (4) per cent over 2011.

**Table 4: Total Assets by Type of Financial Institution, December 2010 - 2012**

| Types of Financial Institution      | Dec-10              |                                      | Dec-11              |                                      | Dec-12              |                                      |
|-------------------------------------|---------------------|--------------------------------------|---------------------|--------------------------------------|---------------------|--------------------------------------|
|                                     | Assets (\$ Billion) | Percentage of Total Financial System | Assets (\$ Billion) | Percentage of Total Financial System | Assets (\$ Billion) | Percentage of Total Financial System |
| <b>FSC-Regulated Institutions</b>   |                     |                                      |                     |                                      |                     |                                      |
| Life Insurers                       | 174.8               | 11.3                                 | 191.4               | 11.8                                 | 207.2               | 12                                   |
| General Insurers                    | 47.9                | 3.1                                  | 50.1                | 3.1                                  | 54.2                | 3.1                                  |
| Securities Firms                    | 489.4               | 31.5                                 | 502.7               | 31.1                                 | 512.5               | 29.7                                 |
| Sub-Total                           | 712.1               | 45.8                                 | 744.2               | 46                                   | 773.9               | 44.8                                 |
| <b>Deposit-Taking Institutions:</b> |                     |                                      |                     |                                      |                     |                                      |
| Banks                               | 589.7               | 38                                   | 601                 | 37.2                                 | 659.8               | 38.2                                 |
| Building Societies                  | 167.8               | 10.8                                 | 185.4               | 11.5                                 | 201.4               | 11.7                                 |
| Merchant Banks                      | 23                  | 1.5                                  | 20                  | 1.2                                  | 21.3                | 1.2                                  |
| Credit Unions                       | 60.8                | 3.9                                  | 66.8                | 4.1                                  | 69.7                | 4                                    |
| Sub-Total                           | 841.3               | 54.2                                 | 873.1               | 54                                   | 952.2               | 55.2                                 |
| <b>TOTAL</b>                        | <b>1,553.40</b>     | <b>100</b>                           | <b>1,617.30</b>     | <b>100</b>                           | <b>1,726.10</b>     | <b>100</b>                           |

## General Insurance Companies

Chartis Jamaica Insurance Company Limited (Chartis) was registered in October 2012. Subsequently, American Home Assurance Company (AHAC) entered into a scheme of arrangement to transfer its general insurance portfolio in Jamaica to Chartis effective December 1, 2012.<sup>4</sup> AHAC, since then, has not conducted insurance business. Therefore, while there were eleven registered general insurance companies at the end of 2012, only 10 were actively conducting insurance business.

In 2012, general insurers employed approximately 1,127 employees (2011: 1,185) and wrote 322,170 policies (2011: 355,262). Accumulated sum insured totalled nearly \$1,809 billion (2011: \$2,131 billion). Table 5 shows the number of policies by class, while Table 6 exhibits the gross premium written<sup>5</sup> (GPW) by class of business and Table 7 displays the GPW by each company. Table 8 illustrates the trend in key balance-sheet indicators for these active companies.

**Table 5: Number of Policies by Class of Business**

| Class of Business           | 2010 <sup>A</sup>        | 2011 <sup>A</sup> | 2012 <sup>A</sup> |
|-----------------------------|--------------------------|-------------------|-------------------|
|                             | No. of Policies by Class |                   |                   |
| Liability                   | 6,634                    | 6,977             | 6,327             |
| Property                    | 43,108                   | 47,966            | 46,907            |
| Motor                       | 264,143                  | 271,637           | 261,289           |
| Pecuniary Loss              | 6,932                    | 6,739             | 5,854             |
| Marine Aviation & Transport | 276                      | 269               | 218               |
| Accident                    | 1,792                    | 1,674             | 1,575             |
| <b>Total</b>                | <b>322,885</b>           | <b>335,262</b>    | <b>322,170</b>    |

<sup>3</sup> In table 4, 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 pensions; and (b) deposit-taking institutions, which comprise commercial banks, building societies, merchant banks and credit unions. The 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: individuals licensed as securities dealers, insurance brokers (including, facultative and reinsurance brokers), insurance agents, insurance consultants, insurance loss adjusters, pension fund trustees and pension fund administrators. In table 4, the assets shown are balance sheet figures as reported at the end of the calendar year and do not include pension fund assets. Pension fund assets are a part of the funds under management of licensed securities dealers shown in Table 21. Securities licensees are characterized as "securities firms" and "non-securities firms". The former group is comprised of licensed securities dealers that engage in securities dealing as a principal activity while the latter group is made up of securities licensees that do not deal in securities as a principal activity, but which are, nevertheless, required to obtain a securities dealer's licence in order to conduct some aspects of their business. Securities firms are defined to include unit trust managers. 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. The total asset figures for credit unions are preliminary. Source: Data compiled by Bank of Jamaica, Jamaica Co-operative Credit Union League and the FSC.

<sup>4</sup> Chartis Jamaica Insurance Company Limited is a subsidiary of American International Group, Inc. (AIG) while AHAC is a branch of AIG. Therefore, AIG will cease to do business through a branch in Jamaica and will now operate through a subsidiary company.

<sup>5</sup> Gross Premium Written (GPW) is the sum of gross direct premiums written and premiums on reinsurance assumed.

**Table 6: GPW by Class of Business, 2010-2012**

| Class of Business           | 2010 <sup>A</sup> | 2011 <sup>A</sup> | 2012 <sup>A</sup> |
|-----------------------------|-------------------|-------------------|-------------------|
|                             | \$' Millions      |                   |                   |
| Liability                   | 971.5             | 1,114.9           | 1,232.4           |
| Property                    | 12,389.4          | 12,709.6          | 14,043.7          |
| Motor                       | 12,075.2          | 13,246.4          | 14,052.1          |
| Pecuniary Loss              | 188.4             | 184.6             | 185.8             |
| Marine Aviation & Transport | 314.8             | 333.3             | 313.9             |
| Accident                    | 163.9             | 168.3             | 172.2             |
| <b>Total</b>                | <b>26,103.2</b>   | <b>27,757.0</b>   | <b>30,000.3</b>   |

**Table 7: Gross Premiums Written by Company, December 2010 – 2012**

| Name of Insurance Company                  | Gross Premium Written (\$ ' M) |                   |                   |
|--|--------------------------------|-------------------|-------------------|
|  | 2010 <sup>A</sup>              | 2011 <sup>A</sup> | 2012 <sup>A</sup> |
| Advantage General Insurance Company        | 4,940.9                        | 4,762.5           | 4,794.0           |
| American Home Assurance Company            | 1,318.5                        | 1,410.8           | -                 |
| British Caribbean Insurance Company        | 2,654.5                        | 2,738.5           | 3,239.2           |
| Chartis Jamaica Insurance Company          | -                              | -                 | 1,798.4           |
| General Accident Insurance Company         | 2,203.1                        | 3,626.4           | 3,789.8           |
| Globe Insurance Company of the West Indies | 2,555.0                        | 2,448.5           | 2,346.7           |
| The Insurance Company of the West Indies   | 2,110.5                        | 2,541.7           | 2,863.6           |
| Jamaica International Insurance Company    | 4,377.6                        | 3,777.6           | 4,180.5           |
| JN General Insurance Company               | 2,946.1                        | 2,763.9           | 2,968.2           |
| Key Insurance Company                      | 575.1                          | 673.2             | 710.8             |
| West Indies Alliance Insurance Company     | 2,421.7                        | 3,101.8           | 3,310.1           |
| <b>Total</b>                               | <b>26,103.2</b>                | <b>27,844.9</b>   | <b>30,000.3</b>   |

**Table 8: Selected Key Indicators for General Insurance Companies, 2010 – 2012<sup>6</sup>**

| Selected Indicators   | 2010 <sup>A</sup> | 2011 <sup>A</sup> | 2012 <sup>A</sup> |
|-----------------------|-------------------|-------------------|-------------------|
|                       | \$' Billions      |                   |                   |
| Total Assets          | 47.9              | 50.1              | 54.2              |
| Investment Assets     | 32.5              | 34.4              | 37.1              |
| Insurance Liabilities | 27.0              | 28.2              | 31.3              |
| Total Liabilities     | 29.7              | 31.7              | 35.2              |
| Capital Base          | 16.2              | 18.2              | 18.7              |

Table 9 displays the main categories of revenue and expense for the general insurance companies. As indicated in Table 9, of the three income categories – namely, net premium income (NPI), other income and net investment income (NII) - only NPI and other income showed growth in 2012. Aggregate NPI rose from roughly \$13 billion to approximately \$14 billion in 2012. Other income for the industry grew by 25 per cent to \$497 million, driven mainly by substantial foreign exchange gains as the Jamaican dollar depreciated against its US counterpart. Combined NII was 39 per cent less than the amount earned in 2011 which was comprised of \$1.4 billion earned from disposal of assets. Consequently, aggregate total revenue declined by 3 per cent to \$16.7 billion (2011: \$17.2 billion).

**Table 9: Combined Summary of Operations, 2010-2012**

| Main Income & Expense Categories  | 2010 <sup>A</sup> | 2011 <sup>A</sup> | 2012 <sup>A</sup> |
|-----------------------------------|-------------------|-------------------|-------------------|
|                                   | \$' Millions      |                   |                   |
| Underwriting Income (NPI)         | 12,220.0          | 12,982.5          | 13,977.1          |
| Less Underwriting Expenses        | 12,920.8          | 12,207.2          | 13,325.3          |
| of which                          |                   |                   |                   |
| Acquisition Expenses              | (297)             | (678.9)           | (778.9)           |
| Operating Expenses                | 5,134.7           | 5,749.5           | 6,197.1           |
| Claims                            | 8,169.9           | 7,146.5           | 7,940.8           |
| Other                             | (86.8)            | (9.9)             | (33.6)            |
| <b>Underwriting Profit/(Loss)</b> | <b>(700.8)</b>    | <b>775.3</b>      | <b>651.6</b>      |
| Plus Net Investment Income        | 2,774.9           | 3,883.4           | 2,366.9           |
| Plus Other Income                 | (22.8)            | 319.3             | 497.0             |
| Profit before Taxes               | 2,051.3           | 4,978.0           | 3,515.5           |
| Less Taxes                        | 691.1             | 1,193.4           | 988.7             |
| <b>Net Profit after Taxes</b>     | <b>1,360.2</b>    | <b>3,784.6</b>    | <b>2,526.8</b>    |

<sup>6</sup> The capital base shown in this table includes capital, retained earnings, investment and capital reserves. The capital displayed in the above table is the statutory or regulatory capital. It excludes certain forms of capital. As a result, capital base plus total liabilities will not be equal to total assets

By generating underwriting income; that is, profits from their core business, the general insurance companies continue to reap positive results from improvements in their underwriting strategy and practices. Table 10 shows aggregate claims by class of business while Table 11 exhibits the claims ratios for the industry by the class of business.

**Table 10: Aggregate Claims by Class of Business, 2010-2012**

| Class of Business           | 2010 <sup>A</sup> | 2011 <sup>A</sup> | 2012 <sup>A</sup> |
|-----------------------------|-------------------|-------------------|-------------------|
|                             | \$' Millions      |                   |                   |
| Liability                   | 320.6             | 674.3             | 581.9             |
| Property                    | 149.5             | 173.6             | 223.1             |
| Motor                       | 7,656.4           | 6,235.3           | 7,075.4           |
| Pecuniary Loss              | 21.1              | 35.6              | 16.3              |
| Marine Aviation & Transport | 12.6              | 8.3               | 28.0              |
| Accident                    | 9.6               | 19.4              | 16.2              |
| Total                       | 8,169.9           | 7,146.5           | 7,940.8           |

**Table 11: Industry's Claims Ratios by Class of Business, 2010-2012**

| Class of Business           | 2010 <sup>A</sup> | 2011 <sup>A</sup> | 2012 <sup>A</sup> |
|-----------------------------|-------------------|-------------------|-------------------|
|                             | Percentage        |                   |                   |
| Liability                   | 47.1              | 96.1              | 74.1              |
| Property                    | 19.3              | 44.3              | 33.6              |
| Motor                       | 72.4              | 54.2              | 57.8              |
| Pecuniary Loss              | 22.8              | 40.4              | 22.2              |
| Marine Aviation & Transport | 13.5              | 8.2               | 26.8              |
| Accident                    | (185.0)           | 9.9               | 15.3              |
| Industry's Claims Ratios    | 66.9              | 55.1              | 56.8              |

## Capital

Despite a number of general insurance companies making dividend distributions of about \$902.3 million in 2012 (2011: \$3.1 billion), the capital base of the active insurance companies remained fairly constant, as in 2011. See Table 8. The weighted average Minimum Capital Test (MCT)<sup>7</sup> ratio for these companies at the end of 2012 was 290.8 per cent (2011: 313.2 per cent), which exceeded the prescribed capital required of 225 per cent. In addition to the industry's MCT weighted average surpassing the prescribed capital requirement, each company's MCT score was above the 225 per cent standard.

<sup>7</sup> In assessing the adequacy of capital in relation to liabilities for general insurance companies, the FSC relies on the MCT. The MCT, a risk based solvency test, assesses the riskiness of assets and policy liabilities and compares capital available to capital required

2012 marked the first year that the MCT calculations included a risk factor of 10 per cent allocated to the Government of Jamaica (GOJ) securities denominated in foreign currency. This is pursuant to the agreement, effective June 30, 2010, between the GOJ and the IMF, that all GOJ instruments, denominated in foreign currency should be 100% risk-weighted<sup>8</sup> and this had to be achieved over eight quarters.

## Life Insurance Companies

While there were only five (5) active life insurers at the end of the calendar year 2012, there were six (6) registered life insurers as, JN Life Insurance Company Limited, registered in 2011, was not yet actively placing business in the market place. At the end of the year, there were 1,902 employees at the five active companies (2011: 1,893). Table 12 displays some key balance-sheet indicators. Table 13 shows the GPW by each company while Table 14 exhibits the GPW by class of business.

**Table 12: Selected Key Indicators<sup>9</sup> for the Life Insurance Companies, 2010 - 2012**

| Selected Indicators   | 2010 <sup>A</sup> | 2011 <sup>A</sup> | 2012 <sup>A</sup> |
|-----------------------|-------------------|-------------------|-------------------|
|                       | \$' Billions      |                   |                   |
| Total Assets          | 175.8             | 191.4             | 207.2             |
| Investment Assets     | 150.2             | 161.6             | 170.7             |
| Insurance Liabilities | 35.2              | 54.2              | 48.5              |
| Total Liabilities     | 121.9             | 137.2             | 148.9             |
| Capital Base          | 53.5              | 54.2              | 58.4              |

**Table 13: GPW, 2010 – 2012**

| Name of Insurance Company           | Gross Premium Written (\$ ' Billions) |                   |                   |
|-------------------------------------|---------------------------------------|-------------------|-------------------|
|                                     | 2010 <sup>A</sup>                     | 2011 <sup>A</sup> | 2012 <sup>A</sup> |
| CMFG Life Insurance Company Limited | 1.1                                   | 1.2               | 1.3               |
| Guardian Life Insurance Company     | 7.5                                   | 7.5               | 8.9               |
| NCB Insurance Company               | 1.3                                   | 2.5               | 1.7               |
| Sagicor Life Insurance Company      | 15.3                                  | 17.9              | 18.8              |
| Scotia Life Insurance Company       | 1.1                                   | 1.4               | 1.7               |
| Total GPW                           | 26.3                                  | 30.5              | 32.4              |

<sup>8</sup> A risk-weight of 100% is equivalent to a risk factor of 10%.

<sup>9</sup> The capital base shown in this table includes capital, retained earnings, investment and capital reserves. The capital displayed in the above table is the statutory or regulatory capital. It excludes certain forms of capital. As a result, capital base plus total liabilities will not be equal to total assets.



**Table 14: GPW by Class of Business, 2010-2012**

| Line of Business  | 2010 <sup>A</sup> | 2011 <sup>A</sup> | 2012 <sup>A</sup> |
|-------------------|-------------------|-------------------|-------------------|
|                   | \$' Billions      |                   |                   |
| Life Insurance    | 14.2              | 16.0              | 17.9              |
| Annuity           | 3.3               | 5.5               | 4.6               |
| Sickness & Health | 8.7               | 9.0               | 9.9               |
| <b>Total</b>      | <b>26.3</b>       | <b>30.5</b>       | <b>32.4</b>       |

## Profitability

Table 15 shows the main categories of revenue and expenses for the life insurance industry. Collectively, the life insurance companies generated 12 per cent and 10 per cent growth in the (i) life insurance and (ii) sickness and health lines of business, respectively. Aggregate NII in 2012 remained unchanged as in 2011. Aggregate net income after tax in 2012 was 2 per cent less than 2011. See Table 15.

**Table 15: Combined Summary of Operations, 2010-2012**

| Main Income & Expense Categories | 2010 <sup>A</sup> | 2011 <sup>A</sup> | 2012 <sup>A</sup> |
|----------------------------------|-------------------|-------------------|-------------------|
|                                  | \$' Millions      |                   |                   |
| Total Revenue                    | 44,779.6          | 48,431.0          | 50,871.6          |
| of which                         |                   |                   |                   |
| NPI                              | 25,752.2          | 30,028.7          | 31,774.5          |
| Net Investment Income            | 16,755.1          | 15,792.4          | 15,665.2          |
| Other Income                     | 2,272.3           | 2,609.9           | 3,432.0           |
| <b>Total Expenses</b>            | <b>35,136.1</b>   | <b>37,440.7</b>   | <b>40,127.5</b>   |
| of which                         |                   |                   |                   |
| Taxes                            | 743.3             | 621.3             | 1,002.2           |
| Operating Expenses               | 21,722.6          | 22,745.4          | 23,255.8          |
| Policy Benefits                  | 12,670.2          | 14,074.0          | 15,869.4          |
| <b>After-tax Income</b>          | <b>9,643.5</b>    | <b>10,990.3</b>   | <b>10,744.1</b>   |

**Table 16: Aggregate Policy Benefits, 2010-2012**

| Policy Benefits              | 2010 <sup>A</sup> | 2011 <sup>A</sup> | 2012 <sup>A</sup> |
|------------------------------|-------------------|-------------------|-------------------|
|                              | \$' Millions      |                   |                   |
| Claims:                      | 9,190.5           | 10,019.6          | 10,795.6          |
| of which:                    |                   |                   |                   |
| Sickness & Health            | 6,363.9           | 7,151.0           | 7,678.4           |
| Death Claims                 | 2,732.9           | 2,775.0           | 3,010.5           |
| Disability Claims            | 19.1              | 16.6              | 16.1              |
| Matured Endowments           | 74.7              | 76.9              | 90.6              |
| Annuity Payments             | 1,990.3           | 2,462.2           | 3,271.3           |
| Surrender Values             | 1,106.4           | 1,133.2           | 1,305.6           |
| Other                        | 383.0             | 459.0             | 496.7             |
| <b>Total Policy Benefits</b> | <b>12,670.2</b>   | <b>14,074.0</b>   | <b>15,869.3</b>   |

## Capital

In 2012, the aggregate capital base grew by 8 per cent to \$58.4 billion, despite the distribution of dividends totalling \$6.8 billion (2011: \$14.9 billion). At the end of 2012, the weighted average Minimum Continuing Capital and Surplus Requirement (MCCSR) for the life insurance sector stood at 334 per cent. This amount is less than the weighted average MCCSR of 470.6 per cent recorded in 2011; however, the 334 per cent more than doubled the regulatory benchmark of 150 per cent. Similarly, to the general insurance companies, the MCCSR calculation for each life insurance company includes a risk factor of 10 per cent allocated to the GOJ securities denominated in foreign currency.

The weighted average MCCSR of 334 per cent for the industry comprises a few life insurance companies that specialise in products with huge investment component compared to relatively insignificant insurance risk component. Consequently, these products have low life insurance liabilities and hence, relatively low Required Capital. As a result, these companies have very high MCCSR ratios which skewed the industry weighted average to significantly higher than the 150 per cent benchmark. The other companies have typical life insurance products which carry much more life insurance liabilities. The weighted average MCCSR for these other life insurance companies at the end of 2012 was 167 per cent. (2011: 161 per cent) Each life insurance company's MCCSR score was above the 150 per cent benchmark.

## The Securities Industry

### Structure of the Industry

As at December 31, 2012, there were 47 firms licensed under the Securities Act (2001) (Securities Act) and Regulations. Table 18 shows the number of licensees by different types of companies.

As seen in Table 18, the term “securities firms” is used to describe securities dealers which are companies engaged in securities dealing as a principal activity (hence, core securities dealers) and as such would also include Unit Trust Management Companies. The non-securities firms are those companies that do not deal in securities as a principal activity, but are required to obtain a securities dealer’s licence in order to conduct some aspects of their business. Tables 19 - 21 provide information on the structure and performance of the securities industry in terms of assets, capital and funds under management (FUM).

**Table 18: Number of Securities Dealers Licensees by Type of Company, 2010-2011**

| Institution Type                      | 2010      | 2011      | 2012      |
|---------------------------------------|-----------|-----------|-----------|
| Securities Firms                      | 32        | 32        | 32        |
| Of which:                             |           |           |           |
| Core Securities Dealers <sup>10</sup> | 29        | 29        | 29        |
| Unit Trust Management Companies       | 3         | 3         | 3         |
| Non-Securities Firms                  | 15        | 14        | 15        |
| Of which:                             |           |           |           |
| Commercial Banks                      | 1         | 1         | 1         |
| Merchant Banks                        | 1         | 1         | 1         |
| Building Society                      | 1         | 1         | 1         |
| Insurance Companies                   | 3         | 3         | 4         |
| Others                                | 9         | 8         | 8         |
| <b>Total</b>                          | <b>47</b> | <b>46</b> | <b>47</b> |

**Table 19: Total Assets of the Securities Industry by Type of Securities Licensee, 2010-2012**

| Category of Securities Licensee | Total Assets |              |              |              |              |              |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                                 | 2010         |              | 2011         |              | 2012         |              |
|                                 | \$ Billions  | % of total   | \$ Billions  | % of total   | \$ Billions  | % of total   |
| Securities Firms                | 489.4        | 60.3         | 502.7        | 59.2         | 512.5        | 54.9         |
| Non-Securities Firms            | 322.1        | 39.7         | 346.0        | 40.8         | 421.2        | 45.1         |
| Of which:                       |              |              |              |              |              |              |
| Commercial Banks                | 45.0         | 5.5          | 46.5         | 5.5          | 41.6         | 4.5          |
| Merchant Banks                  | 23.1         | 2.8          | 20.3         | 2.4          | 20.1         | 2.2          |
| Building Society                | 89.9         | 11.1         | 94.8         | 11.2         | 108.6        | 11.6         |
| Insurance Companies             | 134.9        | 16.6         | 157.4        | 18.5         | 223.6        | 23.9         |
| Others                          | 29.2         | 3.6          | 27.0         | 3.2          | 27.3         | 2.9          |
| <b>Total</b>                    | <b>811.5</b> | <b>100.0</b> | <b>848.7</b> | <b>100.0</b> | <b>933.7</b> | <b>100.0</b> |

<sup>10</sup> One of the core securities dealers is also a unit trust management company

**Table 20: Total Capital of the Securities Industry by Type of Securities Licensee, 2010-2012**

| Category of Securities Licensee | Total Capital |              |              |              |              |              |
|---------------------------------|---------------|--------------|--------------|--------------|--------------|--------------|
|                                 | 2010          |              | 2011         |              | 2012         |              |
|                                 | \$ Billions   | % of total   | \$ Billions  | % of total   | \$ Billions  | % of total   |
| Securities Firms                | 62.5          | 48.3         | 69.3         | 48.4         | 69.7         | 44.0         |
| Non-Securities Firms            | 66.9          | 51.7         | 74.0         | 51.6         | 88.6         | 56.0         |
| Of which:                       |               |              |              |              |              |              |
| Commercial Banks                | 6.7           | 5.2          | 6.5          | 4.5          | 6.1          | 3.9          |
| Merchant Banks                  | 4.5           | 3.4          | 4.7          | 3.3          | 4.5          | 2.8          |
| Building Society                | 14.3          | 11.0         | 15.8         | 11.0         | 16.5         | 10.4         |
| Insurance Companies             | 35.4          | 27.4         | 43.0         | 30.0         | 57.2         | 36.1         |
| Others                          | 6.0           | 4.6          | 4.0          | 2.8          | 4.3          | 2.7          |
| <b>Total</b>                    | <b>129.4</b>  | <b>100.0</b> | <b>143.2</b> | <b>100.0</b> | <b>158.3</b> | <b>100.0</b> |

**Table 21: Total Funds Under Management of the Securities Industry by Type of Securities Licensee, 2010-2012**

| Category of Securities Licensee | Funds Under Management (FUM) |              |              |              |              |              |
|---------------------------------|------------------------------|--------------|--------------|--------------|--------------|--------------|
|                                 | 2010                         |              | 2011         |              | 2012         |              |
|                                 | \$ Billions                  | % of total   | \$ Billions  | % of total   | \$ Billions  | % of total   |
| Securities Firms                | 634.1                        | 79.9         | 653.3        | 78.4         | 691.0        | 78.5         |
| Non-Securities Firms            | 159.5                        | 20.1         | 179.7        | 21.6         | 188.9        | 21.5         |
| Of which:                       |                              |              |              |              |              |              |
| Commercial Banks                | 0.0                          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| Merchant Banks                  | 10.1                         | 1.3          | 8.9          | 1.1          | 7.9          | 0.9          |
| Building Society                | 0.0                          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| Insurance Companies             | 133.5                        | 16.8         | 150.7        | 18.1         | 156.4        | 17.8         |
| Others                          | 15.9                         | 2.0          | 20.1         | 2.4          | 24.5         | 2.8          |
| <b>Total</b>                    | <b>793.6</b>                 | <b>100.0</b> | <b>833.0</b> | <b>100.0</b> | <b>879.9</b> | <b>100.0</b> |

The profitability of the securities firms declined as net income before taxes was approximately \$12 billion, 20% less than the amount of \$15 billion generated in the 2011 calendar year. Albeit, at a slower rate, net interest income contracted by 4% to \$9.6 billion (2011: \$10 billion).

Table 22 summarizes selected prudential indicators for the securities firms for the review period. The sector remained adequately capitalized and robust. As indicated, there are adequate assets backing investments, as the low-risk assets to repo liabilities ratio remains above the FSC's minimum benchmark despite the weakened position.

During the year 2012, the credit risk weighting applied to foreign currency denominated Government of Jamaica debt securities (FX GOJ securities) was increased to 100 per cent. Similarly, the market risk implementation level was increased to 100 per cent to coincide with the credit risk weighting on the FX GOJ securities<sup>11</sup>. As a result of this change, the capital to risk weighted assets ratio (CAR) levels of securities dealers have generally trended downwards. However, at the end of the review period, the industry CAR average was 27 per cent as at December 31, 2012 - a four (4) percentage point decline from the industry CAR average of 31 per cent as at December 31, 2011.

<sup>11</sup> As of June 2011, all securities dealers are required to apply market risk related capital charges to all trading or available for sale assets appearing on their balance sheet, and apply credit risk related capital charges to all other balance sheet assets.

**Table 22: Selected Prudential Indicators for Securities Firms December 2010 - 20121**

|   | 2010  | 2011  | 2012  | FSC Benchmark |
|---|-------|-------|-------|---------------|
|   | %     |       |       |               |
| Capital Adequacy                          |       |       |       |               |
| Capital / Total Assets                    | 12.8  | 13.8  | 13.6  | ≥ 6           |
| Capital / Risk Weighted Assets            | 46.3  | 29.7  | 23.9  | ≥ 10          |
| Asset Quality                             |       |       |       |               |
| Low Credit Risk Assets / Repo Liabilities | 115.0 | 113.1 | 103.3 | ≥ 100         |
| Profitability                             |       |       |       |               |
| Return on Average Assets                  | 1.9   | 2.2   | 1.8   |               |
| Return on Average Equity                  | 16.3  | 16.2  | 13.8  |               |
| Net Interest Margin                       | 33.0  | 41.6  | 47.3  |               |
| Pre-Tax Profit Margin                     | 23.3  | 30.4  | 26.5  |               |

### Performance of Unit Trusts as at December 31, 2012

The Unit Trusts sector consists of nine (9) funds managed by four (4) fund managers, namely Barita Unit Trust Management Company, Scotia Asset Management (Jamaica) Limited, Sagcor Investments (formerly Pan Caribbean Financial Services) and JMMB Fund Managers (formerly Capital and Credit Fund Managers). The investment portfolios of Unit Trusts are comprised mainly of fixed income securities, equities and real estate.

As at December 31, 2012, total funds managed by Unit Trusts management companies stood at \$49.7 billion. This is a 55.1 per cent increase over the previous year's amount of \$32 billion. For the year ended 2012, Unit Trusts recorded net inflows of 10 billion units valued at \$15.5 billion. Outlined below in Table 23 is a summary of activities for the three-year period ended December 2012.

**Table 23: Summary of Unit Trust Funds under Management**

|   | Dec 2010 | Dec 2011 | Dec 2012 |
|---|----------|----------|----------|
| Total FUM (\$ Billions)   | 21.5     | 32.0     | 49.7     |
| <b>Activity during the year (In terms of Dollars) (\$ Billions)</b> |          |          |          |
| Value of Units Sold   | 7.6      | 12.3     | 22.6     |
| Value of Units Redeemed   | 2.5      | 4.7      | 7.0      |
| Net Inflow  | 5.1      | 7.6      | 15.5     |
| <b>Activity during the year (In terms of Units)</b>                 |          |          |          |
| Total Units Sold (millions)   | 352.2    | 857.5    | 10,350.1 |
| Total Units Redeemed (millions)                                     | 133.8    | 206.9    | 312.2    |
| Net Inflow (units) (millions)                                       | 218.4    | 650.6    | 10,037.8 |

### Mutual Funds

The Mutual Funds sub sector consists of 12 mutual funds available for sale in Jamaica. These mutual funds are managed by three (3) fund managers, namely CI Investments, Scotiabank and JMMB Securities. The mutual fund investment portfolios are comprised mainly of equities, fixed income securities and cash. Manulife requested deregistration of their five mutual funds for sale in Jamaica with effect from October 22, 2012.

The total funds managed by mutual fund companies were 10.4 billion United States Dollars (USD). This represented an increase of USD566 million or 5.8 per cent above the funds managed by mutual fund companies for the comparative period in 2011. Total funds, attributable to Jamaicans, amounted to USD122 million. For the 2012 calendar year, the number of units redeemed exceeded the number of units sold. See Table 24.

**Table 24 : Summary of Mutual Funds under Management by Jamaicans**

|  | 2010 | 2011 | 2012 |
|--|------|------|------|
| Total FUM (USD millions)               | 151  | 165  | 122  |
| <b>Activity during the year</b>        |      |      |      |
| Value of Units Sold (USD millions)     | 37   | 37   | 13   |
| Value of Units Redeemed (USD millions) | 14   | 21   | 32   |
| <b>Net Flows</b>                       |      |      |      |
| Value (USD millions)                   | 23   | 16   | (19) |

## Performance of the Equities and Private Debt Markets

In June 2008, the FSC released the Guidelines for Exempt Distributions<sup>12</sup> (the guidelines) which significantly changed the way in which issuers of securities source funding from the market. These guidelines replaced the private placement regime that was in place before and allowed issuers the opportunity to seek exemptions from registration of prospectus or offering documents. The guidelines allow exemptions in the following four main cases:

- i. **Accredited Investor Exemption** - The securities are sold to accredited investors;
- ii. **Minimum Purchase Amount Exemption** - The buyer purchases a minimum amount of J\$10 million;
- iii. **Highly Rated Debt Exemption** - The securities are highly rated i.e. have been assigned an investment grade rating by a recognized rating agency; the issuer has existing debt or equity securities registered with the FSC or equity securities of the issuer are listed for trading on a recognized stock exchange; and
- iv. **Private Issuer Exemption** - The securities are private issue i.e. purchased by an individual as principal and is an associated person, officer of the issuer or is an officer or the principal partner of a major supplier, service provider, consultant, customer or client of the issuer.

There were 37 exempt distributions registered during 2012; a 27.5 per cent reduction from the 51 recorded in 2011. However, the value of the transactions was 25.7 per cent above that recorded in 2011; see Table 25. The Accredited Investor Exemption was most utilized by issuers, accounting for 65 per cent of the distributions in 2012.

**Table 25: Summary of Private Placement & Exempt Distribution 2008 - 2012**

| Private Placements & Exempt Distributions 2008-2012 |      |      |      |      |      |
|---|------|------|------|------|------|
|   | 2008 | 2009 | 2010 | 2011 | 2012 |
| Number of Private Placements/ Exempt Distributions  | 61   | 23   | 22   | 51   | 37   |
| Value (\$ Billions)                                 | 38.3 | 10.6 | 33.1 | 31.9 | 40.1 |

## Public Offerings

During the calendar year 2012, four (4) publicly traded equity securities were registered with the FSC, all of which were listed on the Jamaica Stock Exchange's (JSE) Junior Market. The combined value of these listings amounted to approximately \$0.4 billion, reflecting a year-to-year

decrease of 90 per cent in the value of registered equity securities. Table 26 provides a summary of registered equity public offering during the years 2008 - 2012.

**Table 26: Summary Public Offerings for the Years December 2008-2012**

| Public Offerings Registered for the Period 2008 – 2012 |      |      |      |      |      |
|--|------|------|------|------|------|
|  | 2008 | 2009 | 2010 | 2011 | 2012 |
| Number of Public Offerings                             | 4    | 2    | 7    | 7    | 4    |
| Value (\$ Billions)                                    | 3.8  | 1.2  | 0.9  | 4    | 0.4  |

With the addition of four (4) new listings, the Junior Market saw its total listings increased to 16. As a result, the volumes traded on the Junior Market during 2012 were close to 570 million units compared with 306 million units in 2011. While the Junior Market has experienced a year-over-year increase in volume of 86 per cent, the Main Market experienced a decline of eight (8) per cent in volumes traded.

Both the Junior Market and the Main Market experienced year-over-year declines in the total number of transactions. The Junior Market recorded a 36 per cent decline in total number of transactions, while there was a 16 per cent decrease in the Main Market. Despite the reduction in the number of trades, Junior Market value traded dramatically increased by 316 per cent over the previous year. This increase in value traded well out-paced the modest one (1) per cent increase recorded by the Main Market in 2012.

Average stock prices in both the Junior and Main Markets experienced considerable declines. In the Main Market, the average price declined by 14.9 per cent in 2012 with only six (6) of 33 stocks appreciating in value. The Junior Market showed year-over-year average depreciation of 12.8 per cent, with only two (2) of its 16 listings appreciating in value.

## Pensions Industry

The Pensions industry continues to be stable in the face of continuing local and global economic challenges. As at December 31, 2012, 802 pension plans fell within the regulatory oversight of the FSC. These plans had assets totalling \$283 billion. See Table 27.

**Table 27: Number of Plans, Membership and Total Assets 2010-2012**

|                     | Dec-10 | Dec-11 | Dec-12 |
|---------------------|--------|--------|--------|
| Number of Plans     | 793    | 798    | 802    |
| Asset Values (\$'B) | 259.1  | 283.0  | 294.1  |
| Total Membership    | 77,935 | 86,309 | 89,845 |

<sup>12</sup> For more details, see "Guidelines for Exempt Distributions" (Guidelines SR-GUID-08/05-0016) at <http://www.fscjamaica.org/content.php?action=content&subid=70>

Of the 802 plans, there were 452 active plans. Table 28 shows these active plans by the two types, namely, Defined Benefit (DB) and Defined Contribution (DC).<sup>13</sup> During the review year, the number of active pension plans decreased by 11 compared with the number of pension plans as at December 31, 2011. Despite this, 1,949 more Jamaicans are participating in pension arrangements under the remit of the FSC.

**Table 28: Number of Active DB and DC Pension Plans**

|                             | Dec-10 | Dec-11 | Dec-12 |
|-----------------------------|--------|--------|--------|
| <b>Number of Plans</b>      |        |        |        |
| Defined Benefit             | 120    | 116    | 114    |
| Defined Contribution        | 366    | 347    | 338    |
| Total Active Plans          | 486    | 463    | 452    |
| <b>Membership</b>           |        |        |        |
| Defined Benefit             | 28,518 | 28,677 | 28,200 |
| Defined Contribution        | 46,155 | 54,464 | 56,890 |
| Total Membership            | 74,673 | 83,141 | 85,090 |
| <b>Assets Values</b>        |        |        |        |
| Defined Benefit (\$'B)      | 163.9  | 188.5  | 196.9  |
| Defined Contribution (\$'B) | 68.4   | 75.8   | 84.3   |
| Total Asset Values (\$'B)   | 232.3  | 264.3  | 281.2  |

DC plans can be segregated into superannuation funds and retirement schemes.<sup>14</sup> Table 29 displays the number of active superannuation funds and retirement schemes and their corresponding membership and assets values.

**Table 29: Number of Active Superannuation Funds and Retirement Schemes**

|                        | Retirement Schemes |        |        | Superannuation Funds |        |        |
|------------------------|--------------------|--------|--------|----------------------|--------|--------|
|                        | Dec-10             | Dec-11 | Dec-12 | Dec-10               | Dec-11 | Dec-12 |
| Number of Active Plans | 13                 | 14     | 14     | 473                  | 449    | 438    |
| Number of Members      | 8,170              | 16,021 | 18,634 | 66,503               | 67,120 | 66,456 |
| Asset Value (\$'B)     | 2.7                | 5.0    | 7.3    | 232.3                | 259.0  | 273.9  |

Though the number of Jamaicans participating in superannuation funds is relatively stable, participation in retirement schemes grew steadily, resulting in increased pension participation among the Jamaican populace.

Table 30 shows the number of corporate service providers by category, inclusive of the pension assets under management, which grew on a calendar basis, year-on-year by 3.9 per cent.

**Table 30: Total Assets under Management by Corporate Service Providers<sup>15</sup>**

| Service Providers              | December 31, 2010  |                     | December 31, 2011  |                     | December 31, 2012  |                     |
|--------------------------------|--------------------|---------------------|--------------------|---------------------|--------------------|---------------------|
|                                | Number of Entities | Asset Values (\$'B) | Number of Entities | Asset Values (\$'B) | Number of Entities | Asset Values (\$'B) |
| Insurance Companies            | 4                  | 114.4               | 4                  | 141                 | 3                  | 144.5               |
| Securities Dealers             | 12                 | 101.6               | 15                 | 102.2               | 14                 | 107.9               |
| Credit Unions/Building Society | 5                  | 3                   | 5                  | 3.5                 | 6                  | 4.0                 |
| Other                          | 7                  | 40                  | 6                  | 36.3                | 6                  | 37.7                |
| Total                          | 28                 | 259.1               | 30                 | 283                 | 29                 | 294.1               |

<sup>13</sup> In the Pensions (Superannuation Funds & Retirement Schemes) Act 2004, a defined contribution (DC) plan means "an arrangement whereby benefits for a member are determined solely as a function of the amount that can be provided by (a) contributions made by the employer on behalf of the member, and (b) interest earned and other gains and losses allocated to the member's account in the fund." Therefore a member's pension benefit under a DC plan is based on the amount contributed and investment returns. Meanwhile a defined benefit (DB) plan means "an arrangement which is not a defined contribution plan". This means that benefits under a DB plan are typically defined independently of the contributions payable and are not directly related to the investments of the plan. The benefits are normally based on a formula that considers a member's salary and service.

<sup>14</sup> Both retirement schemes and superannuation funds are pension arrangements designed to encourage Jamaicans to save towards their retirement. Both arrangements have many differences and similarities including tax benefits. One major difference is that membership in superannuation funds is limited to those employed by employers who are willing to take on the various legal and administrative costs associated with a pension plan. On the other hand, retirement schemes are for self-employed workers and those employed at businesses but who nonetheless are not members of a superannuation fund.

<sup>15</sup> Table 30 displays assets under management for both active and inactive plans.



# Regulatory Activities<sup>16</sup>

## Proposed Legislative Amendments

The FSC continued on its legislative reform programme aimed at amending certain provisions of the relevant Acts and Regulations.

## Insurance Industry

During 2012, amendments were proposed to certain provisions of the Insurance Act (the Act) and Insurance Regulations (the Regulations) to strengthen the FSC's regulatory framework for the insurance industry. The proposed amendments relate to the following issues:

- Average Clause – Mode of notifying policyholders of the nature and effect of the average clause;
- Document Retention – All insurers retain books and records for a period of seven (7) years;
- Insurers, under certain conditions, allowed to publish an abridged version of the audited financial statements;
- The Statutory Deposit should be for the benefit of all policyholders and policyholders should be ranked above all creditors, including preferential creditors, in the winding-up of an insurance company;
- Change in the ownership structure of an insurance company;
- Title Insurance as a class of insurance business;
- Regulatory and legal frameworks for the business of micro insurance;
- Stress Testing and Asset Liability Management;
- Criteria for auditors and actuaries to operate in the insurance industry;
- All insurance companies to file Business Plans;
- Prescribed Notice and Vesting Order regarding transfer of insurance business from one company to another;
- Filing deadlines for quarterly financial reports by insurance companies and insurance intermediaries;
- Relate Capital and insurance cover requirements for intermediaries to premiums or some other component; and
- Cancellation and renewal of Professional Indemnity and Fidelity Guarantee Insurance policies.

## Securities Industry

### Amendments to the Securities Act

In the 2010-2011 fiscal year, the FSC in collaboration with technical experts from the IMF developed proposals for amendments to the Securities Act to modernize its provisions and to address the problem of the Unlawful Financial Organizations (UFOs). The proposals seek to, among other things, enhance the information-gathering and enforcement capacity of the FSC. The amendments were also a deliverable under the 2010 GOJ Standby Arrangement with the IMF and remained so under the 2013 EFF agreement and are scheduled for completion by December 2013. They will also recognize investment clubs and make

provision for the supervision of a wide range of derivative products. Some of the amendments will facilitate the FSC's compliance with IOSCO's requirements to be signatory to the IOSCO MMOU.

Another FSC deliverable under the IMF EFF arrangement is the establishment of a comprehensive legal framework for the regulation of Collective Investment Schemes (CIS).<sup>17</sup> This is necessary in order to facilitate the development and growth of the industry while providing adequate protection to investors. Significant work was done in the 2011-2012 fiscal year and it is expected that a comprehensive framework for the regulation of CIS will be in place by December 2013.

Substantial work was done in developing the proposed Prudential Regulations. This significant amendment to the Securities Regulation was developed to address risks identified in the industry.

## Pensions Industry

### Pension Reform - Phase II: Pending Changes to the Pensions (Superannuation Funds and Retirement Schemes) Act and its attendant Regulations

Phase II of the Pension Reform will address, among other things, provisions relating to portability, vesting and locking-in. The FSC's completion of the review and update of the drafting instructions is anticipated by September 2013.

The following are the proposed changes to the Pensions Act and Regulations:

- Giving trustees of funds and schemes a limited power of amendment to comply with the Pensions Act and Regulations, where the constitutive documents of the fund/scheme do not contain a power of amendment.
- Simplifying the registration requirements of a fund or scheme as stipulated in the Second Schedule to the Registration, Licensing and Reporting Regulations. The Second Schedule outlines the matters that must be addressed in the constitutive documents of a fund or a scheme in order for the fund or scheme to be registered.
- Including provisions that make it clear that Trustees who wish to act as Administrators or Investment Managers of a fund must designate either:
  - A Trustee who is licensed as a Corporate Trustee under the Act or
  - A company owned and controlled by the Sponsor or the Trustees

<sup>16</sup> This and the following sections report on activities that occurred within the fiscal year April 1, 2012 – March 31, 2013.

<sup>17</sup> The 2011-2012 Annual Report provides a comprehensive description of the proposed CIS regulation.

# Authorisations

In keeping with its mandate, the FSC licenses and registers the entities and some individuals who operate in the various industries. This section will review the authorisations issued by the FSC during the review period.

## Insurance Authorisations

Table 31 shows the number of registrants in the insurance industry. Of the 358 authorisations for the insurance sector, 346 were for insurance sales representatives; while, 93 sales representatives voluntarily cancelled their registration resulting partially from their departure from the industry. Consequently, 253 insurance representatives were added to the industry in the year.

**Table 31: Number of Registrants in the Insurance Industry as at March 31, 2013**

| Type of Registrants                     | Registered At 31/3/12 | Additions  | Less Terminations/<br>Cancellations | Less Merged Entities | Registered At 31/3/13 |
|---|-----------------------|------------|-------------------------------------|----------------------|-----------------------|
| Life Insurance Companies                | 6                     | 0          | 0                                   | 0                    | 6                     |
| General Insurance Companies             | 10                    | 1          | 0                                   | 0                    | 11                    |
| Association of Underwriters             | 1                     | 0          | 0                                   | 0                    | 1                     |
| Insurance Brokers                       | 25                    | 1          | 1                                   | 0                    | 25                    |
| Facultative Placement Brokers           | 18                    | 0          | 0                                   | 0                    | 18                    |
| Overseas Reinsurance Brokers            | 2                     | 0          | 1                                   | 0                    | 1                     |
| Local Reinsurance Brokers               | 1                     | 0          | 0                                   | 0                    | 1                     |
| Insurance Agents                        | 14                    | 1          | 1                                   | 0                    | 14                    |
| Insurance Sales Reps.                   | 2,488                 | 346        | 93                                  | 0                    | 2,741                 |
| Loss Adjusters                          | 24                    | 4          | 0                                   | 0                    | 28                    |
| Loss Adjusters - Employed Practitioners | 1                     | 3          | 0                                   | 0                    | 4                     |
| Investigators                           | 10                    | 1          | 0                                   | 0                    | 11                    |
| Claims Negotiators                      | 5                     | 1          | 0                                   | 0                    | 6                     |
| Insurance Consultants                   | 3                     | 0          | 0                                   | 0                    | 3                     |
| <b>Total</b>                            | <b>2,608</b>          | <b>358</b> | <b>96</b>                           | <b>0</b>             | <b>2,870</b>          |

## Securities Authorisations

Table 32 shows the number of additions and voluntary cancellations within the Securities Industry during the 2012-2013 fiscal year.

**Table 32: Number of Licensees and Registrants in the Securities Industry as at March 31, 2013**

|                                      | Licensed/Registered At 31/3/12 | Additions  | Less Terminations/<br>Cancellations | Less Merged Entities | Licensed/Registered At 31/3/13 |
|--------------------------------------|--------------------------------|------------|-------------------------------------|----------------------|--------------------------------|
| Securities Dealers                   | 54                             | 1          | 3                                   | 0                    | 52                             |
| Unit Trust Managers                  | 4                              | 1          | 0                                   | 0                    | 5                              |
| Securities Dealers' Representatives  | 767                            | 130        | 96                                  | 0                    | 801                            |
| Investment Adviser                   | 3                              | 0          | 0                                   | 0                    | 3                              |
| Investment Advisers' Representatives | 0                              | 0          | 0                                   | 0                    | 0                              |
| Mutual Funds                         | 17                             | 0          | 5                                   | 0                    | 12                             |
| Unit Trust Schemes                   | 9                              | 1          | 0                                   | 0                    | 10                             |
| <b>Total</b>                         | <b>854</b>                     | <b>133</b> | <b>104</b>                          | <b>0</b>             | <b>883</b>                     |

## Pensions Authorisations

### Registration and Licensing

During the 2012/2013 fiscal year, the FSC received 105 applications, bringing the total number of applications for licensing and registration under the Pensions Act since September 29, 2006<sup>16</sup> to 78 and 3,497, respectively. Table 33 shows the number of applications received by categories of registrants and licensees for each year since September 29, 2006.

**Table 33: Number & Types of Applications by Categories of Registrants & Licensees 2006 - 2013**

|                      | 2006/2007    | 2007/2008  | 2008/2009  | 2009/2010  | 2010/2011  | 2011/2012  | 2012/2013  | Total        |
|----------------------|--------------|------------|------------|------------|------------|------------|------------|--------------|
| Superannuation Funds | 514          | 11         | 9          | 5          | 5          | 2          | 3          | 549          |
| Retirement Schemes   | 5            | 3          | 3          | 3          | 1          | 0          | 0          | 15           |
| Trustees             | 1,580        | 333        | 311        | 210        | 136        | 167        | 95         | 2,832        |
| Corporate Trustees   | 4            | -          | -          | -          | 1          | 0          | 0          | 5            |
| Responsible Officers | 65           | 5          | 3          | 2          | 13         | 5          | 3          | 96           |
| Administrators       | 31           | 2          | 1          | 2          | 1          | 0          | 2          | 39           |
| Investment Managers  | 30           | 1          | 1          | 4          | 1          | 0          | 2          | 39           |
| <b>Total</b>         | <b>2,229</b> | <b>355</b> | <b>328</b> | <b>226</b> | <b>158</b> | <b>158</b> | <b>105</b> | <b>3,575</b> |

The progress made by the FSC as at March 31, 2013 in the registration and licensing process since September 29, 2006 is as follows:

- **Pensions Plans: Superannuation Funds and Retirement Schemes.** For the review period, three (3) applications were submitted for registration of superannuation funds. Therefore, a total of 564 pension plan applications were received up to the end of the 2012/13 financial year, of which 15 were for retirement schemes while the other 549 were for superannuation funds. Of the 564 pension plan applications received, processing was discontinued for 76 plans: 4 due to mergers; 2 to withdrawal of application; and 70 to winding-up. Thirty-four (34) pension plans were also wound-up subsequent to their approval and registration. Of the remaining 454 applications, 422 (93 per cent) of the submissions received contained all the requisite documents necessary for processing.
- The trustees of each plan must be considered fit and proper as required by the law. By the end of March 2013, the FSC received five (5) applications for corporate trustees and 2,832 for the registration of individual trustees, a total of 2,837 applications. Of this amount, 623 resigned or withdrew their applications bringing the total net applications received to date to 2,214. Of the 2,214 applications 2,132 (96 per cent) were assessed for fitness and propriety.
- Of the 422 pension plans with all the required documents submitted for processing, 353 (339 superannuation funds and 14 retirement schemes) were approved and registered; four (4) additional superannuation funds await approval while nine (9) were given 90 days to satisfy the stipulated conditions outlined in the Pensions Act and Regulations. The remaining 56 are considered work in progress.
- During the fiscal year, there were 153 authorisations; with all but five (5) related to pension plans. See Table 34.

**Table 34: Number of Approved Registrants in the Pensions Industry as at March 31, 2013**

| Number of Registrants Approved by Category |                      |                    |                     |                    |                      |       |
|--|----------------------|--------------------|---------------------|--------------------|----------------------|-------|
|  | Superannuation Funds | Retirement Schemes | Individual Trustees | Corporate Trustees | Responsible Officers | Total |
| Registered as at 31/03/12                  | 309                  | 14                 | 1947                | 3                  | 56                   | 2,329 |
| Additions                                  | 42                   | 0                  | 106                 | 0                  | 5                    | 153   |
| Net Terminations/Refusal                   | -12                  | 0                  | 0                   | 0                  | -1                   | -13   |
| Less merged entities                       | 0                    | 0                  | -                   | -                  | -                    | 0     |
| Registered as at 31/03/13                  | 339                  | 14                 | 2,053               | 3                  | 60                   | 2,469 |

<sup>16</sup> Individuals 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.

- **Administrators and Investment Managers**

At the end of the fiscal year, 61 licences were granted as shown in Table 35.

**Table 35: Status of Applications of Administrators and Investment Managers as at March 31, 2013**

|                     | Received | Withdrawn or Discontinued | Net Applications | Incomplete | Complete | Net Approved | Refused | Work In Progress |
|---------------------|----------|---------------------------|------------------|------------|----------|--------------|---------|------------------|
| Administrators      | 39       | 6                         | 33               | 1          | 32       | 31           | -       | 1                |
| Investment Managers | 39       | 7                         | 32               | 1          | 31       | 30           | 1       | -                |
| Total               | 78       | 13                        | 65               | 2          | 63       | 61           | 1       | 1                |

- **Responsible Officers**

Each administrator, investment manager and corporate trustee is required to appoint a responsible officer. Ninety-six applications for registration were received. Of these applications, 29 subsequently resigned or withdrew their applications; 60 were approved; one (1) registration was refused; and six (6) remained at various stages of the review process.

## Winding-Up

The FSC received 22 applications for the winding-up of pension plans, pursuant to Section 27(4) of the Pensions Act, during the review year. This brings the total to 219 applications since September 29, 2006. Of the 219, two (2) applications were not approved. For this review period, 24 were approved, bringing the total approvals to date to 172. Of the remaining 45, 35 have outstanding documents to submit; two (2) are work in progress; six (6) have to be considered by the Board and two (2) have not yet been reviewed.

The reasons for the winding-up, the number of members and asset values involved are shown in the table below.

**Table 36: Number of Pension Plan Wind-Ups and Associated Reasons**

| Reasons Given   | Number of plans | Members affected | Asset values (\$Billion) |
|---|-----------------|------------------|--------------------------|
| Company actions/reduction of membership <sup>19</sup> | 117             | 10,290           | 23.56                    |
| New defined contribution plans will be established    | 7               | 1,606            | 10.70                    |
| Economic hardship/members' requests                   | 10              | 3,087            | 0.63                     |
| Perceived cost/legislative burden                     | 50              | 994              | 0.79                     |
| Unknown (Information not yet provided)                | 35              | 757              | 1.12                     |
| Total   | 219             | 16,734           | 36.79                    |

## Impact of Winding-Up

Approximately 37 per cent of plans estimated to be active as at March 2004<sup>20</sup> were wound-up, with asset values representing approximately 37.3 per cent of the total estimated pension portfolio. Of these, 10 plans with \$11.4 billion of assets were associated with the consolidation or replacement of defined benefit plans with new defined contribution plans. Consequently, the net asset value of the terminated plans is approximately 21.4 per cent of the estimated portfolio as at March 31, 2004.

Pension coverage, in terms of the estimated number of individuals covered by superannuation funds, eroded by 26.1 per cent since September 2006. However, it is expected that approximately 3.3 per cent represent members in consolidated plans or who will be re-enrolled in newly established defined contribution pension plans. Seven thousand, six hundred and nineteen (7,619) employees are enrolled in 28 newly established plans. Consequently, the net erosion in pension coverage due to winding-up is estimated at 10.9 per cent based on available data.

## Surplus Distribution

Trustees are required by Section 32(2) to obtain the FSC's approval of the Scheme of Distribution of Surplus. During the year, 15 of the 172 pension plans approved for winding-up filed applications for approval of schemes of distribution of surplus. This brought the total applications received to date to 109 with 11 of these applications approved in the year. With 85 total applications approved to date; 24 applications remain unapproved as at March 31, 2013.

## Auditors and Actuaries

The FSC is required to determine the suitability of the actuary and the auditor appointed by registered pension plans. Of the seven (7) submissions received, four (4) auditors were deemed suitable during the fiscal year while three (3) are works in progress.

<sup>19</sup>

| Company Actions / Reduction of Membership | Number of plans | Members affected | Asset values (\$Billion) |
|---|-----------------|------------------|--------------------------|
| Global financial crisis                   | 18              | 5,467            | 0.98                     |
| Discontinuance of business operations     | 25              | 696              | 15.85                    |
| Consolidation of multiple plans           | 4               | 516              | 0.69                     |
| Divestment/mergers/insolvency             | 34              | 3,261            | 5.40                     |
| Reduction in membership                   | 36              | 350              | 0.63                     |
| Total                                     | 117             | 10,290           | 23.56                    |

<sup>20</sup> In 2004 the FSC conducted a survey to determine, among other things, the approximate size of the private pension industry.

# Investigations & Enforcement

## Complaints

To protect the users of financial services, the FSC, through its Investigation and Enforcement Division (I&E), conducts the following activities:

- Investigate violations of the relevant Acts and regulations administered by the FSC;
- Conduct fit and proper as well as market conduct investigations;
- Advise licensees of their responsibilities under AML/CFT;
- Recommend and/or execute enforcement actions;
- Cooperate and collaborate with intra-governmental, regional and

- international agencies to combat financial crimes across borders; and
- Investigate and resolve consumer complaints.

Table 37 depicts the complaints processed during the fiscal year. Complaints reviewed totalled 196; 31 were brought forward from 2011-2012 and 165 received during 2012-2013. As at March 31, 2013, 39 complaints remained unresolved. While the FSC's service standards stipulate a 90-day turn-around period, the complaints were resolved in an average of 63 days.

**Table 37: Analysis of Complaints, April 1, 2012 to March 31, 2013**

|  | General Insurance | Life Insurance | Securities | Pensions | Total |
|--|-------------------|----------------|------------|----------|-------|
| Unresolved brought forward from March 31, 2012                       | 17                | 4              | 3          | 7        | 31    |
| Total complaints received for period April 1, 2012 to March 31, 2013 | 90                | 28             | 15         | 32       | 165   |
| Total complaints reviewed for period April 1, 2012 to March 31, 2013 | 107               | 32             | 18         | 39       | 196   |
| Number of cases resolved /closed                                     | 87                | 25             | 14         | 31       | 157   |
| Unresolved as at March 31, 2013                                      | 21                | 7              | 3          | 8        | 39    |
| Percentage closed  | 97%               | 89%            | 93%        | 94%      | 95%   |

**Table 38: Number and Types of Investigation, April 1, 2012 to March 31, 2013**

|  | Fit & Proper Investigation | Breach of Statutes/ Regulations | Total |
|--|----------------------------|---------------------------------|-------|
| Unresolved investigations brought forward from March 31, 2012          | 14                         | 21                              | 35    |
| Total investigations opened in Fiscal Year ended March 31, 2013        | 18                         | 14                              | 32    |
| Total investigations conducted during Fiscal Year ended March 31, 2013 | 32                         | 35                              | 67    |
| Investigations resolved / closed in Fiscal Year ended March 31, 2013   | 19                         | 29                              | 48    |
| Unresolved investigations carried forward as at March 31, 2013         | 13                         | 6                               | 19    |

A breakdown of the complaints by sector is: general insurance - 55 per cent; pensions - 20 per cent; life insurance - 16 per cent; and securities - 9 per cent. Complaints against general insurers related to delays as well as denial of claims, while for life insurers, issues related to lapsed policies. Pension complaints were dominated by issues surrounding employees' contribution refund.

## Investigations

The FSC is mandated to investigate breaches of the relevant Acts. In the past year, there were investigations into the following:

- carrying on insurance business without registration;
- failure to make adequate disclosure to investors;
- unsafe and unsound business practices;
- unregistered financial operations; and
- fitness and propriety.

The FSC conducted 67 cases of suspected breaches, market conduct and fit and proper investigations. As depicted in Table 38 above, 72 per cent or 48 cases were closed within the period. The other 19 cases remained unresolved at the end of the year.

## Enforcement Actions

### Unregistered Financial Organizations (UFO)

The FSC continued to provide technical assistance to law enforcement in its on-going drive to protect the investing public against perpetrators of UFO. The Fraud Squad arrested three individuals operating as dealer's representatives without registration. These matters along with those from earlier periods are at varying stages of prosecution.

### Intertrade Finance Corporation Limited (Intertrade)

In the continuing civil actions relating to the solvency of Intertrade, the Court determined on June 21, 2012, consistent with the FSC's findings, that Intertrade was insolvent. Accordingly, Mr Kenneth Tomlinson, Business Recovery Services Limited, was appointed Liquidator by the Supreme Court. The Liquidator is charged with, among other things, the responsibility for identifying and realising all assets belonging to Intertrade and assisting in the wind-up of Intertrade's superannuation fund.

## Fixed Penalty Payments

Section 21 of the FSC Act authorizes the FSC to offer to anyone who the FSC has reason to believe committed certain offences, an opportunity to discharge liability to conviction for that offence by the payment of a fixed penalty pursuant to the Fourth Schedule of the FSC Act. While the FSC administers the penalty payments, the amounts are paid through the Tax Collectorate to the Consolidated Fund. For the period, fixed penalty assessed amounted to approximately \$5 million. Of this amount, the FSC waived \$300, 000; \$2.2 million was satisfied and \$2.5 million remained unpaid at March 31, 2013.

## Litigation Activity

The FSC was involved in several matters before the Court. These matters resulted from enforcing compliance and a brief updates of these on-going matters are highlighted.

### (i) Lascelles De Mercado

#### Claim No. 2011 HCV 05965 Lascelles De Mercado v the FSC and Black Sand

Lascelles De Mercado & Company Limited (LdM) is a publicly listed company that is controlled by CL Spirits Limited (CL), a subsidiary of the CL Financial Group. On January 18, 2010, CL defaulted on US\$342M of notes they issued in Trinidad & Tobago and Jamaica. The notes were secured by a pledge of CL's shares in LdM. On July 28, 2011, LdM submitted a draft Take-Over Bid Circular to the FSC and asked for the FSC's feedback as to whether or not the Circular was compliant with the Securities (Take-Overs and Mergers) Regulations (TOM). The Circular outlined the intention of Black Sand Acquisition Inc. (Black Sand) to acquire not less than 90 per cent of the ordinary shares of LdM as well as all of LdM's 6 per cent and 15 per cent preference shares. After reviewing the Circular, the FSC felt that there were areas of the Circular

that should be amended in order to make the Circular compliant with the TOM. Black Sand addressed these to the satisfaction of the FSC.

On September 28, 2011, LdM served a Formal Order of the Supreme Court on the FSC indicating that the Court:

- a. Stayed the "decision" by the FSC that the Take-over Bid Circular issued by Black Sand was in compliance with the Securities Act and the TOM; and
- b. Stayed the "decision" by the FSC that there has been no infringement of Section 51 of the Securities Act by Black Sand and certain of its principals.

After hearing the submissions, Justice Mangatal handed down judgment that the amendments to the circular by Black Sand at the FSC's request did not render the circular compliant with the regulations. The Court therefore made the following orders:

- (i) A declaration that the Takeover Bid Circular issued by Black Sand to acquire and purchase the shares of LdM, the Claimant/Appellant, does not comply with Part IV of the Securities (Take-Overs and Mergers) Regulation(s) 1999 and is in breach of Regulations 16(1)(g) and 24 and the Jamaica Stock Exchange Rules;
- (ii) Black Sand should withdraw the Take-over Bid Circular released on August 4, 2011 along with the Supplements dated September 13, 2011 and October 18, 2011.
- (iii) LdM had no obligation to issue a Director's Circular until a compliant Bid was issued.

After the Court's November 30, 2011 ruling, Black Sand indicated that it would issue a new Circular, compliant with the Court's decision. In response, LdM applied to the court for an interim injunction to restrain Black Sand from pursuing any new Take-over Bid or acquisition or dealing in the shares of LdM until the final determination of the insider trading issue. This application was denied by Justice Mangatal. Justice Mangatal deferred issues regarding insider trading to be heard on February 14 – 16, 2012.

The claim filed by LDM against Black Sand, asserted that Black Sand engaged in insider trading, based on the privileged position of principals or shareholders of LdM.

At the end of March 2012, a series of sittings and preliminary applications in relation to the insider trading issue, expected to be heard in May 2012, occurred. The parties agreed to settle the issue. The terms of the settlement were not disclosed to the FSC.

In September 2012, the costs payable by the FSC were settled at \$2.8 Million. The FSC paid the costs.

### (ii) Intertrade Finance Corporation Ltd. (Intertrade)

During the Temporary Management of Intertrade, a number of creditors filed claims against Intertrade seeking damages for breach of contract.

As the Temporary Manager, the FSC obtained orders which stayed the



legal proceedings in respect of four claimants. In the case of another claimant, Goddard Catering Group (Jamaica) Limited, the matter was discontinued.

One claimant, COK Sodality Co-operative Credit Union Limited (COK), had engaged in a cambio transaction with Intertrade in April 2012. Intertrade, who received the sums from COK, failed to pay the equivalent amount in the United States currency. COK sought to recover this amount, with damages, for breach of contract and breach of trust.

The Temporary Manager sought a stay of proceedings. The FSC relied on the fact that any monies to be paid by Intertrade would be taken from the assets of the securities business, and therefore, would be detrimental to the interests of the clients of the securities business.

In her May 8, 2012 judgement, Justice Mangatal ruled in favour of COK, finding that the amounts paid to Intertrade, were trust monies. The Court recognised the competing equitable interests in the assets of the securities business; however, on a balance of the equities, COK took priority, given the nature of its cambio transaction. The Court therefore granted a number of Orders in favour of COK, permitting COK to recover its monies from certain investments in Intertrade.

The FSC filed a notice of appeal.

On June 21, 2012, following a hearing on the Amended Winding-Up Petition, the Court granted an Order appointing Mr. Kenneth Tomlinson as the provisional liquidator for Intertrade.

### **(iii) Fraser Fontaine and Kong (FFK)**

In August 2010, the FSC formally advised FFK that they breached the Insurance Act and offered FFK an opportunity to discharge its liability by the payment of a fixed penalty, pursuant to the Fourth Schedule of the FSC Act.

#### *Appeal Tribunal*

In December 2010, pursuant to Section 140 of the Insurance Act, FFK exercised its statutory right of appeal to the Tribunal and appealed against the decision of the FSC. The Tribunal's decision in April 2012 confirmed the decision of the FSC that FFK breached Section 20 of the Act. FFK paid the Fixed Penalty Payment of Eight Hundred Thousand Dollars (\$800,000.00). Costs in the sum of One Million Three Hundred and Twenty Nine Thousand Eight Hundred Dollars (\$1,329,800.00) were awarded to the FSC. The FSC agreed to FFK making instalment payments over an 18-month period effective September 2012. To date, FFK has complied with the schedule of payments.

### **(iv) Bradley Clacken**

In July 2010, Bradley Clacken filed a claim for damages against the FSC for including him on the FSC's published Watch List of entities/persons

conducting securities business without being registered by the FSC. The matter was set for hearing on June 1, 2011, in the Supreme Court, but adjourned to October 26, 2011. An extension of time was granted to file the defence, which was filed in November 2011.

In January 2012, the FSC Counsel wrote the court requesting that the matter be referred to mediation. The matter was referred to mediation and a settlement reached on August 15, 2012. Bradley Clacken filed a Notice of Discontinuance of the Claim.

### **(v) David Weir**

Sterling Asset Management Ltd. applied for a Dealer's Representative Licence on behalf of Mr. David Weir. The FSC informed Mr. Weir of its intention to refuse the application, and after an opportunity to be heard, the application for the licence was denied.

In August 2012, Mr. Weir appealed to the FSC Appeal Tribunal, claiming, as the grounds for the appeal, that no independent investigation was done to verify the:

- (1) Serious allegations contained in the termination letter from his previous employer and which formed the basis for refusal of his application;
- (2) The FSC's reliance on unsubstantiated allegations set out in the termination letter submitted to it - a letter of which the Appellant was not aware - rendered the purported hearing by the FSC unfair and in breach of the principles of natural justice;
- (3) That he was not afforded a fair hearing by the FSC for the following reasons:
  - (i) the FSC had before it, a document not known to him, and
  - (ii) that the FSC relied on its contents to form the basis of its decision to refuse his application;
- (4) The Appellant, in not knowing of the contents of the letter which constituted the evidence against him, was not afforded an opportunity to respond to the contents;
- (5) Before making a decision, an authority should take all reasonable steps to ensure that the party affected by the decision has been informed in sufficient time of its intention to make the decision and shall afford to the person a reasonable opportunity to make representations.

At the hearing on January 31, 2013, Mr. Weir proposed settlement. The hearing was adjourned and the parties agreed to the settlement on the following terms:

1. That David Weir withdraws his appeal;
2. That the FSC will give David Weir a new Opportunity to Be Heard at a date to be agreed; and
3. That each party bears their own costs.

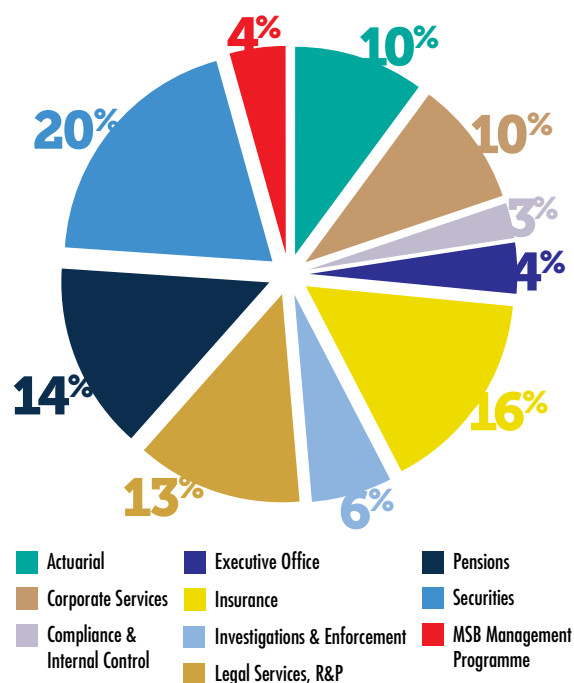
The parties are yet to finalise a new date for the Opportunity to Be Heard.

## Training and Development

During the year, 85 members of staff (73 per cent) participated in forty-four training courses, covering approximately 2,287 contact hours. This included a 5-day workshop on Derivatives and Commodities Regulation conducted by the United States Commodities Futures and Trades Commission (CFTC), attended by participants from the FSC and the Jamaica Stock Exchange (JSE).

An analysis of the training expenditure revealed that 51 per cent was spent on regulatory capacity building – Pensions, Insurance and Securities. Ten per cent utilized on corporate support services such as human resources and administration, finance and information technology. Figure 1 shows the percentage allocation by division and the percentage allocation to a supervisory leadership development programme for upper and mid-level managers, which was conducted by Mona School of Business.

Figure 1: Percentage Training Expenditure by Divisions & Management Programme



## PUBLIC EDUCATION

Public education strategies are designed to accomplish four objectives, namely:

- To educate and empower investors and customers in the areas of insurance, securities and pensions to make prudent financial decisions;
- To increase awareness among stakeholders to optimise compliance;
- To highlight trends and emerging issues in the regulatory environment; and
- To strengthen public perception and increase awareness of the role and function of the FSC.

A variety of mass media activities were utilized to achieve these objectives. This included advertisements to promote the role of the FSC and the importance of safe and sound investing and weekly media time slots to highlight emerging regulatory issues including market conduct.

The FSC also hosted Investor Briefings, workshops, seminars and conferences throughout the year to bring about awareness and greater understanding of varied issues specific to the Insurance, Securities and Pensions industries. Among the topical issues addressed were Jamaica's response and regulatory framework for compliance with Foreign Account Tax Compliance Act (FATCA); changes to reporting standards with the implementation of IFRS 4 as well as the continuation of pension reform beyond licensing, registration and supervision. With the public thrust toward improving the jurisdiction's as well as private entities' image regarding corruption, there was also a targeted seminar on corporate governance under the theme "Corporate Governance: Reducing Opportunities for Corruption and Enhancing Accountability."

## FSC's Financial Education in Schools Programme

For the year, the FSC partnered with Junior Achievement Jamaica to host the Financial Education Programme in schools. The 5-week programme saw nine (9) schools participating - Ardenne, Ascot, Black River, Denbigh, Glenmuir, Mannings, St. Jago, Tacius Golding and William Knibb High Schools. The students were engaged in topics on budgeting, credit, interest rate, identity theft, risk management, investment and the financial system in Jamaica. The programme culminated with an essay competition on 'Budgeting and Saving: Which is Best?' First place went to Zhara-Marie Henry (Glenmuir); 2nd place - Chrissancia Clarke, (Glenmuir); 3rd Place- Rasheed Peters (Ardenne High School); 4th place - Vanessa Liscombe (Denbigh High); and 5th place - Judi-Ann Higgins (Mannings High). This year's programme included a national Financial Literacy Survey, conducted by Dr. Lawrence Nicholson. The findings were presented at the closing ceremony on March 22, 2013.



Left – right: 2nd place, Chrissancia Clarke, Glenmuir High School, Janice P. Holness, Executive Director, FSC, 1st place winner Zhara-Marie Henry, Glenmuir High School, 3rd Place, Rasheed Peters, Ardenne High School, 5th place Judi-Ann Higgins, Mannings High, 4th place Vanessa Liscombe, Denbigh High, Mrs. Alphie Aiken, President of Junior Achievement, Jamaica

## National Financial Literacy Baseline Survey

As a member of the Organization for Economic Cooperation and Development's (OECD's) International Network on Financial Education (INFE), the FSC commissioned a National Financial Literacy Baseline Survey, which was conducted in all fourteen parishes. The survey sought to analyse levels of financial knowledge and behaviour among Jamaicans in order to inform the development of strategies and initiatives to raise the level of financial literacy in Jamaica. A similar survey was conducted in 14 countries across four (4) continents in recognition of the fact that globally, financial literacy is rapidly regarded as a core skill, with importance placed on individuals having a good grasp of financial literacy. The OECD INFE developed a core set of questions on the measurement of financial literacy and this questionnaire was randomly administered to individuals across Jamaica. This questionnaire is designed to enable:

- A measure of financial literacy that can provide national benchmarks
- A description of levels of financial literacy to enable policy makers to identify needs and gaps
- A comparison of financial literacy across countries

Under the guidance and supervision of University of the West Indies lecturer in Business Statistics, Dr. Lawrence Nicholson, the FSC employed and trained 28 students from universities in Jamaica to collect the data. Using face to face interviews, the data was collected over a 3-week period and thereafter submitted to the OECD for analysis.

Below is an overview of the results of the financial literacy measurement in Jamaica.

### Main Findings

- **Financial Knowledge**  
Jamaican respondents demonstrated difficulties with the concept of time value of money and with the calculation of interest (specifically compound interest). In the area of financial knowledge, less than half of the respondents gained a high knowledge score (that is, able to answer six (6) or more questions correctly out of eight (8)).
- **Financial Behaviour**  
Analysing a battery of statements made by the respondents about financial behaviour, it appeared that Jamaicans are relatively good at setting long term goals compared to other countries; however, they seemed relatively less skilled in short-term money management, especially when it involved paying bills on time and monitoring personal financial affairs.

Looking at other financial behaviours, less than half of Jamaicans prepared a budget. Four in five indicated that they actively saved. Two-thirds of the respondents sought information to guide making an informed decision, while only 8 per cent shopped around and used an independent source of advice. Almost one-third said that they resorted to credit to make ends meet.

Compared to the other countries that undertook the pilot, Jamaicans appeared to be relatively good at engaging in active saving and at making some attempt at choosing financial products appropriately (but they are in line with most other countries in choosing financial products after shopping around and using independent information or advice). Conversely, with respect to other countries, Jamaicans could improve, especially in avoiding the use of credit to make ends meet.

When these behavioural indicators are consolidated into a single score, less than 60 per cent of Jamaicans achieved a high score in financial behaviour (6 or more points out of a maximum of 9).

- **Financial Attitude**

Regarding financial attitude, about half of Jamaicans disagreed with the statement 'I find it more satisfying to spend money than to save it for the long term'. Almost two-thirds disagreed with the statement 'I tend to live for today and let tomorrow take care of itself'. Forty per cent disagreed with the statement 'Money is there to be spent'. Altogether, almost two-thirds of Jamaicans obtained a high attitudinal score (a score greater than 3 out of 5).

In Jamaica, as in all other countries, higher knowledge scores were associated with higher behaviour scores. Analogously, people with attitudes that tend towards long term gratification have higher behaviour scores than people with short term financial attitudes.

Combining the scores on the three dimensions, almost one in four Jamaicans attained a high score on all three components, and more than one-third obtained two high scores. Almost 15 per cent had no high score.

A further analysis by socio-demographic factors revealed that in Jamaica, as opposed to other countries, there were no gender differences in any of the three financial literacy components. The age profile of financial literacy is hump-shaped, with individuals aged 30-59 having a higher score than younger and older respondents. Both education and income were positively associated with the overall financial literacy score.

# Review Of Financial Performance

The financial statements in this report present the financial position, operating results and cash flows of the FSC in accordance with International Financial Reporting Standards for the financial year ended March 31, 2013. The following comments provide an analysis of the performance during the year and should be read in conjunction with the financial statements.

## Income and Expenditure

The FSC achieved a net surplus of \$117.38 million compared to \$15.59 million for the previous year. Highlights of the income and expenses are presented below:

### Income

The FSC is funded mainly through fees charged to the licensed financial institutions and investment managers/administrators of private pension plans, regulated and supervised by the FSC. The amount charged to individual institutions is determined according to the fees formulae set out in the respective Regulations. The FSC developed a costing system - designed to allocate the FSC's costs based on the time spent supervising and regulating each industry. As a result, each industry is expected to pay fees to cover its supervisory and regulatory costs.

Fees are charged to individual institutions within an industry based on the applicable formula. Fees, as shown on the Income and Expenditure statement, include the following:

|                                |                        |
|--------------------------------|------------------------|
| • Licensing/Registration fees  | \$748.9 million        |
| • Interest Income              | \$24.4 million         |
| • Fees from seminars/workshops | \$1.5 million          |
| • Miscellaneous Income         | \$2.2 million          |
| <b>Total</b>                   | <b>\$777.0 million</b> |

Licensing and Registration fees for the 2012/2013 financial year increased by approximately 15 per cent when compared with the previous year. The increase in fees was due to the following:

- 7 per cent increase in fees from the insurance industry. Total Assets in the Life & General Insurance industry increased by 8.2 per cent and 8.25 per cent respectively.
- 20 per cent increase in fees from the pensions industry. Total Assets reported in the Pension Industry grew by approximately 6.39 per cent.
- 21 per cent increase in fees from the Securities industry. The increase in activities in the stock market as well as the sale of the Lascelles Dermercado shares in December 2012, accounted for an unexpected income of \$32m.

Tables 39 - 41 provide details of the sources of fee income from the securities, insurance and pensions industries for 2012/2013 and the comparative 2011/2012

**Table 39: Revenue from the Securities Industry 2011/2012 and 2012/2013**

|  | 2011/2012        |            | 2012/2013        |            |
|--|------------------|------------|------------------|------------|
| Source   | Revenue ('\$000) | % of Total | Revenue ('\$000) | % of Total |
| Annual Licensing/Registration Fees—Securities Dealers Mutual Funds | 137,920          | 80         | 141,058          | 68         |
| Stock Exchange & JCSD Fees   | 20,094           | 12         | 52,312           | 25         |
| Application Fees   | 14,397           | 8          | 15,160           | 7          |
| Commercial Paper   | 4                | 0          | 64               | 0          |
| <b>Totals</b>  | <b>172,415</b>   | <b>100</b> | <b>208,594</b>   | <b>100</b> |

**Table 40: Revenue from the Insurance Industry 2011/2012 and 2012/2013**

|  | 2011/2012        |            | 2012/2013        |            |
|--|------------------|------------|------------------|------------|
| Source   | Revenue ('\$000) | % of Total | Revenue ('\$000) | % of Total |
| Annual Registration Fees- Life and General Companies | 241,352          | 93         | 256,627          | 92         |
| Annual Fees-Intermediaries                           | 14,011           | 5          | 16,721           | 6          |
| Application Fees                                     | 5,764            | 2          | 6,380            | 2          |
| <b>Totals</b>  | <b>261,127</b>   | <b>100</b> | <b>279,728</b>   | <b>100</b> |

**Table 41: Revenue from the Pensions Industry 2011/2012 and 2012/2013**

|   | 2011/2012        |            | 2012/2013        |            |
|---|------------------|------------|------------------|------------|
| Source                                    | Revenue ('\$000) | % of Total | Revenue ('\$000) | % of Total |
| Annual Licensing Fees-Investment Managers | 216,480          | 99         | 259,640          | 100        |
| Application Fees                          | 1,228            | 1          | 899              | 0          |
| <b>Totals</b>                             | <b>217,708</b>   | <b>100</b> | <b>260,539</b>   | <b>100</b> |

### Interest Income

Interest Income for 2012/2013 was \$24.43 million representing \$4.12 million more, when compared to the previous year. During the period, an additional amount of \$110 million was placed on investments. Interest rates offered on short term deposits for 2012/2013 were between 5.40 per cent and 6.15 per cent per annum compared with 5.75 per cent and 6 per cent per annum for 2011/2012.

## Expenses

Total expenses for the 2012/2013 fiscal year were \$695.65 million. While this represented no change over the previous year, there were however, increases/reductions in some expenses, these included:

### a) Advertising

The advertising expense for 2012/2013 of \$959,226 was 60 per cent lower than the previous year of \$2,405,713. The 2011/2012 expenditure included the costs for overseas advertisements as follows:

US\$2,635.32 for advertising in the Nation Publishing Company Limited (Barbados) with respect to the bid for the Electronic Records Management System (EDRMS)

US\$7,029.26 for advertising in the Guardian Media Limited (Trinidad) with respect to the bids for EDRMS and Securities Market Surveillance System (SMSS)

US\$2,500 for advertising in UN Development Business (New York) with respect to the bids for EDRMS & SMSS

### b) Appeal Tribunal

Expenses relating to the operation of the FSC Appeal Tribunal of \$4 million for 2012/2013 were 12 per cent less than the previous year. The volume of appeals and meetings were less than the previous year.

### c) Bad Debt Expense

Bad debt expenditure for the year was 1,067 per cent more than the previous year.

The bad debt expense of \$37.9 million includes the following:

1. Write-off of a portion of taxation recoverable of \$1,363,248
2. Write off of \$36,536,702 of outstanding licensing fees from the pension industry. Since 2006 (when the Pensions Regulations became effective), two entities have not paid the amounts invoiced for pensions funds and schemes which were being wound up.

### d) Building Maintenance

Building Maintenance decreased by 22 per cent or approximately \$3.2 million for 2012/2013 when compared to 2011/2012. Regular maintenance expenditure for the year was in line with the budget and there were no unbudgeted expenditure as in the previous year.

### e) Data Security

Data security expense of approximately \$7.3 million was \$576,970 more than the previous year. This is due mainly to the devaluation of the Jamaican dollar as the rental is fixed in US dollars.

### f) Professional Services fees

Professional fees of \$17.2 million were 36 per cent less than the previous year. There was a reduction in the use of external lawyers, during the year, when compared to the previous year.

Expenses (millions) included in the Professional Services fees are as follows:

|                       |               |
|-----------------------|---------------|
| Legal Fees            | \$2.9         |
| Consultants Services  | \$2.6         |
| Special Investigation | \$5.5         |
| Security Audit        | \$2.3         |
| Temporary Management  | \$0.3         |
| Other services        | \$3.6         |
| <b>Total</b>          | <b>\$17.2</b> |

### g) Office Expenses

Office expenses for the year were \$18.4 million or \$1.36 million (8 per cent) higher than the previous year. The 8% increase in office expenses for the year was slightly below the inflation rate of 9.1 per cent.

### h) Depreciation and Amortization

The depreciation costs of \$22 million were approximately 25 per cent less than the previous year. Some assets were fully depreciated during the period and the motor vehicle and furniture assigned to the previous Executive Director were disposed of during the year.

### i) Motor Vehicle and Parking

Motor vehicle and parking expenses of \$9.1 million were \$1 million higher than the previous year due to an additional 60 parking spaces acquired, during the period, from Wihcon Properties Limited. These were acquired at a higher rate than that of Sagicor Properties Limited (the previous Lessor).

### j) Salaries and Related Expenditure

Salaries and Related Expenditure was \$440 million for 2012/2013 or 2 per cent lower than the previous year. During the year six (6) members of staff resigned. Additionally, the post of Executive Director remained vacant for a year (the Deputy Executive Director acted in the position during this period) and the Senior Director of Insurance position was vacant for four months out of the year.

### k) Training and Conferences

Training and Conferences Expenditure was 27 per cent less than the previous year.

### l) Utilities

Utilities for the period were \$3.2 million or 15 per cent higher than the previous year. The continued devaluation of the Jamaica Dollar resulted in increases in electricity and internet costs.



## Balance Sheet

### i. Liquidity

The FSC ended the year with cash and cash equivalents of \$15.85 million compared with the \$20.62 million at the end of the 2011/2012 fiscal year. Resale agreements (short term investments) were \$521.4 million, which was \$115 million higher than the previous year. We continue to ensure that all licensing/registration fees are received within the stipulated due date.

### ii. Accounts Receivable and Prepayments

Accounts receivable and prepayments at \$129.6 million was \$26 million higher than the previous year. This amount includes the following:

|                          | 2013         | 2012         |
|--------------------------|--------------|--------------|
| Trade receivables (fees) | 98.9         | 89.8         |
| Prepayments and deposits | 24.2         | 8.2          |
| Other Receivables        | 2.0          | 2.8          |
| Interest receivable      | 4.5          | 2.8          |
| <b>Total</b>             | <b>129.6</b> | <b>103.6</b> |

The outstanding fees of \$98.9 million include:

An amount of \$68 million which relates to insurance fees paid quarterly in arrears. Fees for the quarter ending March 31, 2013 would be due in April 2013.

An amount of \$21 million outstanding from the Jamaica Stock Exchange.

### iii. Property, Plant, and Equipment & Intangible Assets

Property, plant, equipment and intangible assets at the end of the year were \$36.7 million (net of depreciation and amortisation) or \$12.57 million lower than the previous year, due to the fact that some assets were fully depreciated and the furniture and motor vehicle assigned to the previous Executive Director were disposed of during the year.

Property plant and equipment and intangible assets are depreciated/amortized on the straight-line basis at annual rates to write down the assets to their estimated residual values over their expected useful lives. The depreciation rates are as follows:

|  |           |
|--|-----------|
| Motor Vehicles   | 20%       |
| Leasehold improvement,<br>office furniture and equipment | 10% & 25% |
| Computer equipment and software                          | 25%       |

### iv. Accounts payable

|  | 2013          | 2012           |
|--|---------------|----------------|
| Trade and other payables   | \$19.7        | \$28.0         |
| Employee benefits<br>(accrued leave, gratuity,<br>7 per cent MOU adjustment) | \$58.9        | \$73.1         |
|  | <b>\$78.6</b> | <b>\$101.1</b> |

Included in the payables is a provision of \$23.2 million representing the balance of payments due to staff for the outstanding 7 per cent MOU salary adjustment. The remaining equal installments will be paid in May and October 2013 and the final payment in May 2014. The payables also include a provision of \$2.6 million for amounts due to Mr. Leon Anderson who acted as Executive Director for 11 months during the year for which no payments were made.



# Executive Compensation

Table 42: Compensation of Commissioners 2012/2013 (\$'000)

| Name of Commissioner    | Fees       | Motor Vehicle Upkeep/Travelling or Value of Assignment of Motor Vehicle | Honoraria       | All other Compensation including Non-cash Benefits as applicable | Total           |
|-------------------------|------------|---|-----------------|--|-----------------|
| Colin Bullock- Chairman | 0.0        | 0.0   | 756.19          | 0.0  | 756.19          |
| Michael Vacciana        | 0.0        | 0.0   | 209.26          | 0.0  | 209.26          |
| Karl Harrison           | 0.0        | 0.0   | 177.76          | 0.0  | 177.76          |
| Donna Scott Mottley     | 0.0        | 0.0   | 171.01          | 0.0  | 171.01          |
| Winston Hayden          | 0.0        | 0.0   | 164.26          | 0.0  | 164.26          |
| Erwin Jones             | 0.0        | 0.0   | 175.51          | 0.0  | 175.51          |
| Diahann Gordon-Harrison | 0.0        | 0.0   | 168.76          | 0.0  | 168.76          |
| <b>Total</b>            | <b>0.0</b> | <b>0.0</b>  | <b>1,822.75</b> | <b>0.0</b>   | <b>1,822.75</b> |

Table 43: Compensation of Executive Management 2012/2013

| Basic Salary Range of Executive Management |                                |
|--|--------------------------------|
| Director                                   | \$4,207,780 – 5,131,439        |
| Senior Director and General Counsel        | \$5,437,020 – 6,763,123        |
| Chief Actuary                              | \$8,237,861 – 8,387,640        |
| Deputy Executive Director                  | \$7,799,754 – 8,131,659        |
| Executive Director                         | \$14,750,000 per annum         |
| <b>Allowances:</b>                         |                                |
| <b>Motor Vehicle</b>                       |                                |
| Executive Director                         | Fully maintained motor vehicle |
| Other Executive Management                 | \$796,500 per annum            |
| <b>Housing</b>                             |                                |
| Executive Director                         | \$4,153,380 per annum          |
| Gratuity in Lieu of Pension                | 25% per annum basic salary     |

Note:

1. The above table shows the salary ranges and allowances, and not necessarily the precise amount, paid to the various members of the Executive Management Team for the 2012/2013 financial year.
2. Executive Management includes the Executive Director, Deputy Executive Director, Senior Directors (5), Chief Actuary, Directors (1) and General Counsel. Each member of the Executive Management Team 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.

# Appendix A

## List of Registered & Licensed Entities and Individual Dealers as at March 31, 2013

| List of Licensed Securities Entities & Individuals Dealers   |   |
|--|---|
| Dealers (Companies)  | Dealers (Individuals)                     |
| Alliance Investment Management Limited   | Bailey, Lorreston <sup>8</sup>            |
| Barita Investments Limited   | Berry, Christopher *                      |
| BPM Financial Limited  | Berry, Konrod *                           |
| Barita Unit Trusts Management Company Limited  | Campbell, Ryland *                        |
| BCW Holdings Limited D/B/A BCW Capital   | Issa, Christopher                         |
| JMMB Fund Managers Limited (formerly Capital & Credit Fund Managers Limited)                           |   |
| Capital & Credit Securities limited  |   |
| Capital Solutions Limited  |   |
| FHC Investments Limited (formerly CCU Investments Limited)   |   |
| First Heritage Co-operative Credit Union Limited formerly (Churches Co-operative Credit Union Limited) | <b>Investment Advisors</b>                |
| Citifinance Limited  | Allstair MacBeath                         |
| City of Kingston Co-operative Credit Union Limited   | Wayne Wray                                |
| Credit Union Fund Management Company Limited   | Williams & Associates Investments Limited |
| CWJ Employees Co-operative Credit Union Limited  |   |
| E.W. Lewis Investments & Finance Limited   |   |
| FirstCaribbean International Bank (Jamaica) Limited  |   |
| FirstCaribbean International Securities Limited  |   |
| First Global Financial Services Limited  |   |
| Guardian Life Limited  |   |
| Heritage Education Funds International (Jamaica) Limited   |   |
| Ideal Finance Corporation Limited  |   |
| Ideal Portfolio Services Limited   |   |
| Intertrade Finance Corporation Limited <sup>1</sup>  |   |
| Jamaica Co-operative Credit Union League Limited   |   |
| Jamaica Money Market Brokers Limited   |   |
| Jamaica National Building Society  |   |
| JMMB Securities Limited  |   |
| JN Fund Managers Limited   |   |
| Mayberry Investments Limited   |   |
| MF&G Asset Management Limited  |   |
| M/VL Stockbrokers Limited  |   |
| Money Masters Limited  |   |
| NCB Capital Markets Limited  |   |
| NCB Insurance Company Limited  |   |

## List of Licensed Securities Entities & Individuals Dealers

| Dealers (Companies)  | Dealers (Individuals) |
|--|-----------------------|
| Sagcor Investments Jamaica Limited (formerly Pan Caribbean Financial Services Limited) |                       |
| Prime Asset Management Limited   |                       |
| Proven Management Limited  |                       |
| Proven Wealth Limited (Formerly Guardian Asset Management)                             |                       |
| RBTT Securities Limited  |                       |
| Sagcor Life Jamaica Limited  |                       |
| Scotia Asset Management (Jamaica) Limited (Formerly Scotia DBG Fund Managers)          |                       |
| Scotia Investments Limited (Formerly Scotia DBG Investments)                           |                       |
| Scotia Jamaica Life Insurance Company Limited  |                       |
| Sterling Asset Management Limited  |                       |
| Stocks and Securities Limited  |                       |
| UGI Finance & Investments Limited <sup>L</sup>   |                       |
| Victoria Mutual Wealth Management Limited  |                       |
| West Indies Trust Company Limited  |                       |

Notes: Asterisks indicate individual dealers who are associated with a company that is also licensed as a dealer. "B" indicates that the individual dealer is in bankruptcy & "L" indicates that the dealer is in Liquidation. As at March 31, 2013, there were still listed but will be removed shortly.

## List of Registered Securities Entities

| Mutual Fund  | Unit Trusts Management Companies and their respective Schemes                        |  |
|--|--|--|
|  | Management Companies   | Schemes  |
| CI Sector Balanced Funds   | Barita Unit Trusts Management Company Limited  | Barita Unit Trusts Money Market Fund   |
| CI Sector Diversified Equities Funds   |  | Barita Unit Trusts Capital Growth Fund   |
| CI Sector Fixed Income Funds   | JMJB Fund Managers Limited (formerly Capital & Credit Fund Managers Limited)         | Jamaica Investment Income & Growth Fund (formerly Capital & Credit Income & Growth Fund) |
| CI Sector Focused Equity Funds   |  | Jamaica Investment Giltedge Fund (formerly Capital & Credit Giltedge Fund)               |
| Jamaica Select Index Fund  |  | Jamaica Investment Optimum Capital Fund (formerly Capital & Credit Optimum Capital Fund) |
| Trinidad Select Index Fund   | NCB Capital Markets Limited  | NCB Capital Markets Limited Unit Trust Scheme  |
| Scotia Caribbean Income Fund (formerly Socita DB&G Caribbean Income Fund Inc. ("SDCIF")) | Sagcor Investments Jamaica Limited (formerly Pan Caribbean asset Management Limited) | Sagcor Sigma Funds (formerly Pan Caribbean Assets Management Unit Trust)                 |
| Scotiabank Canadian Growth Fund  | Scotia Asset Management Limited  | Scotia Premium Fixed Income Fund   |
| Scotiabank Global Growth Fund  |  | Scotia Premium Growth Fund   |
| Scotiabank Money Market Fund   |  | Scotia Investment Fund   |
| Scotiabank US Dollar Bond Fund   |  |  |
| Scotiabank US Growth Mutual Fund   |  |  |

## List of Registered Insurance Entities

| Six (6) Life Insurance Companies  | Eleven (11) General Insurance Companies   |
|---|---|
| CMFG Life Insurance Company Limited (formerly CUNA Mutual Insurance Society)                        | Advantage General Insurance Company Limited   |
| Guardian Life Limited   | American Home Assurance Company   |
| JN Life Insurance Company Limited   | British Caribbean Insurance Company Limited   |
| NCB Insurance Company Limited   | Chartis Jamaica Insurance Company Limited   |
| Sagcor Life Jamaica Limited   | General Accident Insurance Jamaica Company Limited                                      |
| Scotia Jamaica Life Insurance Company Limited   | Globe Insurance Company of Jamaica Limited  |
|   | Jamaica International Insurance Company Limited   |
| <b>One (1) Local Reinsurance Broker</b>   | Key Insurance Company Limited   |
| CGM Gallagher Insurance Brokers Jamaica Limited   | JN General Insurance Company Limited (formerly NEM Insurance Company (Jamaica) Limited) |
|   | The Insurance Company of West Indies Limited  |
| <b>Fourteen (14) Insurance Agents</b>   | West Indies Alliance Insurance Company Limited  |
| Chancellor Insurance Agency Limited   |   |
| Crichton Insurance Agency Limited   | <b>Twenty -Five (25) Insurance Brokers</b>  |
| Dionne Audrey Webb T/A Desting Insurance Agency   | Allied Insurance Brokers Limited  |
| Doran Ferguson T/A Apex Insurance Agents  | Assurance Brokers of Jamaica Limited  |
| George Henderson Williams T/A Quality Insurance Agent   | Associated Owners Insurance Brokers Limited   |
| Gersham McLaughlin T/A Global Risk Management Insurance Agents                                      | Billy Craig Insurance Brokers Limited   |
| Herman Gary Norton T/A Impact Insurance Agents  | Caribbean Assurance Brokers Limited   |
| Jamaica Co-operatives Insurance Agency Ltd. (Formerly NUCS Co-operative Insurance Services Limited) | CGM Gallagher Insurance Brokers Jamaica Limited   |
| Kenrick Ryland Brissett T/A Brissett Standard Insurance Agent                                       | Covenant Insurance Brokers Limited  |
| Mutual Enterprises (Insurance) Agents Limited   | Desmond Mair Insurance Brokers Limited  |
| Nationwide Insurance Agents and Consultants Limited   | Excel Insurance Brokers   |
| Paul Anthony Simpson, General Insurance Agent   | Firm Insurance Brokers Limited  |
| Riviera Insurance Agency Limited  | Fraser Fontaine & Kong Limited Insurance Brokers  |
| Sagcor International Administrators Limited   | Genesis Insurance Brokers Limited   |
|   | Jamaica Citadel Insurance Brokers Limited   |
| <b>Eighteen (18) Facultative Placement Brokers</b>  | JMMB Insurance Brokers Limited  |
| Allied Insurance Brokers Limited  | Lawe Insurance Brokers Limited  |
| Assurance Brokers of Jamaica Limited  | Marathon Insurance Brokers Limited  |
| Billy Craig Insurance Brokers Limited   | Maritime General Insurance Brokers Limited  |
| Caribbean Assurance Brokers Limited   | Mutual Security Insurance Brokers Limited   |
| CGM Gallagher Insurance Brokers Jamaica Limited   | National Property & General Insurance Brokers Limited                                   |
| Desmond Mair Insurance Brokers Limited  | Orion Insurance Brokers Limited   |
| Excel Insurance Brokers   | Progressive Insurance Brokers Limited   |
| Firm Insurance Brokers Limited  | Sagcor Insurance Brokers Limited  |

| List of Registered Insurance Entities                 |  |
|---|--|
| Fraser Fontaine & Kong Limited Insurance Brokers      | Solid Life and General Insurance Brokers Limited |
| JMMB Insurance Brokers Limited                        | Spectrum Insurance Brokers Limited               |
| Lawe Insurance Brokers Limited                        | Thwaites Finson Sharp Insurance Brokers Limited  |
| Marathon Insurance Brokers Limited                    |  |
| Maritime General Insurance Brokers Limited            | <b>One (1) Overseas Reinsurance Broker</b>       |
| Mutual Security Insurance Brokers Limited             | Aeon Limited (Formerly Benfield Limited)         |
| National Property & General Insurance Brokers Limited |  |
| Sagicor Insurance Brokers Limited                     | <b>One (1) Association of Underwriters</b>       |
| Spectrum Insurance Brokers Limited                    | Lloyds   |
| Thwaites Finson Sharp Insurance Brokers Limited       |  |

| List of Registered Insurance Entities                                |  |
|--|--|
| Eleven (11) Insurance Investigators                                  | Twenty-eight (28) Insurance Loss Adjusters                               |
| AB Investigation Services Limited T/A AB Investigation               | Advanced Insurance Adjusters Limited                                     |
| Charles Oliver Rodriguez T/A Charles Rodriguez Investigations        | Alert Motor Loss Adjusters & Valuators Limited                           |
| Conrad Vaughn Myrie T/A C.I.S Claims Investigation                   | Auto Assessors and Associates Limited                                    |
| Delroy Anthony Lawson T/A DL Express Investigation & Process Service | Auto Electrical Specialist Limited                                       |
| Errol Orlando Rattray T/A Quality Adjusters                          | Axis (Jamaica) Limited   |
| Ian Blackwood T/A ACTAR Investigations                               | Caribbean Loss Adjusters Limited   |
| Focus Investigations Limited   | Evan Evans T/A Evans Insurance Consultants Limited                       |
| Jones Solomon Jaisingh T/A Network Coordinate                        | General Motor Adjusters Limited  |
| Joseph Clement Messam T/A PROCUR (Professional Procurers)            | Innovative Consulting Services Limited T/A International Claims Services |
| Latoure DeAvergne Duhaney T/A Genesis Protective Services            | Jamaica Loss Adjusters Limited   |
| Vinel Central Investigation & Security Consultancy Limited           | Jamaica Motor Assessment Limited   |
|  | John Grewcock /A Talisman Adjusters                                      |
|  | Karen Alethea Scarlett T/A KAS Loss Adjusters and Valuators              |
| <b>Three (3) Insurance Consultants</b>                               | Lloyd Williams T/A Lloyd's Motor Insurance Adjusters                     |
| Action & Advice Claims Consultants                                   | Mathew John O'Donoghue T/A JMO Adjusters                                 |
| Eberle Alric Robert Dawes T/A Flavoured Consultants In Insurance     | Maxine Margaret Segree T/A Claims Recovery & Insurance Bureau (CRIB)     |
| Nicholas James Wood  | Mendez Livingstone Incorporated Limited                                  |
|  | Michael Earl Xavier McKenzie T/A Red Line Collision Appraisal Specialist |
| <b>Six (6) Claims Negotiators</b>                                    | MSC McKay (Jamaica) Limited  |
| Claims Administrators Limited  | National Loss Adjusters and Trailway Cruiser Limited                     |
| Collin Michael Harley T/A Insight Insurance Services                 | Norman Washington Charoo T/A Prominent Loss Adjusters                    |
| Egerton Orlando Stewart T/A Stewart Recovery Action and Solution     | Pan Caribbean Consultants Limited  |
| Fidelity Insurance Claims Consultants Limited                        | Percival George Stewart T/A Kaution Jamaica                              |

### List of Registered Insurance Entities

|   |  |
|---|--|
| Karen Patricia Murphy T/A Image Claims Negotiating Services | Steller Caribbean (Jamaica) Limited                |
| Natalie Kerr T/A Direct Claim Services                      | Toplis & Harding (Jamaica) Limited                 |
|   | Trans Jam Loss Adjusters Limited                   |
|   | Vincent Lloyd McLaughlin T/A Larmax Loss Adjusters |
|   | Vision Adjusters Limited                           |

### List of Licensed Pensions Entities

| Twenty-nine (29) Pensions Administrators                   | Twenty-nine (29) Pensions Investment Managers              |
|--|--|
| ATL Group Pension Fund Trustees Nominee Limited            | ATL Group Pension Fund Trustees Nominee Limited            |
| Bank of Jamaica  | Bank of Jamaica  |
| Bank of Nova Scotia  | Barita Investments Limited                                 |
| Barita Investments   | BPM Financials Limited                                     |
| BPM Financials Limited                                     | BCW Capital  |
| Capital & Credit Securities Limited                        | Capital & Credit Securities Limited                        |
| Churches Co-operative Credit Union Limited                 | Churches Co-operative Credit Union Limited                 |
| Credit Union Fund Management Company Limited               | City of Kingston Co-operative Credit Union Limited         |
| FHC Investments Limited (formerly CCU Investments Limited) | Credit Union Fund Management Company Limited               |
| Development Bank of Jamaica Limited                        | Development Bank of Jamaica Limited                        |
| Employee Benefits Administrator Limited                    | FirstCaribbean International Securities Limited            |
| FirstCaribbean International Bank (Jamaica) Limited        | First Global Financial Services Limited                    |
| FirstCaribbean International Securities Limited            | FHC Investments Limited (formerly CCU Investments Limited) |
| First Global Financial Services Limited                    | Guardian Asset Management Limited                          |
| Guardian Life Limited                                      | Guardian Life Limited                                      |
| Guardian Life Pension Limited                              | Investment Nominees Limited                                |
| IBM  | Jamaica Co-operative Credit Union League Limited           |
| Investment Nominees Limited                                | Jamaica Money Market Brokers Limited                       |
| Jamaica Co-operative Credit Union League Limited           | Jamaica National Building Society                          |
| Jamaica Money Market Brokers Limited                       | JN Fund Managers Limited                                   |
| JN Fund Managers Limited                                   | Mayberry Investments Limited                               |
| Mayberry Investments Limited                               | MF&G Asset Management Limited                              |
| MF&G Asset Management Limited                              | MoneyMasters   |
| NCB Insurance Company Limited                              | NCB Insurance Company Limited                              |
| Nestle Jamaica Limited                                     | Prime Asset Management Limited                             |
| Prime Asset Management Limited                             | RBTT Securities Limited                                    |
| Scotia DBG Investments Limited                             | Sagikor Life Jamaica Limited                               |
| Scotia Jamaica Life Insurance Company Limited              | Scotia DBG Investments Limited                             |
| Veritat Nominees Limited                                   | Veritat Nominees Limited                                   |

# Appendix B

## Bulletins, Guidelines and Discussion Papers

Bulletins, guidelines and discussion papers <sup>21</sup> are used by the FSC to provide information and guidance to licensees, registrants and the general public. These bulletins and guidelines are circulated to the relevant industry entities. A summary of these documents released during the year is provided below:

### Insurance Industry:

- **AR-CONSUL-12/05-0006** Proposed Stress Testing Regulations for Insurance Companies operating in Jamaica
- **IR-CONSUL-12/03-0008** Winding up of Insurance Company pursuant to Sections 51 to 60 of the Insurance Act, 2001
- **AR-CONSUL-12/05-0005** Draft Asset-Liability Management Regulations
- **AR-ADV-13/02-0005** Repurchase Agreements (Repos) Backed By Government Of Jamaica (GOJ) Obligations Denominated In Foreign Currency
- **AR-ADVI-12/02-0004** Regulation 45: Minimum Level of Public Obligations to be held by Stock Insurers.
- **IR-CONSUL-12/03-0009** Amendment to Regulations 32 and 34 of the Insurance Regulations, 2001
- **IR-CONSUL-12/03-0011** Amendment to Regulation 36 (4) of the Insurance Regulations, 2001
- **IR-CONSUL-12/03-0010** Notice to the Insurance Industry regarding Amalgamation and Transfer of Insurance Business
- **IR-CONSUL-12/04-0012** Amendment to Section 120(1) of the Insurance Act, 2001 and Regulation 126(4) and 126(5) of the Insurance Regulation, 2001
- **IR-GUID-13/01-0015** Draft Guidelines on Reinsurance Practices and Procedures
- **IR-CONSUL-13/03-0013** Proposed Amendment to Section 26(1)(b) of the Insurance Act, 2001 and Regulations 31 and 33 of the Insurance Regulations

### Securities Industry:

- **SRCONSUL-12/03-0023** Proposed CIS Regulations 2012

### Pensions Industry:

- **PR-GUID-13/01-0024** Bulletin: Meaning of "Residents of Jamaica"
- **PR-CONSUL – 13/01-0010** Discussion Paper: Unlocking the Benefits of Approved Retirement Schemes

<sup>21</sup> Discussion papers are also referred as consultation papers



# Appendix C

## FSC Statutes & Regulations

The statutory duties and responsibilities of the FSC and the regulatory provisions governing financial services in the areas of insurance, pensions and securities are stipulated in a number of laws. The following is a list of these laws.

**The Financial Services Commission Act** – enacted in 2001 and amended in 2004;

**The Financial Services (Overseas Regulatory Authority) (Disclosure) Regulations** – promulgated in 2005

**The Insurance Act** – enacted in 2001;

**The Insurance Regulations** – promulgated in 2001 and last amended in 2004;.

**The Insurance (Actuaries) (Life Insurance Companies) Regulations** – promulgated in 2001;

**The Insurance (Actuaries) (General Insurance Companies) Regulations** – promulgated in 2002 and amended in 2011;

**The Insurance (Prescribed Sum) Regulations** – promulgated in 2004;

**The Securities Act** – enacted in 1993 and last amended in 2001;.

**The Securities (Licensing and Registration) Regulations** – promulgated in 1996 and amended in 2003 and 2008;

**The Securities (Conduct of Business) Regulations** – promulgated in 1999 and last amended in 2003;.

**The Securities (Disclosure of Interest) Regulations** – promulgated in 1999;.

**The Securities (Mutual Funds) Regulations** – promulgated in 1999;

**The Securities (Take-Overs and Mergers) Regulations** – promulgated in 1999 and amended in 2000;

**The Securities (Central Securities Depository) Regulations** – promulgated in 2000 and amended in 2002;

**The Unit Trusts Act** – enacted in 1971 and last amended in 2001;

**The Unit Trusts (Nominees) Regulations** – promulgated in 2009;

**The Unit Trusts (Registration of Schemes) Regulations** – promulgated in 1971 and amended in 2009;

**The Unit Trusts (Books and Document) Regulations** – promulgated in 1973 and amended in 2009;

**The Unit Trusts (Amendment of Schedule to Principal Act) Regulations** – promulgated in 2009;

**The Pensions (Superannuation Funds and Retirement Schemes) Act** – enacted in September 2004 and amended in March 2005 and March 2006;

**The Pensions (Superannuation Funds and Retirement Schemes) (Specified Pension Funds and Specified Pensions Scheme) Regulations, 2006** – promulgated on March 11, 2006;

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

**The Pensions (Superannuation Funds and Retirement Schemes) (Governance) Regulations, 2006** – promulgated on March 29, 2006;

**The Pensions (Superannuation Funds and Retirement Schemes) (Investment) Regulations, 2006** – promulgated on March 29, 2006;

**The Proceeds of Crime Act 2007 & the Proceeds of Crime (Money Laundering Prevention) Regulations 2007** – the Act was enacted on March 2, 2007 while the Regulations were promulgated on March 29, 2007.

**The Terrorism Prevention Act 2005 & the Terrorism Prevention (Reporting Entities) Regulations 2010** – The Act was passed by Parliament on April 8, 2005, took effect in June 2005 and was amended on April 1, 2011. The Regulations came into effect in March 2010.



# Financial Statements

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MARCH 31, 2013



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

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Kingston  
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## 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 (Commission), set out on pages 42 to 64 which comprise the statement of financial position as at March 31, 2013, statements of comprehensive income, changes in reserves and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *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 relating to the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider internal controls relevant to the entity's preparation of financial statements that give a true and fair view 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 control. 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.

KPMG, a Jamaican partnership and a membership firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Elizabeth A. Jones  
R. Tarun Handa  
Patrick A. Chin  
Patricia O. Dailey-Smith  
Linroy J. Marshall

Cynthia L. Lawrence  
Rajan Trehan  
Norman O. Rainford  
Nigel R. Chambers



To the Members of  
FINANCIAL SERVICES COMMISSION

**Report on the Financial Statements, continued**

*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Financial Services Commission as at March 31, 2013, and of its financial performance, changes in reserves and cash flows for the year then ended, in accordance with International Financial Reporting Standards.

A handwritten signature in blue ink, appearing to read 'WME', located below the opinion text.

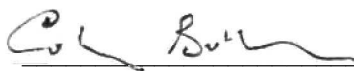
Chartered Accountants  
Kingston, Jamaica

July 25, 2013

## Statement of Financial Position / March 31, 2013

|                                     | <u>Notes</u> | <u>2013</u>          | <u>2012</u>          |
|-------------------------------------|--------------|----------------------|----------------------|
| <b>CURRENT ASSETS</b>               |              |                      |                      |
| Cash and cash equivalents           | 3            | 15,848,761           | 20,619,802           |
| Resale agreements                   | 4            | 521,423,504          | 406,451,259          |
| Accounts receivable and prepayments | 5            | 129,618,189          | 103,634,984          |
| Taxation recoverable                | 6            | <u>8,308,026</u>     | <u>9,667,973</u>     |
|                                     |              | <u>675,198,480</u>   | <u>540,374,018</u>   |
| <b>CURRENT LIABILITIES</b>          |              |                      |                      |
| Accounts payable                    | 7            | ( 78,566,739)        | (101,084,942)        |
| Deferred fees                       |              | <u>(253,408,117)</u> | <u>(226,013,123)</u> |
|                                     |              | <u>(331,974,856)</u> | <u>(327,098,065)</u> |
| <b>NET CURRENT ASSETS</b>           |              | 343,223,624          | 213,275,953          |
| <b>NON-CURRENT ASSETS</b>           |              |                      |                      |
| Intangible assets                   | 8            | 1,779,456            | 2,198,334            |
| Property, plant & equipment         | 9            | <u>34,918,138</u>    | <u>47,067,033</u>    |
|                                     |              | <u>\$379,921,218</u> | <u>262,541,320</u>   |
| Financed by:                        |              |                      |                      |
| RESERVES                            | 10           | <u>\$379,921,218</u> | <u>262,541,320</u>   |

The financial statements on pages 42 - 64 were approved by the Board of Commissioners on July 25, 2013, and signed on its behalf by:

 Chairman  
Colin Bullock

 Commissioner  
Winston Hayden

## Statement of Comprehensive Income / Year ended March 31, 2013

|   | <u>Notes</u> | <u>2013</u>          | <u>2012</u>        |
|---|--------------|----------------------|--------------------|
| <b>INCOME</b>                           |              |                      |                    |
| Fees                                    |              | 748,858,697          | 651,250,964        |
| Interest income                         |              | 24,433,203           | 20,311,402         |
| Other                                   |              | <u>3,742,935</u>     | <u>3,096,122</u>   |
|   |              | <u>777,034,835</u>   | <u>674,658,488</u> |
| <b>EXPENSES</b>                         |              |                      |                    |
| Advertising                             |              | 959,226              | 2,405,713          |
| Appeal Tribunal                         |              | 4,009,766            | 4,575,553          |
| Audit                                   |              | 1,550,000            | 1,770,952          |
| Bad debts written-off                   | 5            | 37,899,951           | 3,248,909          |
| Bank charges                            |              | 856,240              | 852,646            |
| Building maintenance                    |              | 11,547,383           | 14,770,945         |
| Commissioners' fees                     |              | 1,822,750            | 1,902,315          |
| Data security                           |              | 7,313,688            | 6,736,718          |
| Depreciation and amortisation           | 8,9          | 21,819,165           | 29,182,350         |
| Motor vehicle and parking expenses      |              | 9,144,582            | 8,135,835          |
| Office expenses                         |              | 18,395,574           | 17,038,401         |
| Printing and stationery                 |              | 3,481,263            | 3,816,217          |
| Professional fees                       |              | 17,162,878           | 26,944,023         |
| Public education                        |              | 23,790,806           | 23,054,900         |
| Rent                                    | 11(ii)       | 36,000,000           | 36,000,000         |
| Staff costs                             | 12           | 440,364,779          | 448,199,831        |
| Subscriptions                           |              | 8,527,672            | 9,088,655          |
| Training and conferences                |              | 26,163,594           | 35,702,798         |
| Utilities                               |              | <u>24,845,620</u>    | <u>21,642,475</u>  |
|   |              | <u>695,654,937</u>   | <u>695,069,236</u> |
| Surplus/(deficit) for the year          |              | 81,379,898           | ( 20,410,748)      |
| <b>OTHER COMPREHENSIVE INCOME</b>       |              |                      |                    |
| Grant                                   | 11(ii)       | <u>36,000,000</u>    | <u>36,000,000</u>  |
| Total comprehensive income for the year |              | <u>\$117,379,898</u> | <u>15,589,252</u>  |



## Statement of Changes in Reserves / Year ended March 31, 2013

|  | <u>General Fund</u>  | <u>Capital<br/>Reserve<br/>(Note 10)</u> | <u>Total</u>       |
|--|----------------------|--|--------------------|
| Balances at March 31, 2011                     | <u>245,873,504</u>   | <u>1,078,564</u>                         | <u>246,952,068</u> |
| <b>Total comprehensive income for the year</b> |                      |  |                    |
| Deficit for the year                           | ( 20,410,748)        | -  | ( 20,410,748)      |
| Other comprehensive income - Grant             | <u>36,000,000</u>    | <u>-</u>                                 | <u>36,000,000</u>  |
| Total comprehensive income for the year        | <u>15,589,252</u>    | <u>-</u>                                 | <u>15,589,252</u>  |
| Balances at March 31, 2012                     | 261,462,756          | 1,078,564                                | 262,541,320        |
| <b>Total comprehensive income for the year</b> |                      |  |                    |
| Surplus for the year                           | 81,379,898           | -  | 81,379,898         |
| Other comprehensive income - Grant             | <u>36,000,000</u>    | <u>-</u>                                 | <u>36,000,000</u>  |
| Total comprehensive income for the year        | <u>117,379,898</u>   | <u>-</u>                                 | <u>117,379,898</u> |
| Balances at March 31, 2013                     | <u>\$378,842,654</u> | <u>1,078,564</u>                         | <u>379,921,218</u> |

## Statement of Cash Flows / Year ended March 31, 2013

|   | <u>2013</u>          | <u>2012</u>       |
|---|----------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>           |                      |                   |
| Surplus/(deficit) for the year                        | 81,379,898           | (20,410,748)      |
| Adjustments for:                                      |                      |                   |
| Depreciation and amortisation                         | 21,819,165           | 29,182,350        |
| Gain on disposal of property, plant & equipment       | ( 1,223,174)         | ( 18,242)         |
| Interest income                                       | ( 24,433,203)        | (20,311,402)      |
|   | 77,542,686           | (11,558,042)      |
| (Increase)/decrease in current assets:                |                      |                   |
| Resale agreements                                     | (114,972,245)        | (53,450,275)      |
| Accounts receivable and prepayments                   | ( 24,290,369)        | ( 8,846,858)      |
| Taxation recoverable                                  | 1,359,947            | 1,394,715         |
| Increase in current liabilities:                      |                      |                   |
| Accounts payable                                      | ( 22,518,203)        | 7,859,527         |
| Deferred fees   | <u>27,394,994</u>    | <u>27,802,213</u> |
| Net cash used by operating activities                 | ( 55,483,190)        | (36,798,720)      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>           |                      |                   |
| Additions to property, plant & equipment              | ( 9,428,221)         | (18,881,372)      |
| Additions to intangible assets                        | ( 835,472)           | -                 |
| Proceeds from disposal of property, plant & equipment | 2,235,475            | 413,494           |
| Interest received                                     | <u>22,740,367</u>    | <u>22,204,443</u> |
| Net cash provided by investing activities             | <u>14,712,149</u>    | <u>3,736,565</u>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITY</b>             |                      |                   |
| Grants, being   |                      |                   |
| net cash provided by financing activities             | <u>36,000,000</u>    | <u>36,000,000</u> |
| Net (decrease)/ increase in cash and cash equivalents | ( 4,771,041)         | 2,937,845         |
| Cash and cash equivalents at beginning of the year    | <u>20,619,802</u>    | <u>17,681,957</u> |
| Cash and cash equivalents at end of the year          | <u>\$ 15,848,761</u> | <u>20,619,802</u> |

1. The Commission

Financial Services Commission (Commission) is a statutory, not-for-profit organisation established under the Financial Services Commission Act, 2001 (Act). It is domiciled in Jamaica and its principal place of business is located at 39 - 43 Barbados Avenue, Kingston 5.

The principal functions of the Commission are as stated in Section 6 (1) of the Act and the Commission is exempt from income tax (note 13).

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 Insurance Act 2001, the Commission also assumed regulatory responsibility for the insurance industry, on the appointed day (December 21, 2001). The Commission also assumed regulatory responsibilities for the pension industry under the Pensions (Superannuation Funds and Retirement Schemes) Act which had been enacted on September 21, 2004.

During 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 which was subsequently deemed to be cost on first-time adoption of IFRS in year ended March 31, 2004.

At March 31, 2013, the Commission had in its employment 119 (2012:120) employees, out of a Board-approved establishment of 125 (2012:125) employees.

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

(a) Statement of compliance:

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and their interpretations, as issued by the International Accounting Standards Board.

**New, revised and amended standards and interpretations that became effective during the year**

Certain new, revised and amended standards and interpretations came into effect during the current financial year. Based on the Commission's current operations, none of them had any significant effect on the amounts and disclosures in the financial statements.

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

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

**New, revised and amended standards and interpretations that are not yet effective:**

Certain new, revised and amended standards and interpretations have been issued which are not yet effective for the current financial year and which the Commission has not early-adopted. The Commission has assessed the relevance of all such new standards, amendments and interpretations with respect to its operations and has determined that the following may be relevant:

- IAS 1, *Presentation of Financial Statements*, has been amended by the issue of a document entitled *Presentation of Items of Other Comprehensive Income*, effective for annual reporting periods beginning on or after July 1, 2012, to require a reporting entity to present separately the items of other comprehensive income (OCI) that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. Consequently, an entity that presents items of OCI before related tax effects will also have to allocate the aggregated tax amount between these sections. The existing option to present the profit or loss and other comprehensive income in two statements has not changed. The title of the statement has changed from 'Statement of Comprehensive Income' to 'Statement of Profit or Loss and Other Comprehensive Income'. However, an entity is still allowed to use other titles. The Commission is assessing the impact this amendment may have on its 2014 financial statements.
- IFRS 9, *Financial Instruments*, is effective for annual reporting periods beginning on or after January 1, 2015. The standard retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. It eliminates the existing IAS 39 categories of held to maturity, available-for-sale and loans and receivables. For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, to present all fair value changes from the investment in other comprehensive income. The standard includes guidance on classification and measurement of financial liabilities designated as fair value through profit or loss and incorporates certain existing requirements of IAS 39 *Financial Instruments: Recognition and Measurement* on the recognition and de-recognition of financial assets and financial liabilities. The Commission is assessing the impact that the standard may have on its 2016 financial statements.
- IFRS 13, *Fair Value Measurement*, which is effective for annual reporting periods beginning on or after January 1, 2013, defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value and is applicable to assets, liabilities and an entity's own equity instruments that, under other IFRS, are required or permitted to be measured at fair value or when disclosure of fair values is provided. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The Commission does not expect this standard to have a significant impact on its 2014 financial statements.

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

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

New, revised and amended standards and interpretations that are not yet effective (cont'd):

- *Improvements to IFRS 2009-2011* cycle contains amendments to certain standards and interpretations and are effective for annual reporting periods beginning on or after January 1, 2013. The main amendments applicable to the Commission is as follows:
  - *IAS 1 Presentation of Financial Statements* is amended to clarify that only one comparative period, which is the preceding period, is required for a complete set of financial statements. IAS 1 requires the presentation of an opening statement of financial position when an entity applies an accounting policy retrospectively or makes a retrospective restatement or reclassification. IAS 1 has been amended to clarify that (a) the opening statement of financial position is required only if a change in accounting policy, a retrospective restatement or a reclassification has a material effect upon the information in that statement of financial position; (b) except for the disclosures required under IAS 8, notes related to the opening statement of financial position are no longer required; and (c) the appropriate date for the opening statement of financial position is the beginning of the preceding period, rather than the beginning of the earliest comparative period presented.
  - *IAS 16, Property, Plant and Equipment*, has been amended to clarify that the definition of 'property, plant and equipment' in IAS 16 is now considered in determining whether spare parts, standby-by equipment and servicing equipment should be accounted for under the standard. If these items do not meet the definition, then they are accounted for using IAS 2, *Inventories*.

The Commission is assessing the impact that the amendments may have on its 2014 financial statements.

(b) Basis of preparation:

The financial statements, as at and for the year ended March 31, 2013 (reporting date), are prepared on the historical cost basis and are presented in Jamaica dollars (J\$), which is the functional currency of the Commission.

(c) Use of estimates and judgments:

The preparation of the financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the reported amount of, and disclosures relating to, assets, liabilities, contingent assets and contingent liabilities at the reporting date and income and expenses for the year then ended. Actual amounts could differ from those estimates.

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

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

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. Judgements made by management in the application of IFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next financial year are discussed below:

(i) Allowance for impairment losses on receivables:

In determining amounts recorded for impairment losses in the financial statements, management makes judgement 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.

(ii) Contingencies:

In the ordinary course of operations, the Commission may encounter suits and/or counter-suits in the performance of its functions. Such actions may, or may not, result in liability to the Commission and management assesses the potential for liability in conjunction with legal counsel and provision is made accordingly.

It is reasonably probable, 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 recognised in income and accounted for on the accrual 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, less accumulated depreciation and impairment losses [note 2(n)].

Intangible assets comprise computer software and security system software.



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

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

(ii) Subsequent costs:

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

(f) Depreciation and amortisation:

Property, plant & equipment and intangible assets are depreciated/amortised on the straight-line basis at annual rates to write down the assets to their estimated residual values over their expected useful lives. The depreciation rates are as follows:

|   |           |
|---|-----------|
| Motor vehicles  | 20%       |
| Leasehold improvement, office furniture and equipment | 10% & 25% |
| Computer equipment and software                       | 25%       |

The depreciation methods, useful lives and residual values are reassessed at each 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 and are shown at cost.

(i) Resale agreements:

Resale agreements (reverse repo) are short-term transactions whereby the Commission buys securities and simultaneously agrees to resell the securities on a specified date and at a specified price. Title to the security is not actually transferred, unless the counterparty fails to comply with the terms of the contract.

Reverse repos are accounted for as short-term collateralised lending. Reverse repos are classified as originated loans and receivables and measured at amortised cost.

The difference between the purchase and resale considerations is recognised on the accrual basis over the period of the agreement using the effective yield method and is included in interest income.

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

(j) Accounts receivable:

Accounts receivable are stated at amortised cost, less impairment losses [note 2(n)].

(k) Accounts payable:

Accounts payable are stated at amortised cost.

(l) Provisions:

A provision is recognised in the statement of financial position when the Commission has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. 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 recognised as income in the period to which they relate. Fees from traders on the stock exchange are recognised as income in the period to which they relate.

In accordance with the Securities (Licensing and Registration) (Amendment) Regulations 2008, which came into effect on October 1, 2008, fees are calculated using "the greater of:

- (i) \$500,000; or
- (ii) The aggregate of
  - 5 basis points on the 1<sup>st</sup> \$5 billion of total assets; and
  - 1.5 basis points on the next \$25 billion of total assets; and
  - 75/100 basis points on total assets over \$30 billion."

For the purpose of the fee calculation, at items (i) or (ii), "assets" is taken to mean:

- (a) the "aggregate total of a dealer's balance sheet assets as at the 31<sup>st</sup> December of the year immediately prior to the anniversary of the grant of the licence taken without the netting of its liabilities plus the aggregate value, at that date, of securities or other investment instruments held or managed on behalf of clients whether on a discretionary or non discretionary basis; or

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

(m) Fees (cont'd):

i. Securities (cont'd)

- (b) in the case of a unit trust and overseas mutual funds, the net value of securities sold by or through the dealer during the year ending on the 31<sup>st</sup> December immediately prior to the anniversary of the grant of its licence”.

ii. Insurance

Fees for new registrations for insurance companies, agents, brokers, sales representatives and other insurance intermediaries are taken to income on receipt. Renewal fees from insurance companies are recognised as income in the period to which they relate.

Previously, in accordance with the amended 20<sup>th</sup> schedule, which came into effect on October 1, 2003, renewal fees for Intermediaries were the greater of the fee indicated on the amended 20<sup>th</sup> schedule or 0.5% of earned commissions. Fees for General & Life Insurance companies are based on assets as outlined in the amended 20<sup>th</sup> 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

In accordance with the amended 20<sup>th</sup> schedule which came into effect on November 1, 2008, the new fee structure for Jamaican and CARICOM General Insurance Companies are the aggregate of a fixed amount of \$4.7 million and an amount equivalent to 0.20% of total assets.

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

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

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

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

(m) Fees (cont'd):

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 31 of the previous year.

For the purpose of the fee computation, “total assets” are as shown in the annual statements as at December 31, immediately prior to the renewal date.

(n) Impairment:

The carrying amounts of the Commission’s assets are reviewed at each reporting date to determine whether there is any indication of impairment. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and the loss event has an impact on the future cash flows of the asset that can be estimated reliably. If any such indication exists, an asset’s recoverable amount is estimated at that 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 profit or loss.

(i) Calculation of recoverable amount:

The recoverable amount of the Commission’s assets is the greater of their fair value, less cost to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax 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 largely 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 carried at amortised cost is reversed, if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. For all other assets, an impairment loss is reversed, if there has been a change in the estimate used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(o) Foreign currencies:

Foreign currency balances outstanding at the reporting 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 profit or loss.

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 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. Similarly, financial liabilities include accounts payable and deferred fees.

(q) Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24, *Related Party Disclosures* as the “reporting entity, in this case, the Commission”).

A) A person or a close member of that person’s family is related to a reporting entity if that person:

- i) has control or joint control over the reporting entity;
- ii) has significant influence over the reporting entity; or
- iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

B) An entity is related to a reporting entity if any of the following conditions applies:

- i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- iii) Both entities are joint ventures of the same third party.
- iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- vi) The entity is controlled, or jointly controlled by a person identified in (A).
- vii) A person identified in (A)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged. The Commissioners and Senior Managers of the Commission are referred to as “key management personnel”.

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

(r) Determination of fair value:

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 Commission would receive on realisation of its financial assets or would pay to settle its financial liabilities in a current market exchange.

(s) Employee benefits:

Employee benefits are all forms of consideration given by the Commission in exchange for service rendered by employees. These include current or short-term benefits such as salaries, bonuses, NIS contributions, annual leave, and non-monetary benefits such as medical care and housing; post employment benefits such as pension; and other long-term employee benefits such as termination benefits.

Employee benefits that are earned as a result of past or current service are recognised in the following manner: Short-term employee benefits are recognised as a liability, net of payments made, and charged as expense. The expected cost of vacation leave that accumulates is recognised when the employee becomes entitled to the leave.

The Commission participates in a group defined-contribution pension scheme administered by an investment company. Obligations for contributions to the scheme are recognised as an expense in profit or loss, as incurred.

3. Cash and cash equivalents

|                             | <u>2013</u>         | <u>2012</u>       |
|-----------------------------|---------------------|-------------------|
| Current and saving accounts | 15,842,811          | 20,613,852        |
| Petty cash                  | <u>5,950</u>        | <u>5,950</u>      |
|                             | <u>\$15,848,761</u> | <u>20,619,802</u> |

4. 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 ranged between 5.4% and 6.15% (2012: 6 % and 7.5%) as at the year-end. The market value of the underlying securities as at March 31, 2013 was approximately \$547,495,000 (2012: J\$406,451,000).

The Commission's exposure to credit and currency risks relating to resale agreements are disclosed in note 16.



5. Accounts receivable and prepayments

|                                    | <u>2013</u>          | <u>2012</u>        |
|------------------------------------|----------------------|--------------------|
| Trade receivables [note 16(b)(i)]  | 98,896,292           | 89,837,225         |
| Prepayments and deposits (note 19) | 24,236,227           | 8,204,280          |
| Other receivables                  | 1,985,919            | 2,786,564          |
| Interest receivable                | <u>4,499,751</u>     | <u>2,806,915</u>   |
|                                    | <u>\$129,618,189</u> | <u>103,634,984</u> |

Trade receivables are shown net of an allowance for impairment losses of \$Nil (2012: \$Nil).

Pursuant to the Pensions ( Superannuation Funds and Retirement Schemes) (Validation and Amendment) Bill the legislation seeks to validate and confirm the collection of licence fees, during the period March 1, 2005 ending to an appointed date, by the Commission and its officers. The Bill, however, currently does not give the Commission the power to collect fees withheld by any institution in respect of deficiencies in the Pensions Act relating to the collection of Fees. Consequently, amounts outstanding, totaling approximately \$36 million, were written-off during the year.

The Commission's exposure to credit and currency risks and impairment losses relating to trade and other receivables are disclosed in note 16.

6. Taxation recoverable

Taxation recoverable represents tax withheld by financial institutions on interest income earned on balances held with those institutions. Taxation recoverable is shown net of a write-off of \$1,363,248 (2012: \$1,397,959).

7. Accounts payable

|  | <u>2013</u>         | <u>2012</u>        |
|--|---------------------|--------------------|
| Trade and other payables                                   | 19,706,675          | 28,030,361         |
| Employee benefits –accrued vacation, gratuities and salary | <u>58,860,064</u>   | <u>73,054,581</u>  |
|  | <u>\$78,566,739</u> | <u>101,084,942</u> |

The Commission's exposure to liquidity and currency risks relating to trade and other payables are disclosed in note 16.

Included in the employee benefits is a provision of \$23,186,292 (2012: \$38,655,456) which represents the 7% MOU salaries and allowances increases for the period April 1, 2009 to March 31, 2011 in keeping with the agreement arrived at between the Government and the respective trade unions/staff associations representing public sector employees. In this regard, the agreement states that the outstanding arrears will be made as a "one off" payment in five (5) equal instalments in May 2012, October 2012, May 2013, October 2013 and May 2014.

8. Intangible assets

These represent software cost capitalized as follows:

|                      | <u>2013</u>         | <u>2012</u>       |
|----------------------|---------------------|-------------------|
| Cost:                |                     |                   |
| At beginning of year | 38,754,603          | 35,127,461        |
| Reclassification     | -                   | 3,627,142         |
| Additions            | <u>835,472</u>      | <u>-</u>          |
| At end of year       | <u>39,590,075</u>   | <u>38,754,603</u> |
| Amortisation:        |                     |                   |
| At beginning of year | 36,556,269          | 25,630,705        |
| Reclassification     | -                   | 9,548,273         |
| Charge for the year  | <u>1,254,350</u>    | <u>1,377,291</u>  |
| At end of year       | <u>37,810,619</u>   | <u>36,556,269</u> |
| Net book value       | <u>\$ 1,779,456</u> | <u>2,198,334</u>  |

9. Property, plant & equipment

|                         | <u>Motor vehicles</u> | <u>Office furniture, equipment and leasehold improvements</u> | <u>Computer equipment</u> | <u>Total</u>        |
|-------------------------|-----------------------|---|---------------------------|---------------------|
| At cost:                |                       |   |                           |                     |
| March 31, 2011          | 5,410,584             | 107,124,733   | 47,215,404                | 159,750,721         |
| Additions               | -                     | 7,409,921   | 11,471,451                | 18,881,372          |
| Disposals               | -                     | ( 486,464)  | -                         | ( 486,464)          |
| Reclassifications       | <u>-</u>              | <u>847,498</u>  | <u>( 4,474,640)</u>       | <u>( 3,627,142)</u> |
| March 31, 2012          | 5,410,584             | 114,895,688   | 54,212,215                | 174,518,487         |
| Additions               | 403,433               | 6,897,512   | 2,127,276                 | 9,428,221           |
| Disposals               | <u>(3,474,737)</u>    | <u>( 2,050,810)</u>   | <u>( 263,889)</u>         | <u>( 5,789,436)</u> |
| March 31, 2013          | <u>2,339,280</u>      | <u>119,742,390</u>  | <u>56,075,602</u>         | <u>178,157,272</u>  |
| Depreciation:           |                       |   |                           |                     |
| March 31, 2011          | 4,028,436             | 62,718,709  | 42,538,735                | 109,285,880         |
| Charge for year         | 753,317               | 18,454,852  | 8,596,890                 | 27,805,059          |
| Eliminated on disposals | -                     | ( 91,212)   | -                         | ( 91,212)           |
| Reclassification        | <u>290,171</u>        | <u>265,803</u>  | <u>(10,104,247)</u>       | <u>( 9,548,273)</u> |
| March 31, 2012          | 5,071,924             | 81,348,152  | 41,031,378                | 127,451,454         |
| Charge for year         | 201,089               | 13,859,626  | 6,504,100                 | 20,564,815          |
| Eliminated on disposals | <u>(3,358,912)</u>    | <u>( 1,154,334)</u>   | <u>( 263,889)</u>         | <u>( 4,777,135)</u> |
| March 31, 2013          | <u>1,914,101</u>      | <u>94,053,444</u>   | <u>47,271,589</u>         | <u>143,239,134</u>  |
| Net book values:        |                       |   |                           |                     |
| March 31, 2013          | <u>\$ 425,179</u>     | <u>25,688,946</u>   | <u>8,804,013</u>          | <u>34,918,138</u>   |
| March 31, 2012          | <u>\$ 338,660</u>     | <u>33,547,536</u>   | <u>13,180,837</u>         | <u>47,067,033</u>   |

9. Property, plant & equipment (cont'd)

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

10. Reserves

|                 | <u>2013</u>          | <u>2012</u>        |
|-----------------|----------------------|--------------------|
| General Fund    | 378,842,654          | 261,462,756        |
| Capital reserve | <u>1,078,564</u>     | <u>1,078,564</u>   |
|                 | <u>\$379,921,218</u> | <u>262,541,320</u> |

Capital reserve represents property, plant and equipment, valued at \$1,078,564, taken over from the Securities Commission at the commencement of operations (note 1). These assets were donated by the United States Agency for International Development through the Ministry of Finance for use by the Commission.

11. Grant

|   | <u>2013</u>         | <u>2012</u>       |
|---|---------------------|-------------------|
| GOJ grant   | <u>\$36,000,000</u> | <u>36,000,000</u> |
| (i) The Commission occupies a building owned by the Government of Jamaica (through the Ministry of Land, Water, Environment and Climate Change) at no charge without a lease agreement. The terms of the lease are under negotiations [note 17(e)]. |                     |                   |
| (ii) The Commission has estimated the commercial value of the annual rental to be \$36,000,000 (2012: \$36,000,000) which has been recognised as a grant.   |                     |                   |

12. Staff costs

|                                   | <u>2013</u>          | <u>2012</u>        |
|-----------------------------------|----------------------|--------------------|
| Salaries, wages and related costs | 383,960,662          | 395,444,236        |
| Payroll statutory costs           | 23,344,473           | 22,698,406         |
| Gratuity                          | 19,872,931           | 17,009,671         |
| Pension (note 14)                 | 11,302,330           | 10,746,529         |
| Motor vehicle loan subsidy*       | <u>1,884,383</u>     | <u>2,300,989</u>   |
|                                   | <u>\$440,364,779</u> | <u>448,199,831</u> |

\* The Commission partners with a major financial institution in providing loans to eligible staff for the purchase of motor vehicles. Under the terms of the agreement, the interest rate borne by the staff will be 8% per annum and the Commission will provide a subsidy of the difference between the 8% and the interest rate charged to a maximum of 15.61% per annum per loan. The subsidy ends when the loan is liquidated or if the staff member is no longer employed to the Commission. As at the reporting date, future subsidy payments are estimated at \$2.9 million which will be recognised in profit or loss as they fall due.

13. Taxation

Under Section 14 of the Financial Services Commission Act, 2001, the Commission is exempt from income tax.

14. 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 administration and management of the Plan was transferred from Sagicor Life to Prime Asset Management Limited as at November 30, 2009.

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

The scheme is subject to periodic actuarial reviews at intervals of not more than three years. The last actuarial review at May 31, 2012, disclosed Total Assets of \$176.5 million and past service liabilities of \$165.4 million resulting in a surplus of \$11 million.

Contributions by the Commission for the year amounted to \$11,302,330 (2012: \$10,746,529).

15. Insurance Licence Deposits

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.

The securities pledged as at March 31, 2013 were valued at approximately \$1,048 million (2012: \$1,057 million).

16. Financial instruments

- (a) Fair values:

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

16. Financial instruments (cont'd)

## (b) Financial risk management:

Exposure to various types of financial instrument risks (credit risk, liquidity risk and market risk) arises in the ordinary course of the Commission's business. The Board of Commissioners has overall responsibility for the establishment and oversight of the Commission's risk management framework. Key management has responsibility for monitoring the Commission's risk management policies. No derivative instruments are presently used to manage, mitigate or eliminate exposure to financial instrument risks.

## (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 financial loss to one or both parties.

The Commission maintains cash and short-term investments with one reputable financial institution and investments are made in repurchase agreements involving Government of Jamaica securities.

At the reporting date, credit risk is concentrated in cash and cash equivalents, resale agreements and accounts receivable and the maximum exposure to credit risk is represented by the carrying amount of the financial assets.

The Commission generally does not require collateral in respect of trade receivables. Trade receivables relate mainly to the amounts due from customers. Management does not have a formal credit policy in place as customers are determined according to entities that are registered under the relevant legislation administered by the Commission.

The aging of trade receivables at reporting date was:

|                                 | <u>2013</u>         | <u>2012</u>       |
|---------------------------------|---------------------|-------------------|
| Past due 0-30 days              | 73,945,852          | 52,565,494        |
| Past due 30-60 days             | 17,123,368          | 1,052,102         |
| Past due 60-90 days             | 1,211,399           | 665,904           |
| Past due over 90 days           | <u>6,615,673</u>    | <u>35,553,725</u> |
|                                 | 98,896,292          | 89,837,225        |
| Allowance for impairment losses | <u>-</u>            | <u>-</u>          |
| Trade receivables (note 5)      | <u>\$98,896,292</u> | <u>89,837,225</u> |

## (ii) 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, or 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.

16. Financial instruments (cont'd)

## (b) Financial risk management (cont'd):

## (iii) Market risk:

Market risk is the risk that changes in market prices, such as interest rate, foreign exchange rates and equity prices will affect the value of the Commission's assets, the amounts of its liabilities and/or the Commission's income. At the reporting date, the Commission did not have any significant exposure to foreign currency risk and there was no exposure to equity price risk.

- 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 (see note 4) and does not have any borrowings.

*Fair value sensitivity analysis for fixed rate instruments*

The Commission does not account for any fixed rate financial assets at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

- 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 the reporting date, the Commission's exposure to foreign currency risk is as follows:

|                                     | <u>2013</u><br>US\$ | <u>2012</u><br>US\$ |
|-------------------------------------|---------------------|---------------------|
| Foreign currency assets:            |                     |                     |
| Cash and cash-equivalents           | 1,024               | 7,329               |
| Accounts receivable and prepayments | <u>187,748</u>      | <u>-</u>            |
|                                     | <u>188,772</u>      | <u>7,329</u>        |

The exchange rate for US\$1, in terms of Jamaica dollars, at the reporting date, was \$97.94 (2012: \$87.25).

There has been no change during the year in the Commission's exposure to financial instrument risks nor the manner in which it measures and manages these risks.

16. Financial instruments (cont'd)

(c) Capital management:

The Commission is not subject to any externally imposed capital requirements.

The Commissioners and management monitor the return on capital, which is defined as reserves. The Commission's policy is to maintain adequate capital to sustain future development of the entity.

17. Contingent liabilities

As at March 31, 2013, the Commission is contingently liable in respect of the following lawsuits filed against the Commission:

- (a) In one such suit, the Claimants are claiming the sum of US\$5 million for damages arising from a search and seizure exercise conducted by the Commission at premises occupied by the Claimants. The suit commenced in 2006, but has since been in abeyance. The Claimants are yet to set out the claim in detail. In a related claim by the Claimants, the Court handed down a judgement in the Commission's favour which would affect the viability of the foregoing claim for damages.

The Commission has, therefore, decided to apply to the Court to strike out the suit for damages. The Commission's legal counsel's opinion is that the application to strike out the suit will be successful. The Commission is of the view that the liability will be legal fees incurred in the matter since costs may be awarded. The potential liability has not been quantified.

- (b) A claim for damages for libel, including compensatory, aggravated and exemplary damages, was filed against the Commission in the Supreme Court. The Claimant was named on the Commission's Watch List of entities and/or persons affiliated with unregulated financial organisations (UFO) which was published in the newspapers during 2009.

At the hearing of the application on October 26, 2011, the Commission was granted an extension of time to file its defence. The defence was filed within the extended time and the matter was subsequently referred to mediation. The Commission is of the view that any liability will be restricted to the legal fees incurred in the matter. However, if the judgment is awarded in its favour, the FSC will seek award of costs against the Claimant.

- (c) The Claimants are claiming damages in the amount of US\$10 million for alleged defamation by the Commission. The Claim Form was procedurally defective and, further, the allegations in the Claim Form were considered frivolous. A hearing was held on July 15, 2011 and the court granted the application by the Commission to strike out the matter. The Claimants made an application to set aside the order and at the hearing on December 5, 2011, the court again struck out the matter. The Claimants filed an appeal directly to the Court of Appeal and no date for the hearing has yet been determined. The Commission is of the view that the liability will be the legal fees incurred by the Commission in the matter. The amounts involved are yet to be quantified.
- (d) During the period 2010-2012, the Commission acted as temporary manager of two licenses securities dealers, which are now in bankruptcy and liquidation. On the advice of the Council, the Commission is of the view that, in matters of this nature, there may be a contingent liability. However, the Commission is not in a position to estimate contingent liability as no claims have been threatened or brought.



17. Contingent liabilities (cont'd)

- (e) The terms of occupancy of the building currently occupied by the Commission [note 11(ii)] are under negotiations which may affect past years. The amounts involved are yet to be quantified.

The eventual outcome of these matters cannot be reliably determined at this time and, except for \$1.9 million in respect of (b) above, no provision has been made in the financial statements in these regards, as the Commission anticipates that any eventual liabilities will not have a significant impact on the financial statements.

18. Related party balances and transactions

The Commission has a related party relationship with its Commissioners and other Key Management personnel. "Key Management personnel" comprise the Commissioners and Senior Managers of the Commission.

- (a) The statement of financial position includes balances with related parties, arising in the ordinary course of business, as follows:

|  | <u>2013</u>       | <u>2012</u>       |
|--|-------------------|-------------------|
|  | \$                | \$                |
| Accounts payable:                        |                   |                   |
| Trade and other payables:                |                   |                   |
| Commissioners                            | 283,500           | -                 |
| Other key management                     | 2,108,559         | -                 |
| Employee benefits – other key management | <u>20,356,420</u> | <u>22,734,669</u> |

- (b) The statement of comprehensive income includes the following expenses incurred in, transactions with related parties in the ordinary course of business:

|  | <u>2013</u>    | <u>2012</u>    |
|--|----------------|----------------|
|  | \$             | \$             |
| Key Management Personnel compensation: |                |                |
| Commissioners fees                     | 1,822,750      | 1,902,315      |
| Salaries                               | 76,877,702     | 77,951,940     |
| Gratuity                               | 15,263,050     | 13,324,504     |
| Pension Contribution                   | <u>160,630</u> | <u>618,687</u> |

19. Capital commitment

As at March 31, 2013 the company entered into contracts for capital expenditure in the amount of US\$391,975 (\$38.6 million), in respect of which deposits amounting to US\$187,748 (\$18.5 million) have been made and are included in accounts receivable and prepayments (note 5).

20. Allocation to the Government of Jamaica Consolidated Fund

Paragraph 9 of The Public Bodies (Financial Distribution) Regulations 2012, which came into operation on April 30, 2012, stipulates that “the Board of Directors of a self-financing public body, shall seek to allocate a minimum of 5% of profit or surplus for transfer to the Consolidated Fund, no later than six months after the close of the financial year”. Paragraph 11 further states that “normal financial distribution shall be recommended by the Board of Directors of each self-financing public body with the agreement of the Financial Secretary”.

As at the date of approval of the financial statements, such distribution has not yet been recommended by the Board of Commissioners for submission to the Financial Secretary.



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