



ANNUAL REPORT 2013-14

PROMOTING INTEGRITY IN JAMAICA'S FINANCIAL SECTOR



Promoting Integrity in Jamaica's
Financial Sector

LETTER TO THE MINISTER OF FINANCE & PLANNING

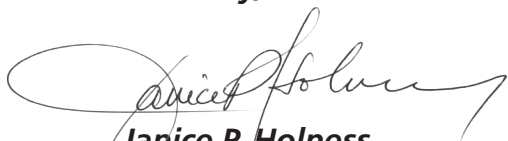
July 25, 2014

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 hereby submit to you, the Annual Report of the Financial Services Commission (FSC) for the Financial Year 2013/2014 and a copy of the FSC's Financial Statements for the year ended March 31, 2014, duly certified by its Auditors.

Sincerely,



Janice P. Holness
Executive Director

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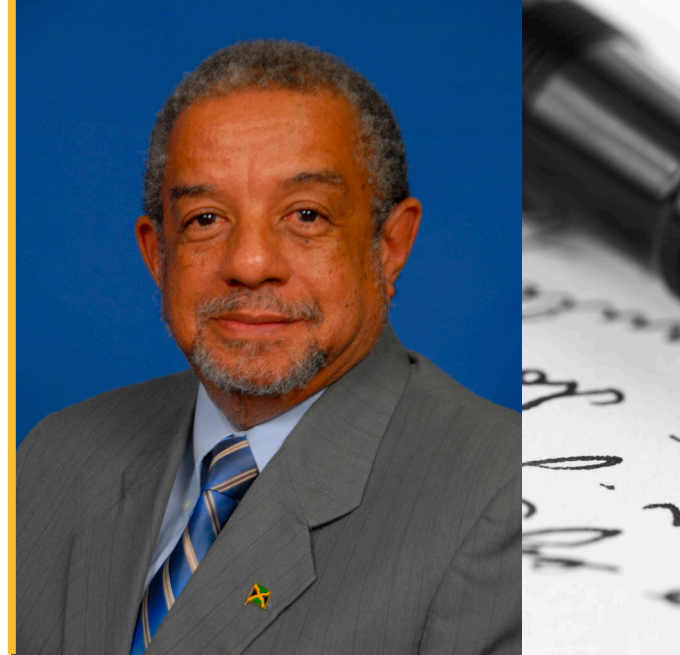
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AML	Anti-Money Laundering
BOJ	Bank of Jamaica
CAIR	Caribbean Association of Insurance Regulators
CAPS	Caribbean Association of Pension Supervisors
CAR	Capital to Risk Weighted Assets Ratio
CARTAC	Caribbean Regional Technical Assistance Centre
CFATF	Caribbean Financial Action Task Force
CTF	Counter Terrorism Financing
CIC	Compliance & Internal Control
CIS	Collective Investment Scheme
DB	Defined Benefit
DC	Defined Contribution
EFF	Extended Fund Facility
ERP	Economic Reform Programme
FATCA	Foreign Account Tax Compliance Act
FSAP	Financial Sector Assessment Programme
FSC	Financial Services Commission
FUM	Funds Under Management
GDP	Gross Domestic Product
GOJ	Government of Jamaica
GPW	Gross Premium Written
IMF	International Monetary Fund
IAIS	International Association of Insurance Supervisors
IFRS	International Financial Reporting Standards
IOPS	International Organisation of Pension Supervisors
IOSCO	International Organization of Securities Commissions
JSE	Jamaica Stock Exchange
LRS	Local Registered Stocks
MCCSR	Minimum Continuing Capital and Surplus Requirement
MCT	Minimum Capital Test
MEFP	Memorandum of Economic Financial Policies
MMOU	Multilateral Memorandum of Understanding
MOU	Memorandum of Understanding
MOFP	Ministry of Finance and Planning
NDX	National Debt Exchange
NII	Net Investment Income
NIR	National Investment Reserve
NPI	Net Premium Income
OECS	Organization of Eastern Caribbean States
UFO	Unlawful Financial Operations
US	United States
USD	United States Dollars

CHAIRMAN'S MESSAGE



During the twelve-month period that ended March 31, 2014, the Government of Jamaica (GOJ) undertook the challenging task of implementing its Economic Reform Programme (ERP). The aims of the ERP are to reduce the level of the national debt and create an environment that (i) facilitates investment, (ii) protects and strengthens the foundation of our financial system; and (iii) facilitates improved levels of productivity in the economy thus raising the level of growth and per capita income for Jamaicans. In addition to fiscal consolidation, the ERP involves very important structural reforms including tax reforms; public sector reforms; implementing measures to facilitate the ease of doing business in Jamaica; and legislative changes.

These reform measures were included among the list of structural benchmarks under the Memorandum of Economic Financial Policies (MEFP) as agreed between the GOJ and the International Monetary Fund (IMF). In relation to the financial sector, these measures were aimed at creating a more diversified financial market while equipping regulators with additional powers to preserve financial stability and offer greater protection for users of financial services. So far, the FSC has completed the following obligations under the MEFP within the timelines agreed with the IMF -

- I. The enactment of the Securities (Amendment) Act in December 2013, which included the new regulations

governing Collective Investment Schemes (CIS). This legislative reform accomplished the following:

- a. The strengthening of the FSC's investigative capacity and its ability to more effectively combat the establishment and proliferation of unlawful financial operations, (UFOs) and other fraudulent operations;
 - b. The establishment of a comprehensive legal framework for the regulation of CIS that will facilitate various forms of CIS by removing obstacles that impeded the growth and diversity of the CIS industry, while granting greater level of protection for users of these products; and
 - c. Compliance by the FSC with the international standard setting body for securities regulators worldwide - International Organization of Securities Commissions (IOSCO) - and becoming a signatory to the IOSCO Multilateral Memorandum of Understanding (MMOU) to facilitate meaningful cooperation and information sharing among signatories.
- II. The development of measures that seek to strengthen the level of protection for investors in repurchase agreements (repo), in particular, the repo model which is commonly known as retail repos and which pose unusually high levels of risks to customers and to the stability of the financial markets. These measures should be promulgated by end December, 2014.



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While the 2013-2014 fiscal year was indeed challenging, the FSC met all the quantitative targets and structural benchmarks under the four-year EFF.

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Going forward, the FSC, in consultation with the IMF, will develop a comprehensive crisis management and resolution framework for financial institutions by December 2014. An important structural benchmark under the MEFP is the repeal and modernization of the insolvency laws of Jamaica. This has motivated the development of the proposed Insolvency Act. A significant outcome of this change is that the FSC will be entrusted with the role of the Supervisor of Insolvency. Once the FSC is appointed as the Supervisor of Insolvency, the FSC will assume additional responsibilities to regulate, supervise, monitor and license insolvency practitioners, and will perform other regulatory duties under the Act.

In addition to the IMF programme, another significant development in the financial landscape is the United States Foreign Account Tax Compliance Act (FATCA). Financial Institutions will be required to file information on US account holders with the US tax authorities. The FSC will monitor its regulated entities for compliance.

For the medium term period (2014-2107), the FSC identified key objectives for its three-year strategic plan to enhance the regulatory framework. These objectives include the following:

- The modification of the FSC's operations to improve the productivity and the general efficiency of its registration process and the management of stakeholders' information;
- The continued development of the legal and regulatory framework to facilitate more effective supervision of the financial markets that we regulate and the regulation of new products such as microinsurance; and
- The enhancement of financial education and the continued development of the FSC's institutional capacity.

I thank my fellow Commissioners, the management and staff of the FSC for their professionalism and dedication which form the cornerstone of the FSC's ability to fulfil its mandate. While the 2013-2014 fiscal year was indeed challenging, the FSC met all the quantitative targets and structural benchmarks under the four-year EFF. I also want to express the FSC's appreciation for the feedback and other forms of interest shown in our work by our many licensees and registrants, the customers of financial entities and members of the public and private stakeholders.

Colin Bullock
Chairman

MESSAGE FROM THE EXECUTIVE DIRECTOR



This report covers the fiscal year that ended March 31, 2014, during which the Government of Jamaica (GOJ) entered into an Extended Fund Facility (EFF) agreement with the IMF. A Memorandum of Economic Financial Policies (MEFP) accompanied the EFF. The MEFP contained a number of economic reform measures, including financial sector reforms with structural benchmarks. Consequently, obligations were imposed on the FSC to meet these benchmarks. This translated to a very demanding year as significant man-hours and resources were expended to ensure that the structural benchmarks were completed within the timelines agreed on by the GOJ and the IMF. A plethora of activities was undertaken by the employees of the FSC which included (i) conducting research to formulate policy decisions to amend relevant legislation and modify the regulatory landscape, (ii) managing the collaboration and cooperation efforts among members of inter-governmental agencies, and (iii) arranging and executing consultations with local and overseas stakeholders. As a result, the MEFP targets for the reporting period were achieved in a timely manner and included the following:

- The amendment of the Securities Act and the promulgation of the Collective Investment Schemes (CIS) Regulations. As a result, the investigative capacity of the FSC is enhanced and the FSC is better equipped to undertake enforcement actions against fraudulent schemes;
 - The recognition of legitimate investment clubs by the legal and regulatory framework;
 - The amendment of legislation to remove legal and taxation impediments to a strong and vibrant CIS sector while offering a greater level of protection for CIS investors; and
 - The lifting of the cap on investment in foreign currency for the securities industry and the CIS products.
- Despite these successes, there remains many equally challenging financial reforms to be undertaken in keeping with the GOJ's Economic Reform Program (ERP) and the MEFP. For example, in order to provide greater protection to retail repurchase agreement clients, it will be necessary to establish a distinct treatment for their interests within the legal and regulatory framework. This will include:
- i. The formation of a Trust to hold the underlying securities on behalf of retail repurchase clients during the term of the repurchase agreement;
 - ii. The standardization of the legal documentation for the retail repo transactions, including a master retail repurchase agreement and trust deed;
 - iii. The development of the reporting and other regulatory requirements for the securities dealers who are parties to retail repurchase agreements;



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In order to join the “best in class” category of regulators, the FSC took steps to ensure that it complies with international standards for regulation and supervision.

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- iv. The establishment of the reporting and other regulatory requirements for the Jamaica Stock Exchange (JSE) entities that will serve as custodian and trustee with respect to the trust arrangement; and
- v. The creation of a definitive legal treatment for the retail repurchase client interests in the event of the insolvency of a dealer.

In addition to the MEFP deliverables, the FSC remained diligent in conducting its routine monitoring and supervision functions to ensure prudential and market conduct compliance. In its continuing efforts to update the regulatory framework, the FSC submitted to the MOFP, a number of proposed legislative amendments including the Phase II Pension reform. The FSC also embarked on the process of positioning itself globally as a world-class regulator. We are well underway to becoming a signatory to the IOSCO Multilateral Memorandum of Understanding (MMOU) and we also signed an MMOU for cooperation among regional regulators -Trinidad and Tobago, Barbados and the Eastern Caribbean Securities Regulators. In order to join the “best in class” category of regulators, the FSC took steps to ensure that it complies with international standards for regulation and supervision. We therefore began the process of benchmarking ourselves against those international standards for all three regulated sectors to identify any deficiencies that exist and have to be addressed. These steps being taken augurs well, not just for the FSC, but also for the country in general as

we prepare for the IMF and World Bank Financial Sector Assessment Programme (FSAP) in 2016.

The FSC also strengthened its internal corporate governance structure by staffing its Compliance and Internal Control (CIC) Division with employees of requisite and adequate skills. Two critical functions of CIC are to create a risk profile of the FSC and to conduct internal control reviews of the functional units within the FSC. The goal is to ensure that the FSC effectively complies with all established processes and procedures - both legislative and administrative- utilising a risk-based approach to maximise efficiency. CIC reports directly to the Audit Committee thereby demonstrating CIC’s independence. During the year, CIC conducted internal reviews of several divisions and completed a risk assessment and profile of the FSC. The findings of all undertakings of CIC are shared with the senior managers and the Audit Committee to ensure that corrective actions are taken and mitigation strategies are implemented.

The FSC also collaborated with international agencies to develop a regulatory framework that is conducive to microinsurance. Microinsurance, while fairly developed in other countries, is an emerging product in Jamaica. It is designed to provide financial options for low income individuals and families as well as those who are underserved. Microinsurance is characterized by low premium, low coverage limits, easy to understand policies, faster claim processing and are sold typically as a risk-pooling product. During the 2014-2015 financial

year, the FSC will engage and consult with the local stakeholders to develop the microinsurance regulatory framework.

In addition to this packed agenda, the FSC held steadfast to its commitment to financial awareness and education in schools. The FSC's financial education efforts included exploring partnering with Child and Youth Finance International (CYFI) to expand our programme and thrust toward financial inclusion which will aid low income individuals to save more, have greater access to credit, create wealth and manage risks. The FSC also intensified its collaboration within the region and with international standards setting bodies such as IAIS, IOSCO and IOPS, by contributing to discussion papers, surveys and working groups on global and emerging regulatory issues. Ms Rosemarie Henry, Senior Director of Insurance, was appointed Vice Chair of the Financial Inclusion Sub-Committee for the IAIS. We also seconded our employees – Mrs Andrea Lewin - Brown, Insurance Analyst, and Ms Corine Bolton, Senior Insurance Analyst, - to the Grenada Authority for the Regulation of Financial Institutions (GARFIN) in the Eastern Caribbean to lead and assist the insurance regulator with on-site examinations. Additionally, Ms Sherika Ellis, Senior Investigator, was seconded to (IOPS) for a year in Paris in their Financial Affairs Division assisting with on-going IOPS projects, including leading the work on micro-pensions.

Without any doubt, critical to our success is a competent workforce and therefore, employee training and development remained a priority during the year. As a result, the FSC implemented a number of strategic and cost-efficient training initiatives that will enable its employees to discharge their duties in a developing and evolving financial market. These initiatives seek to enable employees to acquire skills and knowledge, both for personal development and for career advancement. The training programme included all types of facilitated

learning opportunities, such as conferences, internal cross-training, secondment and formal university degree programmes and a fellowship. In 2013, Senior Legal Officer, Melanie Williams was selected as a scholar of the prestigious and highly competitive Hubert H. Humphrey Fellowship. Her attachment to the American University in Washington DC enabled her to gain invaluable experiences interning with the World Bank and IMF on a wide range of policy issues related to the Pension and Securities industries.

We, at the FSC, view the recent successes in the 2013 -2014 fiscal year as a platform from which to continuously develop and enhance how we execute our mandate. While we acknowledge that much has been accomplished, we equally recognise that there remains much to be done. For the next year, we will pursue legislative amendments to consolidate and strengthen the supervisory framework for non-deposit-taking institutions and undertake activities to increase FSC's productivity as well as improve the management of stakeholders' information. Our financial education and awareness campaign will be strengthened through partnership with organisations such as CYFI and Kiwanis Club of New Kingston. Our remit will expand to include our proposed role as Supervisor of Insolvency under the new insolvency legislation currently being piloted through the Parliament.

In closing, I extend my appreciation to my very actively involved and supportive board and the management and staff for their excellent work on behalf of Jamaica and the many stakeholders we represent.



Janice P. Holness
Executive Director

ORGANIZATIONAL OVERVIEW

The success of the FSC depends on the ability of our professional staff to identify and resolve regulatory problems in a complex and fast-paced financial environment. The required expertise is constantly changing to meet the needs of an evolving market.

Our strength is our people. We encourage cooperation and teamwork across the FSC to execute our mandate of protecting users of financial services in the area of insurance, securities and pensions.



ENABLING LEGISLATION

The FSC's enabling legislation is the Financial Services Commission Act. Section 6 of the Act mandates the FSC to discharge the following duties:

- Supervise and regulate financial institutions that provide services to the public in the insurance, securities and pensions sectors ("prescribed financial institutions");
- Promote the adoption of procedures designed to control and manage risk, for use by the management, Board 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; and
- Promote the modernization of financial services with a view to the adoption and maintenance of international standards of competence, efficiency and competitiveness.

BOARD OF COMMISSIONERS



CHAIRMAN

COLIN BULLOCK
B.Sc., M.Sc.

Mr Colin Bullock currently chairs the Board of Commissioners at the Financial Services Commission. He is the Director General of the Planning Institute of Jamaica (PIOJ) and an advisor to the Minister of Finance and Planning. He has lectured in the Department of Economics from 1974 to 1986 and from 2008 to the present.

Prior to joining the FSC's Board, he served as Deputy Governor, Research and Economic Programming from 1996 to 2005 and concurrently as Deputy Governor with responsibility for Banking and Market Operations from 1998 to 2005. He was seconded from Bank of Jamaica to Ministry of Finance to serve as Financial Secretary from 2005 to 2008. He also served as a member of the Government of Jamaica's team for external economic negotiations from 1986 to 2008 and on several occasions acted as team leader. His external interface included the IMF and other multilateral financial institutions, central banks, credit rating agencies and investment banks and brokerage houses. He has served on boards including the Bank of Jamaica, the Planning Institute of Jamaica and the Statistical Institute of Jamaica.



EXECUTIVE DIRECTOR

JANICE P. HOLNESS
B.Sc., JD

With over 17 years' experience in financial services regulation, her experience spans multiple jurisdictions. She was previously employed to the FSC between 2003-2011 as the Director, Investigation and Enforcement, where she was instrumental in the FSC's enforcement thrust in combatting unlawful financial operations and led the FSC's successful efforts on meaningful cross-border cooperation and collaboration on investigation and enforcement actions involving financial crimes. These efforts resulted in successful civil and criminal prosecutions in several jurisdictions.

Prior to joining the FSC in 2003, she lived and practiced as an attorney in New York with McCarter and English, LLP. Her primary concentration was representing major insurance companies in matters involving policy interpretation, benefits entitlement and sales and marketing practices. She also served as a law intern with the United States Securities and Exchange Commission (Enforcement Division) working on a variety of securities matters resulting in prosecution and forfeiture actions.

Ms. Holness holds a Juris Doctor degree from St. John's University School of Law in New York and is a member of the board of the FSC and the Bank of Jamaica.



MEMBER

ERWIN JONES
B.Sc.

Mr Erwin Jones is a graduate of the University of the West Indies who has over 36 years of experience as a Civil Engineer. He has supervised numerous projects and served as a Director of Fastrak Construction Engineers Company Limited, Jamaica Ethanol Processing Ltd., E. D. & F Man Jamaica Ltd., and as a Chairman of Technological Solutions Ltd. Mr Jones serves as Chairman of the Boards of Petrojam Limited and Dunoon Technical High. He currently sits on the Boards of National Investment Bank of Jamaica, Shortwood Teachers College and the National Energy Council.



MEMBER

DIAHANN GORDON HARRISON,
B.A., LLB

Mrs Diahann Gordon Harrison is an Attorney-at-Law by profession with over fourteen (14) years of experience since she was called to the bar in 2000. Mrs Gordon Harrison served as a Deputy Director of Public Prosecutions within the Office of The Director of Public Prosecutions (DPP). Currently, she is the Children's Advocate of Jamaica, a role she assumed in January 2012 following her appointment to this position by His Excellency Sir Patrick Allen, Governor General of Jamaica. She is a Board member of the University Council of Jamaica and a Commissioner of the National Parenting Support Commission. She holds a B.A in History and an LLB from the University of the West Indies and a Certificate of Legal Education from the Norma Manley Law School in Jamaica.



MEMBER

MICHAEL VACCIANNA
LLB

Mr Michael Vaccianna is a senior partner in the law firm Vaccianna & Whittingham. He has a wide range of experience in corporate and commercial matters spanning banking, investment, mining and energy, international trade, mergers and acquisitions. He is currently the Chairman of the Board of Hotel Four Seasons and Kingston College. He is also a member of the Jamaican Bar Association. He holds an LLB degree from the University of the West Indies and a Certificate in Legal Education from the Norman Manley Law School in Jamaica.



MEMBER

JUSTICE **KARL HARRISON**
CD

Justice Karl Harrison earned his LLB from the University of the West Indies. He was appointed as Resident Magistrate in 1983 and later served as Acting Registrar of the Supreme Court; Master in Chambers; Judge of the Court of Appeal and Acting Judge of the Grand Court of Cayman Islands. He received several national honours including the National Commander of the Order of Distinction (CD).

Justice Harrison is well published. His publications include: *Harrisons' Law Notes*; *Harrison on Personal Injury Claims* (1997); *Harrisons' Assessment of Damages- Personal and Fatal Accident Claims*; and *The Practitioner's Handbook of Fees and Costs*. He is currently the Chairman of the Criminal Records Board; Deputy Chairman of the Accreditation Committee of the General Legal Council. He sits on the Boards of the Corruption Prevention Commission, Electoral Commission of Jamaica and Firearm Licensing Authority Review Board.



MEMBER

WINSTON **HAYDEN**
B.Sc., MBA

Mr Winston Hayden holds a Bachelor's Degree in Professional Management and a Master of Business Administration (MBA) with distinction from Nova University, and a Diploma in Computer Programming from Career Training Institute (Boston, Massachusetts). He has more than 30 years' experience in public and private sector management and is currently the Managing Director of Clarendon Alumina Production (CAP).

He served as Chairman of the Micro Investment Development Agency and also served on the boards of several publicly and privately owned entities including the Civil Aviation Authority of Jamaica; Fiscal Services Limited; the Revenue Board; the National Health Fund and the Agricultural Credit Bank (now incorporated in the Development Bank of Jamaica).



MEMBER

DONNA
SCOTT-MOTTLEY LLB

Mrs Scott-Mottley earned an LLB degree from the University of the West Indies, Cave Hill, a Certificate of Legal Education from the Norman Manley Law School, in Jamaica and a Diploma in Crisis Management from the U.S. State Department. She is regarded as highly skilled in the areas of litigation and conveyance and is a leading expert on the Caribbean Heritage and Culture Legislation. Mrs Scott-Mottley was awarded the prestigious Musgrave Medal (Silver) in 2007 for her outstanding service to the development of culture through legal skills.

She served as the Chairman of the National Land Agency Advisory Board, President of the Southern Bar Association of Jamaica, a consultant and advisor to the United Nations Educational Scientific and Cultural Organization for Jamaica, Dominica, Grenada and Guyana. She currently chairs the Board of the Sugar Company of Jamaica Holdings Limited. She is also the Deputy Chair for the Private Security Regulations Authority; the Michael Manley Foundation; the General Legal Council and also sits on the Board of Governors of Clarendon College.

CORPORATE GOVERNANCE

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BOARD OF COMMISSIONERS

The FSC is governed by a Board of Commissioners consisting of a Chairman, the Executive Director (ex officio) and up to eight (8) other members. Each Commissioner, with the exception of the Executive Director, is appointed by the Minister of Finance 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 function of providing operational oversight of the FSC in making policy and supervisory decisions as it relates to the regulation and supervision of the insurance, securities and private pensions industries.

During the 2013-2014,

the Board had ten (10) formal meetings to deal with corporate governance and regulatory issues including the development of the strategic objectives and the business plan for the FSC and matters related to accounts and auditing, registration and licensing, legislative reform and other regulatory issues.



BOARD COMMITTEES

Some Board functions are delegated to Committees of the Board. The Board Committees are integral to the FSC's governance structure of best practices. The Committees meet periodically to address issues of a specialist nature and make recommendations to the Board. Chart 1 shows the composition, roles and number of meetings held during the reporting period for each committee.

Chart 1: Board Committees - Composition, Role and Number of Meetings Held, 2013-2014

BOARD COMMITTEE	MEMBERS	ROLES	MEETINGS HELD IN 2013-2014
Audit	Mr Winston Hayden, Chair Mr Colin Bullock Mr Michael Vacciana Ms Janice P. Holness	The Audit Committee assists the Board in <ul style="list-style-type: none"> ▪ overseeing the effectiveness of the FSC's internal controls corporate governance framework ▪ ensuring the independence of the FSC's internal and external auditors ▪ monitoring the risk management policies and systems 	3
Finance	Mr Winston Hayden, Chair Mr Colin Bullock Ms Janice P. Holness Mr Michael Vacciana	The Finance Committee assists the Board in <ul style="list-style-type: none"> ▪ overseeing the integrity of the FSC's financial management and reporting systems ▪ reviews and recommends the fee structure for the regulatory services provided by the FSC 	1
Human Resources & Administration	Mr Colin Bullock, Chair Ms Janice P. Holness Mr Erwin Jones Mrs Diahann Gordon Harrison	The Human Resources Committee assists the Board in developing and aligning human resources strategic goals with the organization's objectives.	6
Pensions	Hon. Mr Justice Karl Harrison (Retired), Chair Ms Janice P. Holness Mr Erwin Jones Mrs Donna Scott-Mottley	The Pensions Committee assists the Board in <ul style="list-style-type: none"> ▪ providing oversight and guidance for all matters requiring regulatory approval under the Pensions (Superannuation Funds and Retirement Schemes) Act and related regulations ▪ recommending certain supervisory decisions pertaining to the private pensions industry. 	5
Insurance	Mr Michael Vacciana, Chair Ms Janice P. Holness Mrs Donna Scott-Mottley Mr Winston Hayden	The Insurance Committee assists the Board in <ul style="list-style-type: none"> ▪ providing oversight and guidance with respect to supervision and regulation pertaining to the Insurance Act and related regulation ▪ responsible for recommending certain supervisory decisions pertaining to the insurance industry. 	4
Securities	Mrs Diahann Gordon Harrison Ms Janice P. Holness Mr Michael Vacciana Hon. Mr Justice Karl Harrison (Retired)	The Securities Committee assists the Board in <ul style="list-style-type: none"> ▪ providing guidance on all matters requiring regulatory action and approval under the Securities Act and its attendant regulations in order to promote the integrity and stability of the securities industry ▪ recommending certain supervisory decisions pertaining to the securities industry. 	9

Board Remuneration

The Board of Commissioners are remunerated as determined by the Minister of Finance. Chart 2 provides information on the remuneration paid to the Commissioners.

Chart 2: Compensation of Commissioners 2013/2014 (\$'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
			(\$' 000)		
Collin Bullock- Chair	0.0	0.0	825.00	0.0	825.00
Michael Vacchianna	0.0	0.0	184.50	0.0	184.50
Karl Harrison	0.0	0.0	150.75	0.0	150.75
Donna Scott Mottley	0.0	0.0	148.50	0.0	148.50
Winston Hayden	0.0	0.0	153.00	0.0	153.00
Erwin Jones	0.0	0.0	162.00	0.0	162.00
Diahann Gordon Harrison	0.0	0.0	191.25	0.0	191.25
Total	0.0	0.0	1,815.00	0.0	1,815.00

EXECUTIVE MANAGEMENT TEAM

The Executive Director leads the executive management team in creating and implementing strategic and operational direction in order to fulfil the FSC's mandate of protecting users of financial services in the areas of insurance, securities and pensions.



Caption: Left to Right

Siting: Janice P Holness – Executive Director; Rosemarie Henry – Senior Director, Insurance

Standing: Janet Johnson –Houghton – Senior Director, Compliance & Internal Control; Joan Walker –Senior Director, Corporate Services; Lorice Edwards-Brown – Director, Investigation & Enforcement; Nicolette Jenez –Senior Director, Pensions; Leon Anderson – Deputy Executive Director & Ingrid Pusey – General Counsel.

Absent: Chief Actuary & Senior Director, Securities.

Chart 3 provides information on the remuneration paid to the executive management team.¹

Chart 3: Compensation of Executive Management 2013/2014

Basic Salary Range of Executive Management:	
Executive Director	\$14,750,000
Deputy Executive Director	\$7,599,681 - 8,131,659
Chief Actuary	\$6,140,951 – 8,387,640
Senior Director and General Counsel	\$5,437,020 – 6,763,123
Director	\$4,207,780 – 5,131,439
Allowances:	
(i) Motor Vehicle Allowance	
Executive Director	Fully maintained motor vehicle
Other Executive Management	\$975,720
(ii) Housing:	
Executive Director	\$4,350,395
Gratuity in Lieu of Pension	25% per of base salary per annum

¹ Chart 3 shows the salary ranges and allowances, and not necessarily the precise amount, paid to the various members of the Executive Management Team for the 2013/2014 financial year. 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 does not participate in the FSC's pension plan. The members are eligible for health insurance coverage under the FSC's group health plan.

AT A GLANCE: THE FSC'S PERFORMANCE

HIGHLIGHTS FOR 2013-2014 & OUTLOOK FOR 2014-2015

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The general strategic objectives of the FSC are aimed at securing improvements in the legal and regulatory framework for the securities, insurance and pensions sectors; ensuring compliance with the regulations; improving the FSC's internal standards; ensuring financial sustainability and educating the public. The staff of the FSC worked hard to meet these targets and in many instances (for example in the areas of stakeholder education and legislative reform) the targets were fully met.

Chart 4: Highlights of the FSC's achievements for the year 2013-2014



In spite of the successes, one cannot lose sight of the fact that the 2013-2014 financial year was a challenging one given the ambitious timelines demanded of us to complete a series of financial sector reforms listed as structural benchmarks in the MEFP. This created a very demanding schedule for the staff and competed with the strategic

targets set by the FSC. The Board of Commissioners deferred 10 corporate strategic objectives for this reason and against the background of -

- (i) a change in the executive management team and key strategic staff (e.g the human resource manager);
- (ii) changes in policy direction as determined by the Board;
- (iii) changes in the GOJ's national objectives and international commitments; and
- (iv) over- ambitious targets,

The deferred matters included building renovation, Phase II of the pensions reforms, the regulatory management and executive information system, the online filing project and so forth. These targets should be pursued in the 2014 -2015 year and beyond.

GOING FORWARD

Chart 5 provides a summary of the FSC's corporate strategy for the period of 2014 to 2017.

For the next three years, the FSC identified key objectives, which when accomplished, will not only benefit the FSC, its employees and stakeholders but will also well enhance the soundness, image and reputation of Jamaica's financial services sector.

REVIEW OF FINANCIAL PERFORMANCE FOR 2013-2014 & FINANCIAL PROJECTION FOR 2014 - 2015

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, 2014. The following comments provide an analysis of the performance during the year and should be read in conjunction with the financial statements on pages 66-91.

INCOME AND EXPENDITURE

The FSC achieved a net surplus of \$166.2 million compared to the \$117.38 million for the previous year. Highlights of the income and expenditure are presented as follows:

Chart 5: Corporate Strategy Outlook



OUR CORPORATE STRATEGY OUTLOOK 2014-2017

Key targets to be pursued are:

- A new electronic information system which will automate the following business processes across the insurance, securities and pensions divisions:
 1. The registration of individuals and entities;
 2. The receipt of statutory filings
 3. Risk assessments;
- Enforcement actions; and
- The establishment of a comprehensive reporting platform that will make available real-time, standard and adhoc reports to the management and staff of the FSC.
- The completion of legislation for consolidated supervision and for the strengthening of the supervisory framework for non-deposit-taking institutions.
- The implementation of Phase II of the Pension Reform which addresses issues relating to the adequacy of pensions, vesting, portability and the locking-in of contributions.
- The amendment of the Insurance Act and Regulations to include provisions for the supervision of microinsurance.
- The promulgation of the Prudential Regulations which will enhance the prudential standards for securities dealers in line with international best practices
- The development of a comprehensive institutional and human capital capacity building plan to enable the FSC to increase staff competencies as well as its ability to deliver quality service in efficient and effective manner.
- The expansion and strengthening of the FSC's investor education and financial education and awareness programmes.
- A review of the FSC's organizational structure and compensation in order to enable the FSC to:
 1. have adequate staffing to effectively carry out its mandate; and
 2. recruit, motivate and retain highly qualified and technically competent staff.

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 cost 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	\$785.55 million
Interest Income	\$ 33.59 million
Fees from seminars/workshops	\$ 0.26 million
Miscellaneous Income	\$ 0.82 million
Total	\$820.22 million

Licensing and Registration fees for the 2013/2014 financial year increased by approximately 5 per cent over the previous year. The increase in fees was due to the following:

- 8.5 per cent increase in fees from the insurance industry. Total assets from the Life & General Insurance industry experienced a growth of 17.7 per cent and 8.38 per cent respectively;
- 20 per cent increase in fees from the pension industry. Total assets in the Pension Industry experienced a growth of approximately 4 per cent; and
- 19 per cent decrease in fees from the Securities industry. While there was a 1 per cent increase in assets for the industry, there was a decrease in the activities of the stock market. The increase in activities of the stock market last year was as a result of the sale of the Lascelles Dermecado shares in December 2012, which accounted for an unexpected income of \$32 million.

Charts 6 - 8 provide details of the sources of fee income from the securities, insurance and pensions industries for 2013/2014 and the comparative 2012/2013

**Chart 6: Revenue from the Securities Industry
2012/2013 and 2013/2014**

Source	2012/2013		2013/2014	
	Revenue ('000)	% of Total	Revenue ('000)	% of Total
Annual Licensing/Registration Fees- Securities Dealers Mutual Funds	141,058	68	139,263	83
Stock Exchange & JCSD Fees	52,312	25	14,166	8
Application Fees	15,160	7	15,292	9
Commercial Paper	64	0	0	0
Totals	208,594	100	168,721	100

**Chart 7: Revenue from the Insurance Industry
2012/2013 and 2013/2014**

Source	2012/2013		2013/2014	
	Revenue ('000)	% of Total	Revenue ('000)	% of Total
Annual Registration Fees- Life and General Companies	256,627	92	278,685	92
Annual Fees- Intermediaries	16,721	6	18,237	6
Application Fees	6,380	2	6,656	2
Totals	279,728	100	303,578	100

**Chart 8: Revenue from the Pension Industry
2012/2013 and 2013/2014**

Source	2012/2013		2013/2014	
	Revenue ('000)	% of Total	Revenue ('000)	% of Total
Annual Licencing Fees- Investment Managers	259,640	100	312,385	100
Application Fees	899	0	863	0
Totals	260,539	100	313,248	100

Interest Income

Interest Income for 2013/2014 was \$33.59 million representing \$9.16 million over the previous year. During the period an additional amount of \$150 million was placed on investment. Interest rates offered on short term deposits for 2013/2014 were between 7.15 per cent and 7.40 per cent per annum compared to 5.40 per cent and 6.15 per cent per annum for 2012/2013.

Expenses

Total expenses for the 2013/2014 fiscal year were \$689.97 million. This was \$6 million less than the last year. There were however, increase/reductions in some expenses, these included:

a. Advertising

The advertising expense for 2013/2014 of \$454,278.36 was 53 per cent lower than the previous year. Included in the expenditure for the previous year was \$432,930.96 which related to advertising cost associated with the recruitment of an Executive Director.

b. Appeal Tribunal

Expenses relating to the operation of the FSC Appeal Tribunal of \$3.3million for 2013/2014 were 17 per cent less than the previous year. There were fewer hearings and meetings less than the previous year.

c. Bad Debt Expense

Bad debt expenditure for the year was 66 per cent less than the previous year. The bad debt expense of \$12.93 million includes the following:

- Write off of outstanding licensing fees of \$9.88 million from the Securities industry; and
- Write off of outstanding licensing fees of \$3.05 million from the Pension industry.

d. Building Maintenance

For the 2013/2014, building maintenance decreased by \$3.5 million (30 per cent) compared to 2012/2013. General repairs and maintenance of the elevator were halted due to the FSC impending relocation.

e. Depreciation and Amortization

The depreciation costs of \$15.9 million were approximately 27 per cent less than the previous year. Some assets became fully depreciated during the period.

f. Office Expenses

Office expenses for the year were \$21.5 million or \$3.1 million more than the previous year. There was a general increase in the cost of goods and services associated with the devaluation of the Jamaican Dollar.

g. Professional fees

Professional fees of \$12.73 million were 26 per cent less than the previous year. Expenses (millions) included in the Professional fees are as follows:

Legal Fees	\$ 3.09
Consultants Services	\$ 3.26
Early Warning Assessment	\$ 1.10
Internal Audit	\$ 1.44
Other services	\$ 2.99
Indoor Air Quality	\$ 0.84
<hr/>	
Total	\$12.72

Included in the previous year's cost were services for Special Investigation and IT Security Audit of \$5.5 million and \$2.3 million respectively.

h. Public Education

Public Education expense of \$18.98 million was 20 per cent less than the previous year. For 2012/2013, public education expenses were higher since the FSC conducted a Baseline Survey for Financial Literacy in Jamaica which cost approximately \$3 million.

i. Motor Vehicle and Parking

Motor vehicle and parking expenses of \$10 million was \$.9 million higher than the last year. The increase is due mainly to increases in parking fees, motor vehicle service cost and the continuous rise in petrol prices.

j. Salaries and Related Expenditure

Salaries and Related Expenditure was \$474 million for 2013/2014 or 8 per cent higher than the previous year. The position of the Executive Director, was vacant for almost all of the previous year, in addition there was a vast increase in the cost of Health Insurance in October 2013 and an increase in Education Tax in April 2013. There were eight (8) resignations/terminations and seven (7) vacancies were filled during the year.

k. Training and Conferences

Training and Conferences Expenditure of \$25.15 million were 4 per cent less than the previous year. The reduction in expenses is a reflection of prudent management and effective use of in-house training for staff members.

l. Utilities

Utilities for the period were \$2.9 million higher than the previous year. The continued devaluation of the Jamaica Dollar resulted in increases in electricity and internet cost.

Balance Sheet

1. Liquidity

The FSC ended the year with cash and cash equivalents of \$25.43 million compared to \$15.85 million at the end of 2012/2013 fiscal year. Resale agreements (short term investments) were \$632.32 million, which was \$111 million higher than the previous year. We continue to ensure that all licensing/registration fees are received within the stipulated due date.

2. Accounts Receivable and Prepayments

Accounts Receivable and Prepayments at \$153.2 million was \$23.6 million higher than the previous year. This amount includes the following:

	2013	2014
Trade receivables	98.9	103.8
Prepayments & deposits	24.2	40.5
Other Receivables	2.0	2.7
Interest receivable	4.5	6.2
Total	129.6	153.2

Trade receivables are shown net of an allowance for impairment losses of \$12.93 million. The fee outstanding of \$103.8 million includes:

- \$77.57 million for insurance fees in arrears which are paid quarterly. Fees for the quarter ending March 31, 2014 are due in April 2014.
- \$20 million remains outstanding from the Jamaica Stock Exchange (\$22.85 million was outstanding in the previous year.)

Included in the prepayments and deposits of \$40.5 million are contractual payments made to date related to the Electronic Document Records Management System totalling \$27.4 million.

3. Property Plant and Equipment & Leasehold Improvements

Property, plant and equipment at the end of the year were \$38 million (net of depreciation) or \$ 1.3 million more than the previous year. During the period some

assets became fully depreciated. In addition the FSC acquired a Motor Vehicle for the Executive Director for \$5.7 million (Jan. 2014) and the Virtualization project at a cost of \$8.5 million (March 2014).

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 per cent
Leasehold improvement, office furniture & equipment	10 per cent & 25 per cent
Computer equipment & software	25 per cent

4. Accounts Payable (millions)

	2013	2014
Trade and other payables	\$19.71	\$25.43
Employee benefits (accrued leave, gratuity, 7 per cent MOU adjustment)	\$58.86	\$44.60
	\$78.57	\$70.03

Trade payables and receivables of \$25.43 million include the following:

- Provision of \$8.3 million which represents the balance of payment due to staff for the 7 per cent MOU salary and allowances for the period April 1, 2009 to March 31, 2011. In keeping with the agreement, two equal instalments were paid amounting to a total of \$15M were paid in May and October of this year. The remaining equal instalments will be paid in May 2014.
- An accrual of statutory payments for March 2014 of \$10.82 million which is payable on April 14, 2014.

Chart 9: FSC's Financial Projection for 2014-2015 (\$)

	Actual	Projected
	<u>2013 - 2014</u>	<u>2014 - 2015</u>
INCOME:		
Fees	785,546,823	786,940,000
Interest Income	33,594,740	37,820,000
Other	1,085,959	4,160,000
	820,227,522	828,920,000
EXPENSES:		
Advertising	454,278	644,000
Appeals Tribunal	3,322,133	3,112,000
Audit	1,650,000	2,200,000
Bad Debts	12,933,600	-
Bank Charges	764,030	1,044,000
Building Maintenance	8,067,911	9,371,000
Commissioners Fees	1,815,000	1,898,000
Data Security	6,757,355	9,710,000
Depreciation and amortisation	15,886,373	13,627,000
Motor vehicle and parking expenses	10,077,805	11,129,000
Office expenses	21,495,411	28,568,000
Printing and stationery	3,468,393	4,964,000
Professional fees	12,728,406	31,075,000
Public Education	18,981,481	21,251,000
Rent	36,000,000	36,000,000
Staff Cost	474,341,326	519,151,000
Subscriptions	8,318,119	22,236,000
Training and conferences	25,146,757	29,308,000
Utilities	27,778,424	33,772,000
	689,986,802	779,060,000
Surplus before grant	130,240,720	49,860,000
Grant	36,000,000	36,000,000
Surplus for the year	166,240,720	85,860,000

ORGANISATIONAL CAPACITY - MAINTAINING A TEAM OF EXCELLENCE

The reputation of the financial markets are determined, in part, by the effectiveness of their regulators.

In order to carry out the FSC's mandate, the FSC must maintain a cadre of highly qualified and competent staff that are ready and equipped to respond appropriately and in a timely manner to the new products, standards, threats, and challenges that frequently arise.

Our experience in the 2013 -2014 fiscal year bore testimony to this, as the FSC's skeletal staff had to complete a series of cutting edge IMF deliverables in quick succession while beginning its own self -assessment exercises in preparation for the upcoming FSAP and carrying the usual tasks required for maintaining properly regulated markets.

Given fiscal constraints and requirements for austerity by public bodies, the FSC applied a variety of strategies aimed at ensuring that its staff received the requisite

training and maintained its visibleness in the international regulatory community.

While the FSC continued its attendance and participation at seminars and workshop as well as various local, regional and international conferences, the outlay for those activities was significantly reduced by sourcing funding by multilateral donors such as the Caribbean Regional Technical Assistance Centre (CARTAC), not only for attendance at the events but also to provide the FSC with technical advisors and consultants who would visit Jamaica and have direct interaction with a greater number of staff members. CARTAC for instance provided technical assistance on consolidated supervision for all sectors. The FSC also received technical assistance on microinsurance and benefited from face to face interaction with experts retained by the IMF to provide advice on the legal and operational frameworks for the transition of retail repos to a trust.

Toronto Centre

Another strategy employed by the FSC to manage costs for capacity building was to reach out to training institutions such as the world renown Toronto Centre, with a view to develop partnership arrangements for the provision of training in Jamaica for the staff of the FSC. The Centre sourced experts from across the world in the fields of pensions, insurance and securities and brought them to Jamaica to provide training through a number of courses that were tailored to the specific needs of the FSC. The Toronto Centre bore 80 per cent of the cost for the programme. This approach allowed more staff members to have access to the programme in a more cost effective and efficient manner.

The Small Countries Financial Management Programme

The FSC also had a participant in the Small Countries Financial Management Programme which is fully funded by external donors including the Government of the Isle of Man. The programme brings together high level officials from finance ministries, central banks, and regulatory bodies in small developing countries for a two-week executive education programme designed to assist participants in addressing the specific challenges that they face. The participants benefit from the tutelage of experts from Harvard University, Oxford University and more experienced regulatory bodies. Topics covered included financial regulation, risk management, tax policy, financial crimes and leadership development. A key component of the programme is the course on negotiation that takes place at the Oxford University.

Participants are selected on a competitive basis. In this fiscal year, Mrs. Janet Johnson-Haughton was accepted into the programme. After her attendance during the summer of 2013, she made a presentation to the FSC's Board of Commissioners on key areas that the FSC could implement.

The Exchange of Knowledge and Experiences

Another method employed by the FSC to efficiently build the capacity of its staff as well as enhance the organization's profile in the international community is through the exchange of knowledge and experiences. This can be accomplished through secondments and participating in the activities of the international standard setting bodies.

Assessors for the Caribbean Financial Action Task Force (CFATF)

In the 2013-2014 year, the two employees from the FSC were selected by the CFATF to serve as assessors for the upcoming CFATF mutual evaluation exercise. The training received by those employees will no doubt benefit the FSC through the transfer of knowledge regarding international requirements and will enhance the organization's appreciation and understanding of the procedures and criteria for assessment.

Secondment to the International Organization of Pension Supervisors (IOPS)



Sherika L.L. Ellis, Employee

In the 2013-2014 financial year, the international standard setting body IOPS, offered to Sherika Ellis the opportunity to serve that body under a one-year secondment to assist in the development of international standards and best practices for the pensions industries worldwide.

By facilitating the secondment, the FSC ensures that its high performing staff members are rewarded with meaningful hands on exposure to regulation at the international level with the knowledge that the experiences that they will gain will be invaluable to the FSC on their return.

The FSC is proud that one of its own was selected to work with IOPS.

Excerpts from Sherika Ellis' testimonial are set out below.

"In August 2013, I set out to pursue my Master of Arts in Public Policy (MAPP) at the Central European University

(CEU) in Budapest, Hungary. This selection was deliberate. I envisioned that the CEU MAPP would expose me to contemporary issues in international governance and afford me opportunities which challenged my thinking. However, the overriding impetus was that MAPP required that candidates engage in the work of an International Organization (or other body involved in public policy) for at least two months. Based on a desire to concentrate my focus within my field - financial regulation - I contacted the Secretariat of the International Organization of Pension Supervisors (IOPS) at the Organization of Economic Co-operation and Development (OECD) in France. The IOPS Secretariat not only accepted my candidacy for the two months' but also offered me a year's secondment.

In June 2014, I graduated from CEU and in July 2014, commenced secondment at the OECD. I am assigned to the Directorate for Financial & Enterprise Affairs, Financial Affairs Division (DAF/FIN) under which the IOPS Secretariat is subsumed. Among other things, DAF/FIN develops and proffers solutions to policy problems and challenges faced by OECD member states as well as international governments. My role within the unit is, inter alia, to assist the IOPS Secretariat in drafting standards and best practices on pension supervisory issues as well as to draft working papers. I also assumed responsibility for the next drafts of the project related to micro-pensions and for providing case studies with a focus on Latin America and the Caribbean region.

The MAPP dovetails nicely into this opportunity. During my studies, I engaged in research and intellectual discourse ventilating current policy issues and wrote policy papers on current problems in governance. With courses such as Macroeconomics for Public Finance; Law & Public Policy et al, MAPP's body of knowledge developed my ability to view public policy under a comparative lens, where policy decisions are not made in a vacuum; where solutions to policy problems are proffered only after informed discussions and reasoned analysis; and where issues and challenges are analysed within the context of BOTH the domestic environment in which they are situated as well as the broader international environment. This, complemented by my professional background in financial regulation, uniquely poises me to fulfil my responsibilities as secondee.

My recent studies sharpened my skills-set, which makes me better able to contribute to IOPS. Pension issues cuts across several policy fields and impacts people's lives for decades. It is also crucial for livelihoods in the most vulnerable period of life. Therefore, in depth research, rational thought and analysis, and engagement with global practices are crucial inputs for international pension policies and standards. With pension reform and micro-pension on the international agenda, the opportunity to engage in IOPS programme of work is timely. Positive contributions can only improve overall welfare.

At the end of my secondment, I resume duties at the Financial Services Commission (FSC). I have no doubt that my skills-set will vastly improve throughout my tenure at the OECD. As such, I foresee the value-added to the FSC, to Jamaica. Policymakers face significant challenges in changing the status quo and initiating much needed reforms. Active engagement in public policy is a mainstay in creating change and improving the global socio-economic outlook. I am committed to advancing the FSC's work in financial regulation and to ensuring that Jamaica adopts and fully complies with international standards and best practices. With my experiences and international exposure, I will be more informed and well-positioned to advance this agenda. I envisage shaping public policy - social, legal, economic and other reforms, in a way amenable to the international community; being a change-maker and a thought leader not only in financial regulation but also in other policy areas and; influencing policies to maximize overall societal welfare.

Today, I remain steadfast in pursuing my goals and it is not despite the challenges faced but because of them that I expanded my horizons and grew personally and professionally. I am grateful to the Office of the Executive Director and to the Board of Commissioners at the FSC for their continuous support. As individuals and as a group representing the organization, they facilitated efforts to upgrade my qualifications as well as to improve my professional standing. They deserve commendations for their vision in building staff capacity and developing staff not only professionally but also personally. With this vision, the FSC is on a path of progress and will be a noteworthy player in making "Jamaica, the place of choice to live, work, raise families and do business."

Finally, I share a quote in the hope that it will inspire others in pursuit of their own endeavours:

It's not enough to have a dream unless [you are] willing to pursue it. It's not enough to know what's right unless [you are] strong enough to do it. It's not enough to join the crowd, to be acknowledged and accepted. [You] must be true to [your] ideals, even if [you are] excluded and rejected. It's not enough to learn the truth unless [you] also learn to live it... ~ Anonymous

Sincerely,

Sherika L.L. Ellis

FSC's employee Melaine K. Williams selected for 2013 Hubert H. Humphrey fellowship



Melanie Kamilah Williams, Employee

The FSC welcomes and encourages the efforts and personal initiatives of its employees in furthering their professional development. In 2013, Senior Legal Officer, Melanie Williams applied for and was awarded the prestigious and highly competitive Hubert H. Humphrey Fellowship through which she gained invaluable experiences working for the World Bank and IMF. Excerpts from her testimonial are set out below.

"This year, I had the privilege of being selected as one of 180 Hubert H. Humphrey Fellows from 93 countries across the World. I was one of only 2 fellows selected from Jamaica this year. This is the first time the FSC has had one of its staff selected as a Hubert H. Humphrey Fellow.

The Hubert H. Humphrey Fellowship Programme

The Hubert H. Humphrey Fellowship programme was established in 1978. The Programme is designed to provide mid-career professionals with significant experience in the public sector to enhance their academic and professional leadership skills. The overarching purpose of the programme to equip future global leaders with the technical skills and leadership capacity needed to benefit their institutions and their countries of origin..

The Opportunities I was given, the Knowledge I have gained as a Humphrey Fellow

During 2013/2014, I was hosted by the American University Washington College of Law. My studies and affiliations were designed to equip me with knowledge of American pension law and International Pension Policy. I am confident that the experience I have gained will assist the FSC in its efforts to expand pension coverage in Jamaica via the private pensions industry, through public-private partnerships, financial education, and legislative reform...

During this year, I have been doubly fortunate to have worked with the International Monetary Fund and at the

World Bank. My affiliation with the World Bank focused on the expansion of pension coverage for middle to low income workers via the formal sector. Professionally, I have gained invaluable knowledge on plain English legislative drafting techniques, tax policy, comparative pension law, pension policy for both the informal and formal sector and securities law.

At the American University Washington College of Law, I studied several courses, including Employee Benefits and Pensions Law, the Law governing mutual funds, International Commercial Arbitration, Cyberlaw and Advanced Legal Research. I have attended numerous conferences, including the World Bank's 6th Global Pensions Conference and the IOSCO/IFIE Conference on the Financial Education.

Immediate Knowledge Transfer to FSC – Building Institutional Capacity

Humphrey Fellows are required to remain in their Home Countries for 2 years after completing to facilitate knowledge transfer to their Country employers.

However, even while studying and working as a Humphrey Fellow I was able to immediately transfer the knowledge I gained to FSC's legislative targets...

I am eagerly looking forward to new opportunities to help the FSC achieve its mandate of effective supervision of the insurance, pensions and securities industries and its protection of consumers of these financial services. I am deeply grateful for this opportunity.

I am deeply grateful to the FSC, its Board of Commissioners, the US Department of State and the Institute of International Education for giving me this life-changing opportunity. Apart from what I have gained professionally, and my new skills that I will use in the discharge of my duties as a Senior Legal Officer, I have grown personally.

Quite simply, this was the best year of my life.

Sincerely,

Melanie Kamilah Williams

SUPERVISION, ENFORCEMENT AND REGULATION

OVERVIEW OF THE FINANCIAL MARKETS

GLOBAL ECONOMY

In 2013, due to several factors, such as low job growth and labour market participation and lower than anticipated inflation, several central banks and governments around the world employed policies to boost economic activity. Consequently, there was increased output in global industrial production, private consumption and investment and global economic output increased during 2013; albeit, lower than expected. Growth in the emerging market economies was due mainly to the developing Asian economies, particularly China, while the developed economies were led by the performance of the United States of America. Continued weak economic conditions in Europe contributed to the lower realised growth rate. The easy monetary policy also affected financial markets resulting in a low interest rate environment and higher stock prices in global equity markets.

The IMF, with confidence that the economic recovery in the advanced economies is strengthening, forecasted a 3.6 per cent global growth for 2014, compared to the 3 per cent in 2013. This anticipated growth should have a positive effect on the emerging markets through an increased demand for their products. If materialised, tourism dependent economies are likely to see an uptick in activity stemming from a stronger recovery in the advanced economies, while commodity exporters will continue to be affected by softer commodity prices.

OUR MACRO-ECONOMIC LANDSCAPE IN 2013

The Jamaican economy operated within the context of an expanding but still vulnerable global economy. In 2013, the Jamaican economy continued to encounter many challenges such as weak economic conditions including low demand for goods and services; low business and consumer confidence; and high unemployment. In February 2013, the GOJ executed a successful National Debt Exchange (NDX) where the GOJ recalled selected local securities and exchanged them for securities with longer maturities and lower interest rates. As a result, there were declines in the interest rates ranging from

of 1.0 to 5.0 percentage points on selected domestic GOJ instruments, thereby decreasing the value of the securities, as well as, interest income.

A tight Jamaican dollar liquidity condition developed in the financial system due to the uncertainty about Jamaica's ability to meet its economic performance targets, and a subdued appetite for GOJ debt instruments in the secondary markets. Additionally the deficit on the current account of the balance of payments continued to drive depreciation in the exchange rate for US Dollars, as demand for foreign exchange to pay for imports of goods and services continued to exceed export flows by a considerable margin. Despite the BOJ's intervention in the foreign exchange market and its efforts to improve liquidity conditions, the Jamaican dollar depreciated and there were increases in the average yields on all tenures of Government of Jamaica (GOJ) Treasury Bills. Chart 10 shows the average yield on T-bills while Chart 11 displays the exchange rate for the United States dollar (USD).

**Chart 10: Weighted Average Treasury Bill Yields
Mar 2013 - Mar 2014**

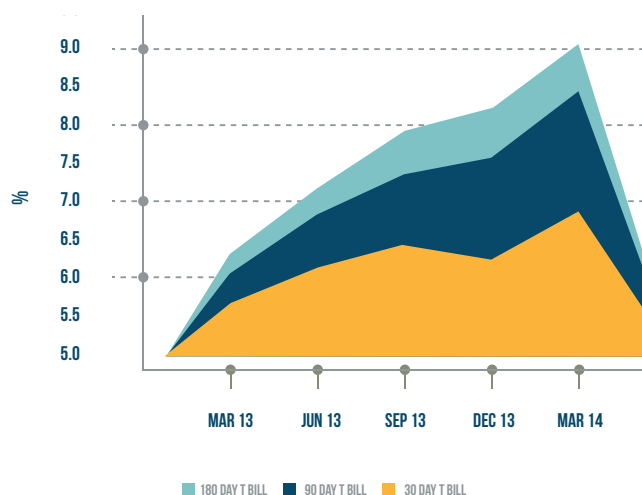


Chart 11: Cost of the US Dollar

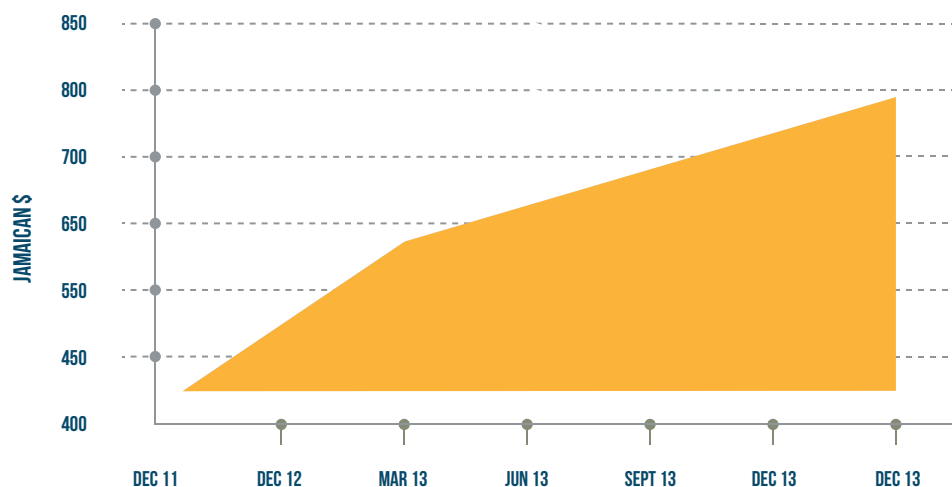
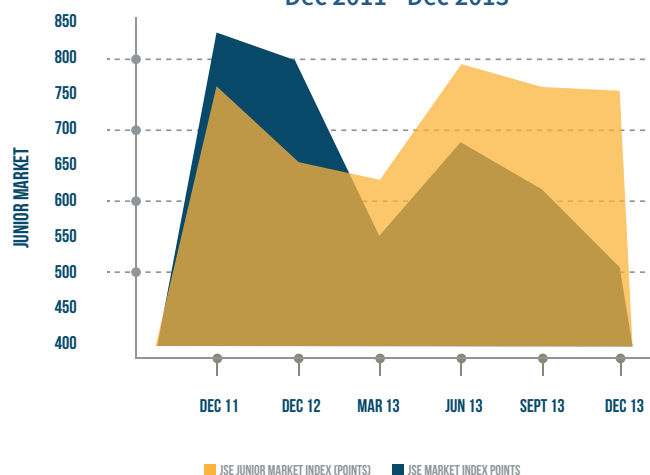


Chart 12 exhibits the performance of the stock market as measured by the indexes. Indexes for both the Main and Junior market have fallen, indicating that generally the prices of stocks have fallen. This can be attributed to a number of factors such as uncertainty regarding Jamaica's economic performance and investors' preference for foreign currency denominated assets as means to hedge themselves against the devaluation of the Jamaica dollar.

**Chart 12: JSE Main & Junior Market Indexes
Dec 2011 - Dec 2013**



Despite these challenges, the Jamaican economy improved as evidenced by growth in the Gross Domestic Growth (GDP). For the period of July – December 2013, the economy expanded by 1.1 per cent, partially due to the strengthening in the external demand for some Jamaican goods and services and an expansion in construction-related activities. There was also growth in the last quarter of the fiscal year, making it three consecutive quarters that the Jamaica economy grew. Overall, the GDP grew by 0.2 per cent in the 2013 calendar year. Another positive indicator was the decline in the unemployment rate from 14.5 per cent in January 2013 to 13.4 per cent in January 2014. Also, single-digit inflation rates for the calendar year 2013 and the fiscal year (2013-2014) were 9.7

and 8.3 per cent respectively. These rates were within the forecasted range despite adverse factors such as higher transportation costs; the depreciation of the domestic currency; adverse weather-related conditions and higher international crude oil prices.

It is in this economic environment that financial institutions executed their operations to make a profit while fulfilling their obligations to their clients. As a result, financial institutions such as insurance companies, securities dealers and pension plans faced both opportunities and challenges which are described below:

- The interest income of insurance companies declined due to the impact of the NDX. These companies, especially general insurers, are accustomed to using investment income to shore up underwriting performance in light of the inadequacy of premium income. When interest income falls, general insurers were left with no option but to increase their premiums in order to maintain underwriting performance. Lower interest rates resulted in increased actuarial reserves/liabilities for life insurance companies and thus adversely impacted their solvency status, however, the solvency levels of life insurance companies still exceeded the benchmarks;
- Securities dealers (SDs) and pension plans earned less interest income. Due to the short term tenor of the main investment assets, SDs were able to re-price by reducing the interest rates of these investments agreement in line with market conditions. In case of pension plans, a fall in interest income, during the accumulation stage, decreases the value of pension assets that would have been amassed by the time of retirement;
- Unlike the rates of interest on other GOJ securities, the yield on the treasury bills afforded insurance companies, SDs and pension plans to earn higher interest income while providing a reasonable level of liquidity; and
- With the main index on the Jamaica Stock Exchange falling in 2013 and the average dividend per share in 2013 being less than that of 2012, the earning of insurance companies, securities dealers and pension plans from the equities market declined.

Overview of the Regulated Financial Services Sector

Despite the economic environment in 2013, the combined regulated financial sector² continued to grow. See Chart 13. The sector contributed 0.1 per cent of the GDP growth rate of 0.2 per cent. Furthermore, the industry employed 26,000 individuals in 2013, accounting for 2.3 per cent of the employed labour force. The sector continues to be profitable despite the National Debt Exchange (NDX) programme.

The aggregate assets of the combined regulated financial sector, as defined in Chart 13, as a percentage of GDP amounted to 131.4 per cent as at the end of December 2013. The aggregate total assets of the combined regulated financial sector continue to grow. The total assets of the FSC-regulated institutions grew nominally by seven (7) per cent over the total asset recorded at the end of 2012. Chart 14 displays assets as a percentage of GDP for each type of institution listed in Chart 13.

Chart 13: Total Assets by Type of Financial Institution, December 2011 - 2013

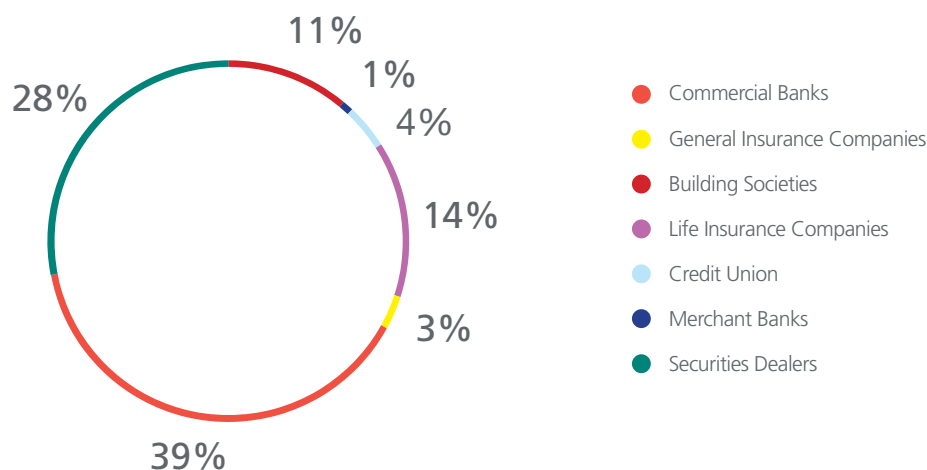
Types of Financial Institution	Dec-11		Dec-12		Dec-13	
	Assets (\$ Billion)	Percentage of Total Financial System	Assets (\$ Billion)	Percentage of Total Financial System	Assets (\$ Billion)	Percentage of Total Financial System
FSC-Regulated Institutions						
Life Insurers ^R	191.4	11.8	225.2	12	250.0	13.4
General Insurers	50.1	3.1	54.30	3.1	57.3	3.0
Securities Firms	502.7	31.1	512.5	29.7	523.7	28.14
Sub-Total	744.2	46	773.9	44.8	831.1	44.54
Deposit-Taking Institutions:						
Banks	601	37.2	659.8	38.2	726.6	38.9
Building Societies	185.4	11.5	201.4	11.7	211.1	11.29
Merchant Banks	20.0	1.2	21.3	1.2	23.7	1.27
Credit Unions	66.8	4.1	69.7	4.0	74.7	4.0
Sub-Total	873.1	54	952.2	55.2	1,036.1	55.46
TOTAL	1,617.30	100	1,726.10	100	1,867.2	100

R Revised

² For the purposes of the report, the term "combined regulated financial services sector" is used to refer to both the non-deposit taking sector, which is regulated by the FSC and the deposit-taking sector, which is regulated by the BOJ. For more details on the type of financial institutions included in these designations, please see Chart 13 and footnote 3.

³ In Chart 13, 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 Chart 13, 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 Chart 30. Securities licensees are characterized as "securities firms" and "non-core 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 the FSC and BOJ.

Chart 14: Assets of Total Financial Systems as a Percentage of GDP, 2013



FOSTERING THE STABILITY & HEALTH OF THE INSURANCE INDUSTRY

31

OVERVIEW OF GENERAL INSURANCE INDUSTRY

With the merger of Globe Insurance Company and West Indies Alliance Insurance Company Limited on September 1, 2013 to form Guardian General Insurance Jamaica Limited (GGIJ), there were ten (10) general companies registered but only nine were operating as at December 31, 2013. Chart 15 shows the types and number of each insurance registrant as at March 31, 2014.

Chart 15: Number of Registrants in the Insurance Industry as at March 31, 2014

Type of Registrants	Registered At March 2013	Addition	Less Terminations/ Cancellations	Less Merged Entities	Registered At March 2014
Life Insurance Companies	6	0	0	0	6
General Insurance Companies	11	0	0	1	10
Association of Underwriters	1	0	0	0	1
Insurance Brokers	25	0	0	0	25
Facultative Placement Brokers	18	0	0	0	18
Overseas Reinsurance Brokers	1	0	0	0	1
Local Reinsurance Brokers	1	1	0	0	2
Insurance Agents	14	0	0	0	14
Insurance Sales Reps	2,741	333	157	0	2,917
Loss Adjusters	28	6	0	0	34
Loss Adjusters - Employed Practitioners	4	1	0	0	5
Investigators	11	2	0	0	13
Claims Negotiators	6	0	0	0	6
Insurance Consultants	3	0	0	0	3
Total	2,870	343	157	1	3,055

During the year ended that December 31, 2013, general insurers employed approximately 1,179 employees (2012: 1,127) and wrote 313,277 policies (2012: 322,170). The accumulated sum insured totalled approximately \$2,660 billion (2012: \$1,809 billion). Chart 16 shows the number of policies by class, while Chart 17 exhibits the gross premium written (GPW) by classes of business. At the end of 2013, GPW for the general industry accounted for 2.1 per cent of GDP (2012: 2.4 per cent) and the GPW per capita amounted to \$11,052 (2012: \$11,714).

Chart 16: Number of Policies by Class of Business

Class of Business	2011 ^A	2012 ^R	2013 ^A
Liability	6,977	6,331	6,616
Property	47,966	46,920	43,959
Motor	271,637	261,289	267,094
Pecuniary Loss	6,739	5,854	5,348
Marine Aviation & Transport	269	221	400
Accident	1,674	1,576	3,128
Total	335,262	322,191	326,591

A - Audited
R - Revised

Chart 17: GPW by Class of Business, 2011-2013

Class of Business	2011 ^A	2012 ^A	2013 ^A
\$' Millions			
Liability	1,114.90	1,232.40	1,155.00
Property	12,709.60	14,043.70	12,919.00
Motor	13,246.40	14,052.10	14,970.00
Pecuniary Loss	184.60	185.80	489.00
Marine Aviation & Transport	333.30	313.90	344.00
Accident	168.30	172.20	163.00
Total	27,757.00	30,000.10	30,040.00

A - Audited

Chart 18- Statistical Information and Financial Position of the General Insurance Industry

As at	Dec 11 \$'B	Dec 12 \$'B	Dec 13 \$'B
Balance Sheet			
Total Investment Assets	34.4	37.1	38.4
Total Assets	50.1	54.2	56.8
Insurance Liabilities	28.2	31.3	33.4
Other Liabilities	3.5	4.0	4.7
Total Liabilities	31.7	35.2	38.1
Capital & Surplus	18.2	18.7	18.4
Profit & Loss			
Net Premium Earned	13.8	14.0	14.3
Underwriting Expenses	12.2	13.3	14.3
Net Investment Income	3.9	2.4	2.3
Other Income	0.3	0.5	0.9
Income before Tax	5.0	3.5	3.2
Taxes	1.1	1.0	0.8
Income (Loss) after Tax	3.8	2.5	2.4

At a glance:

PERFORMANCE OF THE GENERAL INSURANCE COMPANIES

Chart 18 shows selected indicators for the general insurance industry such as total assets and net income. The weighted average Minimum Capital Test (MCT) ratio for these companies at the end of 2013 was 293.2 per cent (2012: 285.9 per cent), which exceeded the prescribed capital required of 250 per cent.

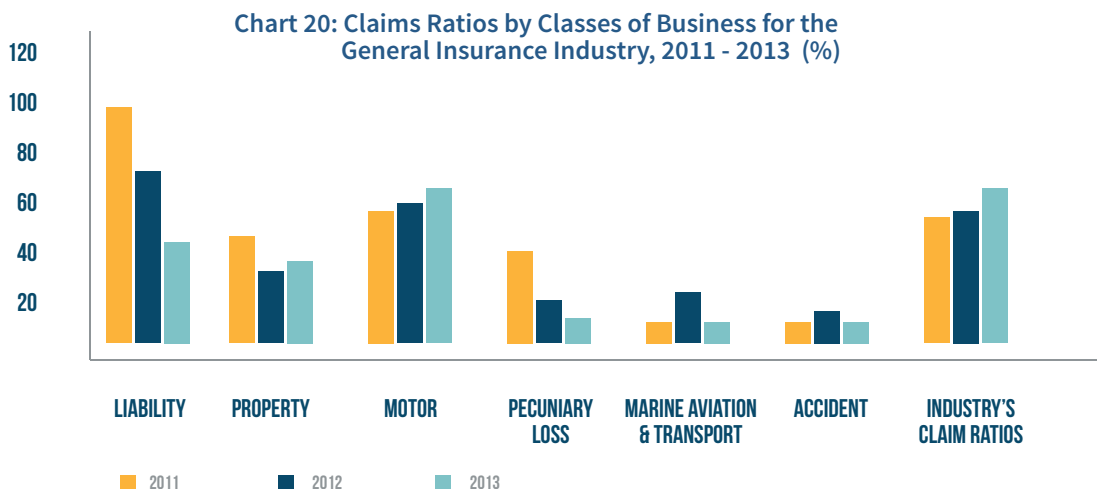
Of the three income categories – namely, net premium income (NPI), other income and net investment income (NII) NII fell by 4.2 per cent in 2013. See Chart 18. The fall in NII is partially due to the fact that the industry participated in the NDX. The growth in other income resulted from the companies recorded significant foreign exchange gains on investments denominated in foreign currencies as the Jamaican currency devalued. However, the impact on net income was negated by the increases in aggregate underwriting expenses which moved from \$13.4 in 2012 to \$14.3 billion in 2013. The deterioration in the underwriting performance of the companies was attributable to (i) the growth in the frequency and enormity of the reported claims; (ii) the adjustment of claims provisions following claim reviews; (iii) the earning of lower commissions from fronting activities; and (iv) the increased operational costs due mainly to redundancy payments, salary increases and inflation. As a result, the combined net income before taxes declined. (See Chart 18)

Chart 19 displays the aggregate amount of claims by class of business while Chart 20 exhibits the claims ratios for the industry and by class of business.

Chart 19: Aggregate Claims by Class of Business, 2011-2013

Class of Business	2011 ^A	2012 ^A	2013 ^A
\$' Millions			
Liability	674.3	582.9	352.0
Property	173.6	223.1	211.0
Motor	6,235.3	7,075.4	8,485.0
Pecuniary Loss	35.6	16.3	12.9
Marine Aviation & Transport	8.3	28.0	6.6
Accident	19.4	16.2	9.4
Total	7,146.5	7,941.9	9,076.6

A - Audited



OVERVIEW OF THE LIFE INSURANCE INDUSTRY

During the year ended December 31, 2013, the six (6) registered life insurance companies employed 1,930 employees (2012: 1,902). Chart 21 exhibits the percentage of GPW by class of business. At the end of 2013, GPW for the life industry accounted for 2.9 per cent of GDP (2012: 2.7 per cent) and the GPW per capita amounted to \$15,374 (2012: \$12,953).

Chart 21: Percentage of GPW by Class of Business, Life Insurance, 2013

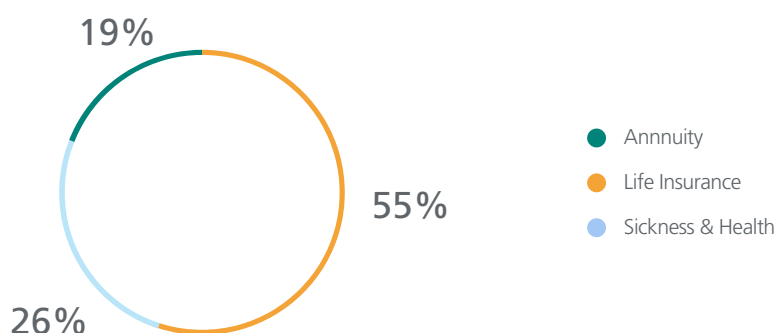


CHART 22 - STATISTICAL INFORMATION AND FINANCIAL POSITION OF THE LIFE INSURANCE INDUSTRY

As at	Dec 11 ^A \$'B	Dec 12 ^R \$'B	Dec 13 ^A \$'B
Balance Sheet			
Total Investment Assets	161.8	190.9	224.0
Total Assets	191.6	225.2	250.0
Insurance Liabilities	42.0	59.6	70.5
Other Liabilities	95.1	107.2	116.1
Total Liabilities	137.1	167.0	186.6
Capital & Surplus	54.6	58.4	63.4
PROFIT AND LOSS (YTD)			
Net Premium Earned	30.0	35.0	41.6
Net Investment Income	15.8	16.5	16.0
Other Income	2.6	3.2	12.0
Policy Benefits	14.1	15.9	21.5
Operating Expenses	22.7	23.3	27.5
Taxes	0.6	1.0	0.9
Total Expenses	37.4	44.0	49.8
Net Income after tax	10.9	10.8	19.8

A - Audited
R - Revised

Effective December 31, 2013, two (2) companies changed their accounting treatment of the assets and liabilities of their segregated funds, in that, all the assets and liabilities in segregated funds were allocated on a line- by- line basis in the financial statements instead of the lump sum treatment in prior years. This change was to bring the accounting treatment in accordance with the changes to the reporting requirements of International Financial Reporting Standards (IFRS) 10. Consequently, the comparative figures for year ended December 31, 2012 have been restated, as the change in accounting treatment was applied retroactively. As at December 31, 2013, total assets of the life insurance industry amounted to \$250 billion. See Chart 22

The aggregate net income for the insurance industry after tax in 2013 grew by 83.3 per cent over the figure a year ago. The industry totals for other income, total revenue and net income were skewed by the results of one company which earned \$8 billion from the sale of its subsidiaries to its group holding company. On the other hand, the industry recorded a 3 per cent loss in aggregate net investment income over the figure in 2012 (See Chart 22).

Chart 23 below displays the composition of policy benefits for the years 2011-2013

Chart 23: Aggregate Policy Benefits, 2011-2013			
Policy Benefits	2011 ^A	2012 ^R	2013 ^A
	\$ 'Millions		
Claims:	10,019.6	10,795.6	12,810.6
Types of Claims:			
Sickness & Health	7,151.0	7,678.40	8,770.2
Death Claims	2,775.0	3,010.5	3,748.8
Disability Claims	16.6	16.1	19.2
Matured Endowments	76.9	90.6	272.4
Annuity Payments	2,462.2	3,271.3	3,858.6
Surrender Values	1,133.2	1,305.6	4,218.2
Other	459.0	496.7	576.4
Total Policy Benefits	14,074.0	15,869.3	21,463.8

A - Audited
R - Revised

Capital

In 2013, the aggregate capital base grew by 8.6 per cent to \$63.4 billion (2012: \$58.4 billion). At the end of 2013, the weighted average Minimum Continuing Capital and Surplus Requirement (MCCSR) ratio for the life insurance sector stood at 338.2 per cent. This amount is less than the weighted average MCCSR of 448.6 per cent recorded in 2012; however, the 338.2 per cent more than doubled the regulatory benchmark of 150 per cent.

The weighted average MCCSR of 338.2 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. Therefore, 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 2013 was 188 per cent (2012: 167 per cent). Each life insurance company's MCCSR score was above the 150 per cent benchmark.

Risk Assessment: Promoting the Sound Development of the Insurance Industry

In addition to onsite examinations, the FSC also conducts off-site or desk-based examinations which involve a review of annual and quarterly financial statements and other selected documents submitted by the licensees and registrants to enable the FSC to monitor their financial health using early warning ratios and other risk indicators. The FSC applies the CARMELS framework to assess insurers' risk profile according to the following areas of exposure:

C - Capital
A - Asset Quality
R - Reinsurance
A - Actuarial
M - Management
E - Earnings
L - Liquidity
S - Subsidiaries

Charts 24 and 25 show the risk outlook for both general and life insurance companies under the CARMELS framework.

Chart 24: Risk Outlook for General Insurance Companies

Company	C	A	R	A	M	E	L	S
A	Low	Moderate	Moderate	Low	Low	Low	Low	Low
B	Low	Moderate	Low	Low	Low	Moderate	Moderate	Low
C	Low	Moderate	Moderate	Low	Low	Low	Low	Low
D	Low	Moderate	Low	Low	Low	Low	Moderate	Moderate
E	Moderate	Low	Low	Low	Low	Moderate	Moderate	Low
F	Low	Moderate	Low	Low	Low	Low	Moderate	Moderate
G	Low	Low	Low	Low	Low	Moderate	Moderate	Low
H	Low	Low	Low	Low	Low	Moderate	Moderate	Low
I	Low	Low	Low	Low	Low	Moderate	Moderate	Low

Chart 25: Risk Outlook for Life Insurance Companies

Company	C	A	R	A	M	E	L	S
A	Low	Low	Low	Low	Low	Moderate	Low	Low
B	Low	Low	Low	Moderate	Low	Moderate	Low	Low
C	Low	Low	Low	Low	Low	Low	Low	Low
D	Low	Low	Low	Low	Low	Moderate	Low	Low
E	Low	Low	Low	Moderate	Low	Low	Moderate	Moderate
F	Low	Low	Low	Low	Low	Moderate	Low	Low

All but one company are rated at stage zero on the supervisory ladder, while the remaining company is rated at stage one. The supervisory ladder has five stages ranging from stage zero to stage four. At stage zero the company is regarded "normal" with no major risks. At stage one, the company is exposed to risks that if left unattended could escalate into major challenges and is regarded as the Early Warning stage. At stage two, the company is exposed to significant risks to its financial viability or solvency and at stage three, its future financial viability is in serious doubt. At stage four, the company is viewed as not viable and may be placed into liquidation.

PROMOTING THE INTEGRITY AND STABILITY OF THE SECURITIES INDUSTRY

The FSC continues to push forward with financial reforms and promote the development of a healthy financial market. FSC also endeavours to maintain financial stability, to push for globalization of our financial markets, and to improve investor protection and public awareness and education. All these efforts are designed to provide an environment conducive to the sound development of the securities industry and markets, as well as to build up momentum for economic growth.

OVERVIEW OF THE SECURITIES INDUSTRY

Chart 26 shows the number of entities and individuals by category of licenses while Chart 27 provides the number of securities dealers by type of company as at March 31, 2014.

Chart 26: Number of Licensees in the Securities Industry as at March 31, 2014					
	Licensed/ Registered At 31/3/13	Additions	Less Terminations/ Cancellations	Less Merged Entities	Licensed/ Registered At 31/3/14
Securities Dealers	52	0	3	0	49
Unit Trust Managers	5	0	0	0	5
Securities Dealers' Representatives	801	153	137	0	817
Investment Adviser	3	0	0	0	3
Investment Advisers' Representatives	0	0	0	0	0
Mutual Funds	12	0	2	0	10
Unit Trust Schemes	10	1	0	0	11
Total	883	154	142	0	895

Note: Two of the securities dealers are also unit trust managers. The securities dealers' category includes individuals licensed as securities dealers.

The term "core securities dealers" is used to describe securities dealers which are companies engaged in securities dealing as a principal activity (hence, core securities dealers). It therefore includes unit trust management companies. The non-core securities dealers 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.

Chart 27: Number of Securities Dealers Licensees by Type of Company

Institution Type	2013
Securities Dealers	32
Types of :	
Core Securities Dealers ¹	29
Unit Trust Management Companies	3
Non-Core Securities Dealers	11
Types of:	
Building Society	1
Insurance Companies	4
Other	6
Total	43

¹ Two of the core securities dealers are also a unit trust management company. The 32 securities dealers only include companies. It does not include individuals licensed as securities dealers

At a glance: Jamaica's Capital Market still Solid and Sound

Charts 28 - 30 provide information on the structure and performance of the securities industry in terms of assets, capital and funds under management (FUM).

Chart 28: Total Assets of the Securities Industry by Type of Securities Licensee, 2011-2013

Category of Securities Licensee	Total Assets					
	2011		2012		2013	
	\$ 'B	% of total	\$ 'B	% of total	\$ 'B	% of total
Core Securities Dealers	502.7	59.2	512.5	54.9	523.7	57.2
Non-Core Securities Dealers	346.0	40.8	421.2	45.1	391.8	42.8
Of which:						
Commercial Banks	46.5	5.5	41.6	4.5	0	0
Merchant Banks	20.3	2.4	20.1	2.2	0	0
Building Society	94.8	11.2	108.6	11.6	118.3	12.9
Insurance Companies	157.4	18.5	223.6	23.9	248.1	27.1
Other	27.0	3.2	27.3	2.9	25.4	2.8
Total	848.7	100.0	933.7	100.0	915.5	100.0

Chart 29: Total Capital of the Securities Industry by Type of Securities Licensee, 2011-2013

Category of Securities Licensee	Total Capital					
	2011		2012		2013	
	\$ 'B	% of total	\$ 'B	% of total	\$ 'B	% of total
Core Securities Dealers	69.3	48.4	69.7	44.0	69.5	47.0
Non-Core Securities Dealers	74.0	51.6	88.6	56.0	78.5	53.0
Of which:						
Commercial Banks	6.5	4.5	6.1	3.9	0	0
Merchant Banks	4.7	3.3	4.5	2.8	0	0
Building Society	15.8	11.0	16.5	10.4	17.8	12.0
Insurance Companies	43.0	30.0	57.2	36.1	57.9	39.1
Other	4.0	2.8	4.3	2.7	2.8	1.9
Total	143.3	100.0	158.3	100.0	148	100.0

Chart 30: Total Funds Under Management of the Securities Industry by Type of Securities Licensee, 2011-2013

Category of Securities Licensee	Funds Under Management (FUM)					
	2011		2012		2013	
	\$ Billions	% of total	\$ Billions	% of total	\$ Billions	% of total
Core Securities Dealers	653.3	78.4	691.0	78.4	730.5	79.7
Non-Core Securities Dealers	179.7	21.6	190.4	21.6	186.3	20.3
Of which:						
Commercial Banks	0	0	0	0	0	0
Merchant Banks	8.9	1.1	7.9	0.9	0	0
Building Society	0	0	0	0	0	0
Insurance Companies	150.7	18.1	156.5	17.8	156.8	17.1
Other	20.1	2.4	26.0	2.9	29.5	3.2
Total	833.0	100.0	881.4	100.0	916.8	100.0

Chart 31 - Statistical Information and Financial Position of the Securities Firms

As at	Dec 11 \$'B	Dec 12 \$'B	Dec 13 \$'B
Balance Sheet			
Total Assets	502.1	512.5	523.7
Total Liabilities	432.8	442.8	454.2
Total Capital	69.3	69.7	69.5
Funds Under Management	653.3	691.0	730.5
Total Repo Liabilities	364.1	374.0	394.7
Profit and loss			
Total Revenue	44.5	43.4	38.6
Total Expense	29.5	31.8	30.2
Total Interest Income	35.7	34.8	32.5
Total Interest Expense	20.0	19.6	18.5
Net Interest Income	15.7	15.2	14.0
Net Profit after tax	10.0	8.0	5.8

**Chart 32 : Selected Prudential Indicators for Securities Firms
December 2011 – 2013**

Selected Indicators	2011 ^R	2012 ^R	2013 ^R	FSC Benchmark
Capital Adequacy				
Capital / Total Assets	13.8	13.7	13.3	≥ 6
Capital / Risk Weighted Assets	29.7	23.9	21.7	≥ 10
Asset Quality				
Low Credit Risk Assets / Repo Liabilities	113.1	103.3	101.2	≥ 100
Profitability				
Return on Average Assets	2.0	1.6	1.1	
Return on Average Equity	14.5	11.5	8.3	
Net Interest Margin	43.9	43.6	43.1	
Net Profit Margin	22.5	18.4	15.0	

^R - Revised

Chart 31 shows the statistical information of the securities firms for the period ended December 2011-2013. With income streams declining at a faster rate than the expenses, the profitability of these securities firms was reduced by 27 per cent from \$8 billion in 2012 to \$5.8 billion in 2013. The decline in interest income is partially attributable to the NDX programme.

Selected Indicators

Chart 32 summarizes selected indicators for the securities firms in the review period. As indicated, the sector remained adequately capitalized and robust and, there are adequate assets backing investments, as the low-risk assets to repurchase agreement (repo) liabilities ratio stood at 101.2 per cent above the FSC's minimum benchmark despite the weakened position.

COLLECTIVE INVESTMENT SCHEMES

The Collective Investment Schemes (CIS) currently have two forms – namely, unit trust and mutual funds.

The Unit Trusts sub sector consists of ten (10) unit trust funds, managed by five (5) fund managers, namely, Barita Unit Trusts Management Company Ltd., Scotia Asset Management Jamaica Ltd., Sagicor Investments Jamaica Ltd., JMMB Fund Managers Ltd. and NCB Capital Markets Ltd. As at December 31, 2013, the unit trust portfolios consisted of fixed income securities (65.8%), real estate (22.2%) and equity investments (8.1%), while cash and other assets represented approximately 3.9%.



At a glance: Performance of Unit Trusts & Mutual Funds

As at December 31, 2013, total funds managed by unit trusts management companies stood at \$58 billion. This is a 16.6 per cent increase over the \$49.7 billion recorded in the previous year. For the year ended 2013, unit trusts recorded net inflows of 5.8 billion units valued at \$6.8 billion. The value in units redeemed and sold experienced a spike during 2013 as a result of the introduction of a new fund during 2012 (See Chart 33)

Chart 33: FUM activities for the three year period ended December 2013

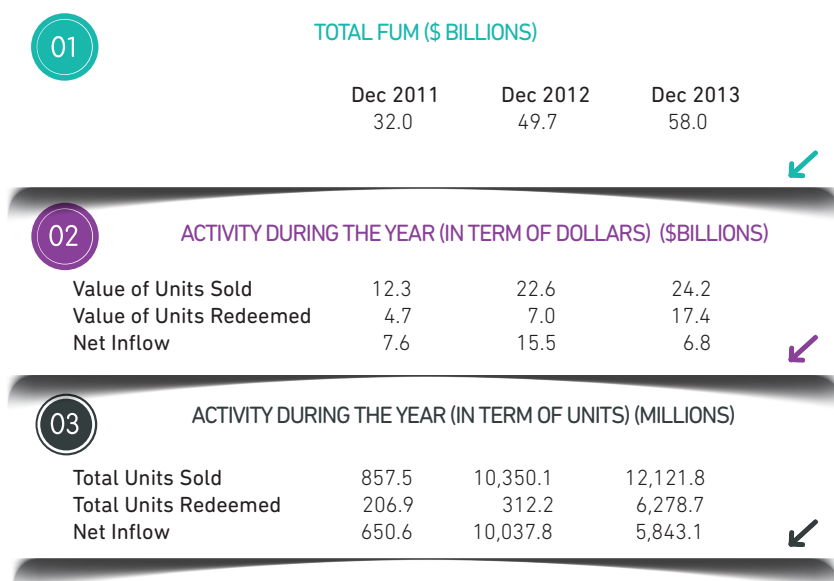
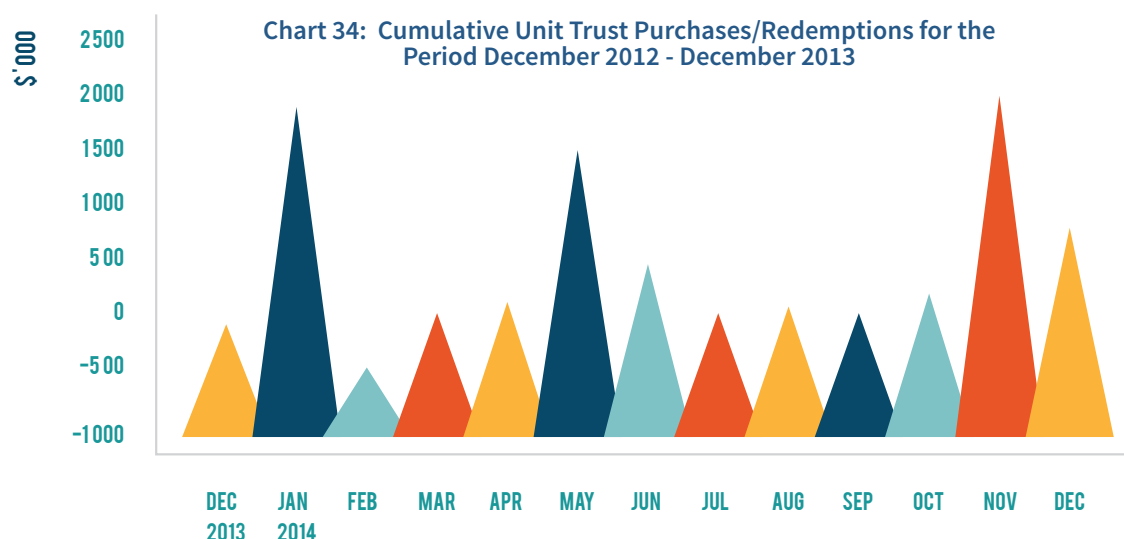


Chart 34 illustrates the variability of the buying and selling of units which are influenced by many factors such as macroeconomic indicators as well as changes in investors' investment appetite. Ten (10) of the thirteen months in Chart 34 experienced net purchases, albeit, at significantly different levels. The months that experienced the higher net purchases were due to the acquisition of units.



Performance of Mutual Funds

Currently, ten (10) overseas mutual funds are registered by the FSC for sale in Jamaica. The mutual fund investment portfolios are comprised mainly of equities and fixed income securities. For the period ended December 31, 2013, the total funds managed by mutual fund companies were USD 24 billion. Total funds attributable to Jamaican investors amounted to USD 165 million. USD 37 million of mutual funds units were sold to Jamaicans during the period, with a corresponding USD 16 million of units redeemed. This is due to the increased appetite of investors for USD denominated funds as more and more seek to hedge themselves against the devaluation of the Jamaican dollar. As a result, net flows stood at USD 21 million (see Chart 35).

Chart 35: Summary of Mutual Funds under Management by Jamaicans

01		2011	2012	2013	
Total FUM (USD millions)		165	122	165	↗
02 Activity During the Year					
Value of Units Sold (USD millions)		34	13	37	
Value of Units Redeemed (USD millions)		21	32	16	↘
03 Net Flows					
Value (USD millions)		13	-19	21	↗

Overview of Equities and Private Debt Markets

In June 2008, the FSC released the guidelines for Exempt Distributions which significantly changed the way in which issuers of securities sourced funding from the market. These guidelines replaced the private placement regime which existed before and allowed issuers the opportunity to seek exemptions from registration of prospectus or offerings documents. The guidelines allow exemptions in the following four main cases:

- I. The securities are sold to accredited investors⁴
- II. The buyer purchases a minimum amount of J\$10 million
- III. The securities are highly rated
- IV. The securities are private issues

At a glance: Performance of Debt Markets

For the year ended December 31, 2013, securities valued at \$13.6 billion and USD 115.7 million were issued by Exempt Distribution. This represents a 38.9 per cent increase in distributions denominated in Jamaican dollars and a 12.97 per cent increase in those denominated in United States Dollars. The number of securities issued increased by 106.3 per cent over the period. The Accredited Investor Exemption showed the largest increase over the period, with a 344 per cent increase in the number of distributions. The overall significant increase in the number of distributions, when compared to much lower percentages changes in value, indicates that the average size of the distributions decreased in 2013. See Chart 36.

⁴ The term "accredited investor" includes but is not limited to (a) any governmental authority or public statutory corporation; (b) financial institutions such as a bank, an insurance company, a building society, (c) an approved pension plan; (d) registered collective investment scheme (e.g) any individual whose net worth exceeds 50 million dollars, and (h) any individual who had a income before taxes in excess of 10 million. For a definition of accredited investor, see Guidelines for Exempt Distributions on the FSC's website

Chart 36: The Value and Number of Securities by each Exemption Type, 2012-2013

Type of Exemption	2012			2013		
	Number of Issues	\$ J \$'M	\$US \$'M	Number of Issues	\$ J \$'M	\$US \$'M
Accredited Investor	10	4,803.7	68.2	38	10,976.0	78.2
Minimum Purchase Amount	8	2,831.1	5.2	7	727.9	2.0
Accredited Investor and Minimum Purchase Amount	14	1,390.5	29.01	19	1,915.1	28.7
Highly Rated Debt	-	-	-	2	-	6.8
TOTAL	32	9,025.3	102.4	66	13,619.0	115.7

For the year ended December 31, 2013, sixteen (16) Public offerings valued at \$5.2B were registered. The offerings distribution appears in Chart 37.

Chart 37: Public Offering, 2012-2013

Type of Offering	2012		2013	
	Number	Value ('\$M)	Number	Value ('\$M)
Ordinary Shares	4	399.1	9	2,158.7
Preference Shares	-	-	3	1,769.4
Bonds	1	173.0	4	1,291.0
TOTAL	5	572.1	16	5,219.1

When compared to the year ended December 31, 2012, there was an increase of 220 per cent in the number of public offerings and 812 per cent in the value of public offerings. Possible contributing factors for these increases include (i) prospective issuers seeking to list on the Junior Market before the change in the tax concession becomes effective on January 1, 2014, and (ii) the introduction of two (2) new bonds on the newly re-launched bond market.

Risk Assessment: Minimising the Risk and Fostering the Soundness of the Securities Industry

The major risk faced by securities dealers is based on their current business model where a large portion of their funds under management is concentrated in the retail repo product. This product has Government of Jamaica (GOJ) Securities as the primary asset underlying the transactions. Liquidity issues associated with this business model arise because there

is a mismatch of assets and liabilities stemming from the tendency to fund long term assets with short term liabilities. This model exposes securities firms to the risk of their liabilities being repriced more frequently than the underlying assets. This has implications for securities dealers' net interest income and ultimately their profitability.

The liquidity risk is minimized by the fact that a large volume of these liabilities are not cashed out at maturity but rolled-over many maturity periods and thereby reducing the need for alternative funding sources to pay liabilities when they become due. Given the illiquidity in the GOJ Securities following the NDX in February 2013, the situation was further exacerbated as there has been little or no trading in these securities. There is also a challenge to ascertain the true market value of these securities since only indicative prices are used to generate the yield curve.

The legal, regulatory and operational reforms for the retail repos combined with lower earnings from spreads on GOJ Securities created uncertainties for participants in the securities sector. Although some licensees are currently involved in the CIS segment of the market, there are concerns about this being a viable alternative for clients previously invested in retail repos. This uncertainty and uneasiness is compounded by the fact that the returns from investments in the CISs are not guaranteed as opposed to the retail repo product. In addition, the sector is dissatisfied with the

pace of relaxation on the current 5 per cent cap on foreign currency assets applicable to industry participants. This 5 per cent cap was imposed under section 22 of the BOJ Act and the BOJ released a timetable designed to ultimately remove the cap by the end of 2016; unless extraordinary circumstances require a reassessment. This should alleviate some of the concerns of the industry.

To mitigate the risks associated with the retail repo product, a project is underway to develop the operations of a tri-party trust structure which is expected to accomplish the following key objectives:

1. To identify and implement legal and regulatory reforms necessary for the establishment of a tri-party trust structure; to migrate retail repos from the dealer's omnibus account; to decrease the attractiveness of the retail repo product; and ultimately to phase out the retail repo product.
2. To identify and resolve issues relating to the operations of the securities dealers and migration of the retail repos to a tri-party trust structure, including issues relating to the capacity of the approved trustee; and
3. To establish a tri-party trust structure to hold the securities underlying retail repos for the benefit of retail repo investors.

FACILITATING THE DEVELOPMENT AND GROWTH OF THE PENSIONS INDUSTRY

The FSC regulate approved private pension plans ensuring that the benefits of members are protected, high standards in administration of the pension market are achieved, promote public confidence and market stability and that our respective interventions are coherent and complimentary.

Overview of the Pensions Industry

As at December 31, 2013, there was a total of 806 approved pension plans. Chart 38 provides more details.

Chart 38. Number of pension plans regulated by the FSC as at December 31, 2013

Status	Defined Benefit	Defined Contribution		Total
		Funds	Schemes	
Active	109	318	13	440
Inactive	4	18	1	23
Terminated	82	261	-	343
Total	195	597	14	806

Membership in active DC Funds stood at 39,856 while membership of DB Funds was 27,159. Meanwhile, there were 28,296 members in approved Schemes (See Chart 39). Sixty per cent (60%) of the total membership is concentrated in 23 funds and schemes with each having more than 1,000 members. Also, 20 per cent of the active membership was concentrated in three (3) Schemes with each having more than 5,000 members. Funds with 50 or less members accounted for 5 per cent of total active membership.

Chart 39. Membership as at December 31, 2013

Status	Defined Benefit	Defined Contribution		Total
		Funds	Schemes	
Active	27,159	39,856	28,296	95,311
Inactive	58	149	-	207
Terminated	670	2,211	-	2,881
Total	27,887	42,216	28,296	98,399

DC and DB Funds which are inactive or being terminated accounted for an additional 2,360 and 728 member respectively. A total of 4,919 pensioners were being paid directly from all funds and schemes.

During the past seven (7) years, 90 per cent of new pension plans were established as DC Funds, demonstrating a shift from DB to DC. This is partially due to the fact that sponsoring companies preferred the predictability of cost associated with DC Funds.

The administration and investment management of more than ninety per cent of all Funds are outsourced to administrators and investment managers licensed by the FSC, while all except one scheme are self-managed by the sponsoring company. Chart 40 below shows the number of approved investment managers as well as the assets under management.

Chart 40: Total Assets under Management & Number of Approved Investment Managers.

Investment Managers	31-Dec-11		31-Dec-12		31-Dec-13	
	Number of Entities	Asset Values (\$'B)	Number of Entities	Asset Values (\$'B)	Number of Entities	Asset Values (\$'B)
Insurance Companies	3	141.2	3.0	144.6	3.0	154.8
Securities Dealers	13	102.2	15.0	108.3	16.0	120.3
Credit Unions/ Building Societies	5	3.5	5.0	3.8	2.0	0.3
Other	6	36.2	6.0	37.7	6.0	31.7
Total	27	283.1	29.0	294.3	27.0	307.1

Authorization

During the April 2013 to March 2014 fiscal year, the FSC received 131 applications, representing a 25 per cent increase over the 105 submissions recorded in the 2012- 2013 fiscal year. Chart 41 shows the number of submissions received and approved by categories of registrants and licensees.

Chart 41: Number and Types of Applications by Categories of Registrants and Licensees

Registrant & Licensees	Applications as at 3/31/2013		New Applications	Approved 2013-14	Cancellation 2013-14		Applications as at 3/31/2014		
	Approved	Not Approved			Winding-up / Withdrawals		Of Approved	Of Not Yet Approved	Incomplete
(1)	(2)	(3)	(4)	(5)	(6)	(1)+(4)-(5)	(8)	(9)	
Funds	339	100	3	25	10	8	354	51	19
Schemes	14	1	-		1		13		1
Trustees (Individuals)	2056	157	114	100	105	83	2051	44	44
Trustees (Corporate)	3	1	-				3	1	
Responsible Officers	60	6	14				75	5	
Administrators	31	2	-	1	2		30*	-	1
Investment Managers	29	1	-	-	3		26	-	1

Auditors and Actuaries

The FSC is required to determine the suitability of the actuaries and auditors appointed to the pension plans which fall within the ambit of the Pensions Act. The submissions received from seven (7) auditors were processed. Four (4) auditors were deemed suitable during the fiscal year; the remaining three submissions are considered work-in-progress.

At A Glance: Performance of Pension Plans & Schemes

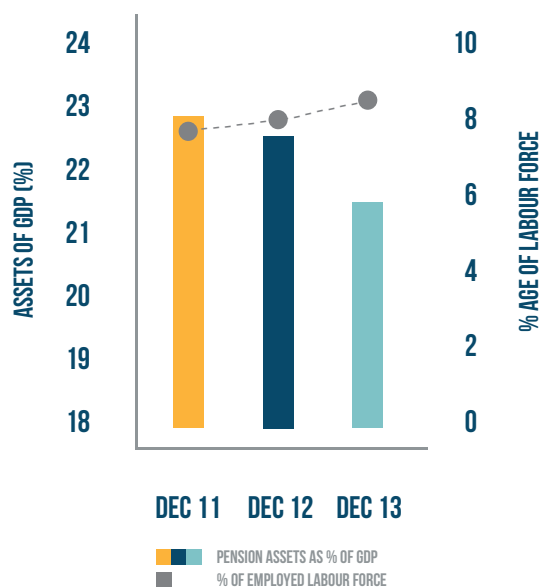
Aggregate total pension assets as at December 31, 2013 grew nominally by four per cent when compared with the previous year. In real terms this represents a five per cent decrease. This decline in pension assets is partially attributable to a few pension plans winding-up during the year. Holdings of GOJ securities continue to represent the majority of the total pension assets, albeit, on a downward trend. See Chart 42

Chart 42: Aggregate investment Mix

Types of Investment	Amount Invested \$'Billion	% of Total Investments	Amount Invested \$'Billion	% of Total Investments	Amount Invested \$'Billion	% of Total Investments
	Dec-11		Dec-12		Dec-13	
Deposits	2.1	0.7%	2.3	0.8%	3.7	1.2%
Securities of Governments	126.0	45.1%	129.1	44.4%	130.4	42.8%
Repurchase Agreements	21.3	7.6%	20.5	7.0%	22.8	7.5%
Bonds and Debentures	3.9	1.4%	3.4	1.2%	3.1	1.0%
Mortgage Loans	0.2	0.1%	0.2	0.1%	0.2	0.1%
Other Loans	0.1	0.0%	1.4	0.5%	1.9	0.6%
Promissory Notes	1.7	0.6%	2.9	1.0%	1.4	0.5%
Leases	1.4	0.5%	1.3	0.5%	1.8	0.6%
Stocks and Shares	33.1	11.8%	30.1	10.4%	30.2	9.9%
Real Estate	14.6	5.2%	17.6	6.1%	18.1	6.0%
Investment Arrangements	73.4	26.3%	79.2	27.2%	89.2	29.3%
Other Investments	1.7	0.6%	2.6	0.9%	1.8	0.6%
Total Investments	279.49	100.0%	290.71	100.0%	304.70	100.0%
Other Net Assets	-		3.5		2.4	
Total Assets	279.5		294.2		307.1	

As a percentage of the employed labour force, private pension coverage, increased marginally to 8.6 per cent as at the end of December 2013. Analysis of the data also reflects that coverage is highest in the finance/commerce sectors and lowest in the bauxite/mining sectors. The accumulated asset of funds and schemes as a percentage of GDP was 21.6 per cent. See Chart 43

Chart 43: Selected Pensions Indicator



1. Off-site (Desk-Based) Examinations

During the period under review 506 early warning risk assessments were completed; representing an increase of twenty-six per cent relative to 2012 - 2013 during which 403 evaluations were done. Of the 506 funds and schemes, 458 were evaluated as having low levels of risk, four considered as having moderate risk and 44 were deemed high risk as shown in Chart 44.

Chart 44: Risk Assessment of Pension Plans

			Risk Level		
		Plan Impact	Low	Moderate	High
Superannuation Funds	DB	Low	16	1	5
		Moderate	21	0	7
		High	77	0	8
	DC	Low	187	0	10
		Moderate	51	0	2
		High	97	3	8
Retirement Schemes	RS	Low	1	0	0
		Moderate	0	0	0
		High	8	0	4
	Total		458	4	44

Notes: Plan impact is determined by the number of members in and the asset size of the plan.

In comparison to the last fiscal year, there was a 42 per cent increase in the number of funds and schemes regarded as exposed to high levels of risk. The risk ratings assigned were primarily due to issues relating to funding and solvency. The solvency position of some funds and schemes were impacted by the negative real returns achieved from investment in local debt instruments. This is a cause for concern as pensions plans need to outpace the rate of inflation in order to provide meaningful pension benefits, particularly in the case of DC arrangements.

On the other hand, the moderate risk level was informed by the amount of outstanding pension contributions (between 10 and 16 per cent) and breaches of the foreign currency statutory limit. The completed assessments also show that 93 per cent and 91 per cent of DC and DB funds and schemes respectively were solvent as at March 31, 2014 based on available data.

In the case of licensees, three companies were assessed with high levels of risk as shown in Chart 45. This was due mainly to poor governance arrangements and breaches of the related party and concentration limits by pension plans under their management.

Chart 45: Risk Assessment of Licensees

		Risk Level		
	Impact	Low	Moderate	High
*Administrators	Low	4	2	0
	Moderate	4	5	1
	High	2	3	0
*Investment Managers	Low	3	4	0
	Moderate	2	2	1
	High	1	3	1
Corporate Trustees	Low	1	0	0
	Moderate	0	0	0
	High	0	0	0
Total		17	19	3

* Impact is determined by the asset under management

2. On-site Examination

During the fiscal year ended March 31, 2014, the FSC continued its programme of on-site examinations as part of its supervisory activities for this industry. The scope of these examinations was tailored to cover specific areas of focus including corporate governance, risk management, investments and money laundering. Licensees and registrants were selected on the basis of their risk rating assessed by the FSC and their past examination history.

A total of seven (7) on-site examinations were conducted compared to five in the previous fiscal period. The FSC aims to conduct approximately five on-site examinations annually, prioritized based on the degree of risk assessed. However, depending on the level of resources necessary to increase the supervision of entities requiring remedial action, the number of on-site examinations undertaken will fluctuate from year to year.

3. Risk outlook

a. To Regulated Entities

Against the background of the annual risk assessments, the FSC identified the following as the major risks associated with the adequacy and coverage of pensions:

- There is the possibility that the earnings achieved by plans may not be sufficient to pay pension benefits when they become due. Market conditions may negatively impact the value of annuities based on the timing of annuity purchase;

- Employees who change employment during their career and who opt to be refunded their contributions are likely to lose out in terms of the pension benefit they ultimately receive;
- Pensions may not be indexed and as such their value in real terms may not be maintained;
- Inadequate governance practices in funds and schemes; and
- The implementation of Phase II of the private pension legislative reform is intended to assist in mitigating the risks faced by the industry.

b. To FSC's objectives

In achieving the objectives of the FSC in relation to the pensions industry, the following were identified as the main risks:

- Undue delay in implementing Phase II of the private pension reform; and
- Inadequate financial education levels and an associated lack of proper knowledge of pension products within the industry.

In order to mitigate these risks, the FSC and the MOF will continue to advance the process towards implementation of phase II. Additionally, the FSC remains committed to its public awareness and education campaign which is directed at students and the adult population.

INVESTIGATIONS & ENFORCEMENT

Market misconduct, including investment fraud, poses a significant risk to the integrity of Jamaica's financial markets. A credible enforcement programme is a powerful tool to ensure compliance and deter inappropriate and illegal market conduct, and sends a strong message to the market and public in general.

PROTECTING INVESTORS AND MARKET INTEGRITY

The Investigation and Enforcement (I&E) Division utilizes all of the regulatory tools at its disposal to protect investors. The FSC, based on information gathered from either its own surveillance programme, intelligence gathered or complaints received from the public, conducts investigation. On the conclusion of these investigations, the I&E Division made numerous recommendations for enforcement actions commensurate with the respective breaches. These recommendations included warning letters, fixed penalty notices, cease and desist orders, directions and the revocation of licenses and fit & proper statuses. Common offences during the period included failure to file financial reports; breaches of facultative placement legislations; misleading representations and the failure to meet prudential benchmarks.

COLLABORATIVE EFFORT

The Division continues to collaborate with local colleagues such the Financial Investigation Division, (FID) The Jamaica Fraud Squad, The Organized Crime Division and the Major Organized Crime and Anti-Corruption Task-Force.

The FSC also worked with other enforcement agencies and financial institutions to raise awareness of investment fraud by frequently disseminating information from the Financial Action Task Force, its regional affiliate- the Caribbean Financial action Task Force (CFATF) and other Anti-Money Laundering and Counter-Terrorism Financing (AML/CFF) standard setting bodies. Most recently, the FSC circulated to its regulated sectors, CFATF's Statement on Caribbean jurisdictions that failed to meet the specifications of their action plan to address AML/CFT deficiencies.

Statistical Highlights

Complaints

Chart 46: Nature of Complaints,
April 1, 2013-March 31, 2014

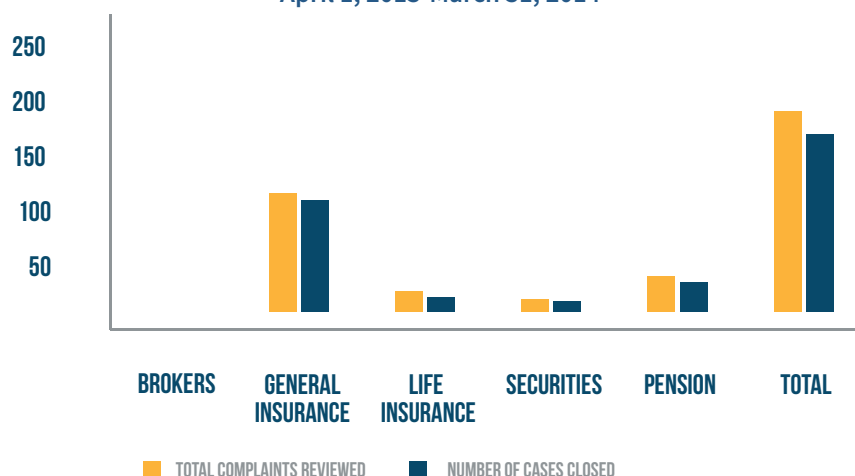
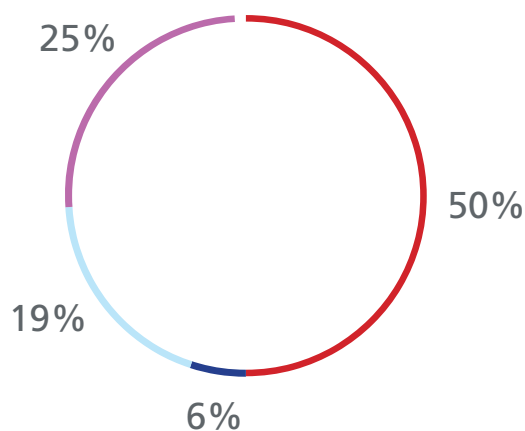


Chart 46 depicts the complaints processed by sectors over the 2013-2014 fiscal year. While the FSC's service standards stipulate a 90-day resolution period, the cases were resolved within an average of 70 days. The initial acknowledgement of receipt of all complaints was made within the established 5 day-period.

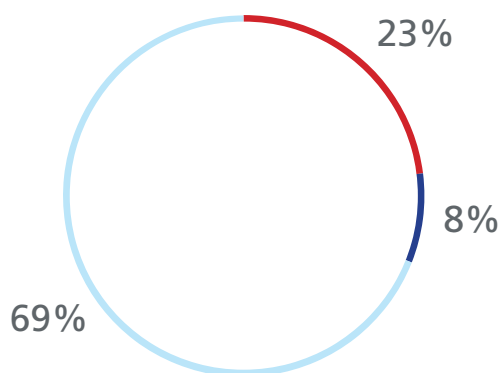
The insurance industry led with a combined 71 per cent of complaints received in the financial year. Charts 47-50 illustrate the nature of the complaints for the sectors

Chart 47: Nature of Investigations for the Life Insurance Sector



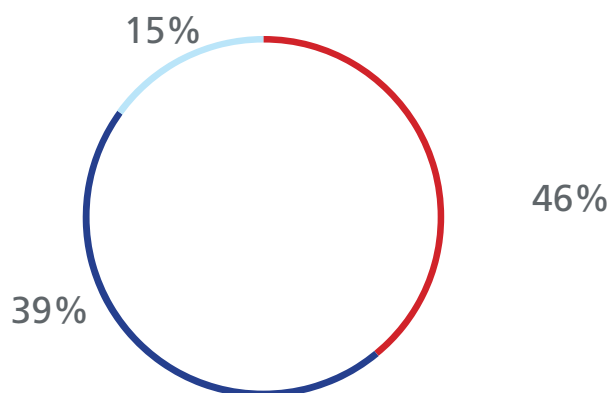
- Other/Miscellaneous
- Value of Paid Up Policy
- Lapsed Policy
- Delay in Settling Claim

Chart 48: Nature of Investigations for the Pension Sector



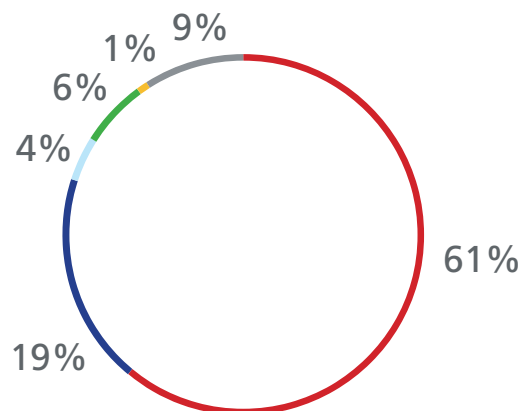
- Conduct/Action of Administrator/Trustee
- Other/Miscellaneous
- Payment of Benefit

Chart 49: Nature of Investigations for the Securities Sector



- Pay-out Funds
- Other Miscellaneous
- Equity Related Concerns

Chart 50: Nature of Investigations for General Insurance



- Claim Not Honoured
- Delay In Claims
- Dispute as to Liability
- Dispute to Amount of Settlement
- Refund of Premium
- Other/Miscellaneous

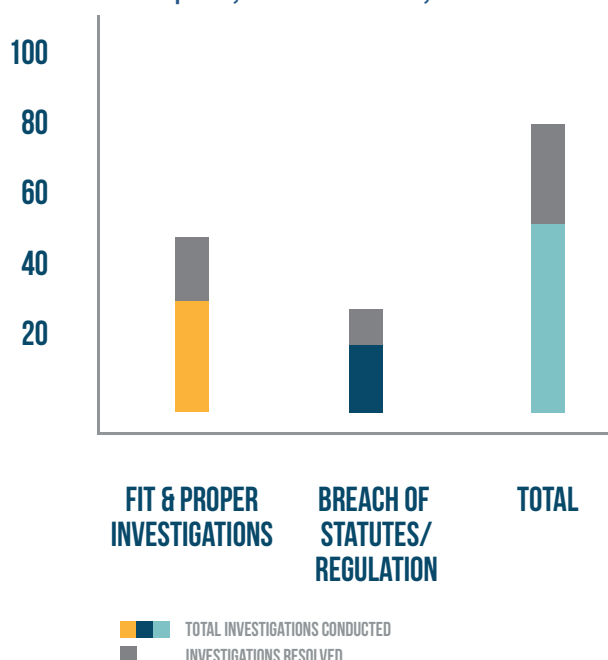
INVESTIGATIONS

The FSC conducted fifty-one (51) cases of suspected breaches, misconduct and fit and proper investigations. Chart 51 shows the nature of the investigations for each sector while Chart 52 indicates the number of investigations that were completed in the year.



Chart 51: Investigation Activity April 1, 2013
– March 31, 2014

Chart 52: Status of Investigations
April 1, 2013 - March 31, 2014



Enforcement Activity April 1, 2013 – March 31, 2014

We initiated 72 enforcement actions:

- 3 - Outstanding Fit & Proper documents
- 50 - Financial Statement
- 12 - Evidence of capital injection
- 1 - Direction
- 2 - Disclosures of new management and auditor
- 1 - Intention to suspend
- 2 - The sale of unregistered financial product
- 1 - Revocation of Fit & proper status

The sector divisions (Insurance, Securities and Pensions) issued 66 warning letters with the Pensions sector division accounted for the majority or 48 per cent of these letters. Overall, 75 per cent of all warning letters were issued as a result of failure to submit outstanding documents or financials. Eighteen (18) per cent of warning letters were issued because licensees and registrants complied failed to provide documentary evidence of complying with the FSC's instructions to inject capital. The remaining 7 per cent was issued for failure to disclose information to the FSC and for the sale or marketing of unregistered financial products.

LITIGATIONS ACTIVITIES

Litigation involving the FSC during the reporting period are summarised and highlighted below.

Claim No. 20016 HCV 00817 – Olint Corp Limited and David Smith v. FSC

In this action, the Claimants appealed the decision of the FSC to issue and execute a Cease and Desist order in March 2006. The Claimants sought damages of Five Million United States Dollars (US\$5,000,000.00) as exemplary and punitive damages as a result of the FSC's execution of the Cease and Desist Order. This action was struck out by the Supreme Court on an application by the FSC on October 23, 2013.

Civil Appeal No. 87 of 2012 - Intertrade Finance Corporation Ltd. (in Temporary Management) and the FSC v. COK Solidarity Co-operative Credit Union

During the temporary management of Intertrade Finance Limited (Intertrade) a number of creditors filed claims against Intertrade for damages for breach of contract. The FSC, as Temporary Manager, obtained an order staying those claims.

However, one of the claimants, COK Solidarity Co-operative Credit Union (COK), successfully applied to the Court to lift the stay and obtain funds it claimed were being held on its behalf by Intertrade. On May 8, 2012, the Supreme Court found in COK's favour that the sums COK paid to Intertrade were trust monies held by Intertrade on behalf of COK. The FSC appealed this decision to the Court of Appeal. This appeal was withdrawn by the FSC on September 2, 2013.

Claim No. 2013 HCV 04167 – Careif Limited and Anthony Tharpe v. FSC and Ors.

This is an action against the FSC brought by an entity on the FSC's Watch List of unregistered financials operations alleging defamatory statements made by the FSC and named employees at public fora related to unlawful financial operations. This action commenced on July 18, 2013 and remains before the Supreme Court for adjudication.

Claim No. 2012 HCV 01900 - Willard Costley v. NEM Insurance Company (Ja) Ltd., the FSC and Anor.

The FSC was joined as a defendant in this suit against the Claimant's insurer and insurance broker for liquidated damages, interests and damages for breach of contract, breach of statutory duty and negligence. The FSC will apply to have this action stuck on the basis that it discloses no reasonable ground for bringing a claim against the FSC.

Claim No. 2013HCV05360 – Horticultural Distributors

This action commenced on October 1, 2013 in the Supreme Court. The claimant contends that the FSC failed to ensure that other named Defendants in the suit (the insurance company and insurance broker) honoured claims under an insurance policy. The FSC applied to the Court to have the action struck for disclosing no reasonable grounds for bringing the suit against the FSC.

FSC MOVES AHEAD WITH REGULATORY REFORMS

The FSC continues to advance its legislative reform to enhance the regulatory framework to appropriately meet international standards and best practices while facilitating the development of Jamaica's financial market.

LEGISLATIVE DEVELOPMENTS

Collective Investment Schemes Regulations

Collective Investment Scheme (CIS) Regulations were promulgated. The key elements of the CIS Regulations included the following:

- A definition of CIS that does not limit the legal form in which the fund is established;
- Enhance the FSC's authority to regulate all facets of the CIS industry;
- All CISs offered for sale in Jamaica must be registered under the regulations or expressly exempt from registration. Funds sold solely to accredited investors or other specified categories of persons are exempt if certain conditions are met;
- The service providers to the CIS (custodians, operators, trustees and managers) should be independent of each other and the definition of what constitutes independence is stipulated;
- The fund's portfolio of assets and cash must be held in a manner that makes it clear that the assets belong to the fund and its investors, not the entity acting as custodian, manager or operator. Assets must be segregated and the accounts clearly identified as belonging to the fund;
- The fund's disclosure documents must be up-to-date and contain all relevant information about the fund, its operators, managers and other key service providers. This information must be updated promptly if any material changes occur and otherwise on a regular cycle;
- Minimum standards are set for the frequency of valuation of the assets of the CIS and the methods to be used to ensure that fair valuations take place.
- There are also requirements for clear disclosure in the offering documents of the process for redeeming an investment, the pricing process and the circumstances where redemptions may be stopped; and

- Rules governing conflict of interest impose a general duty to identify, avoid, mitigate and manage conflicts of interest.

The Pensions (Superannuation Funds and Retirement Schemes) (Validation and Amendment) Act, 2013

The Pensions (Superannuation Funds and Retirement Schemes) (Validation and Amendment) Act, 2013 was enacted in December 2013, to accomplish the following:

- Validate the collection of licence fees by the FSC from Investment Managers from March 1, 2005 to December 2013; and
- Amend the Pensions (Superannuation Funds and Retirement Schemes) Act to:
 - i. Make clear the requirement for the payment of licence fees both upon the initial grant and the renewal of the Investment Managers' licence, and
 - ii. Have consistency with the Income Tax Act regarding contributions payable by an employee to a superannuation fund.

Proposed Amendments to the Pensions Act- Phase II

A Proposal Paper outlining the proposed amendments to the Pensions Act and concomitant regulations was submitted to the Ministry of Finance and Planning (MOFP) during the last quarter of the fiscal period. This document served as a replacement to the drafting instructions that were sent to the MOFP and it expanded on the proposals to take into account emerging trends and best practices.

COMBATING FINANCIAL FRAUD

The Securities Act

The Securities Act (SA) was amended in December 2013 and satisfied one of the structural benchmarks under Jamaica IMF Extended Fund Facility Agreement. In

keeping with the policy direction of the FSC and the wider GOJ, the SA amendment enhanced the legislative framework for the regulation of the securities industry in order to:

- i. Combat the establishment and proliferation of unlawful financial operations,
- ii. Correct other deficiencies in the regulatory framework of the securities industry, and
- iii. Strengthen the FSC's investigative powers.

Specifically, the amendments included provisions that address, the following:

- The expansion of the definition of securities;
- The prohibition of schemes commonly known as Ponzi and pyramid schemes;
- The sharing of information with overseas regulatory authorities for the purpose of co-operation in the enforcement of laws pertaining to the regulation of securities markets; and
- The strengthening of the FSC's investigative and enforcement capabilities as it relates to breaches of the SA and its attendant regulations. For example, this would include the powers to:
 - i. obtain restraint and production orders,
 - ii. obtain communication data under section 16 of the Interception of Communications Act, and
 - iii. seek civil remedies, as well as the widening of the range of administrative penalties.

Anti-Money Laundering/Counter Financing of Terrorism

The FSC is a designated competent authority under the Proceeds of Crime Act (POCA) and is therefore charged with providing operational guidance and oversight to regulated financial institutions. The I&E Division maintains the AML/CFT portfolio within the FSC. POCA was amended in October 2013 and in keeping with the legislative changes, I&E, in collaboration with members of the internal anti-money laundering task force, began the process of amending its AML Guidelines to the regulated sectors that it regulates to reflect these changes. The proposed guidelines were distributed to the sectors regulated by the FSC for consultation during the 2013-2014 period.

CREATING A SECURE & EFFICIENT FINANCIAL ENVIRONMENT

Enhancing the Regulatory Framework for the “Retail Repo” Product

The business model of securities dealers in Jamaica is primarily based on entering into repurchase agreements

(repo). Some of these repos are traditional repurchase agreements whereby legal ownership is transferred from the seller to the buyer and then at some later date, the security is sold back to the seller. However, the majority are so-called “retail repos”, which involve the sale of an interest in a security by a securities dealer to an individual or non-financial institution client, along with an agreement that the securities dealer will repurchase the interest in the security on a specified date and at a specified price (that reflects the principal plus agreed interest). Under retail repo agreements, the securities dealer typically retains legal ownership of the underlying security for the duration of the agreement; the client purportedly acquires beneficial ownership of the security that converts to legal ownership in the event that the dealer's becomes insolvent or defaults on the agreement in some other manner.

In order to grant greater protection to retail repo clients, the FSC, with the technical assistance from the IMF, has proposed (i) legislative amendments and (ii) the transaction processes and structures that seek to facilitate greater protection for the clients. Much of the year was devoted to developing the proposed legal and operational frameworks for the retail repos in consultation with the securities industry.

Securities Prudential Regulation

Another legislative initiative to bolster the strength of the securities industry is the proposed promulgation of the Securities Prudential Regulations. These regulations when promulgated will enhance the prudential standards for securities dealers in line with best international practices and thus offer greater protection

FSC Seeks To Strengthen Its Consolidated Supervisory Regime

The FSC, as a prudent regulator, recognizes that globally, groups of companies continue to present significant challenges for regulators in analysing and understanding the risks facing the group as a whole, as well as the individual companies within the group. The significant adverse impact that financial groups can have on the stability of global and local economies has been noted in the assessments of Jamaica's financial crisis and the more recent global financial crisis. This situation is exacerbated when a group has cross border operations or where there are very complex group structures.

Although the FSC is empowered by legislation to obtain information on groups which include insurance or securities companies, the FSC is seeking to enhance its regulatory framework by strengthening its consolidated supervisory regime in order to more effectively assess the risks that other members of the group may pose to its licensees and registrants. This method of supervision enables the FSC to assess the financial condition of a group of companies of which the licensees and registrants of the FSC are a part of.

A financial group is a group of companies which includes a financial institution that offers financial services in the areas of insurance, securities and pensions.

The FSC, with technical assistance from the Caribbean Regional Technical Assistance Centre (CARTAC), is developing measures aimed at enhancing the consolidated supervision of its licensees and registrants who are a part of a group of companies. Consultations with the FSC regulated sectors will take place before the end of 2014.

Advancing Financial Inclusion through Microinsurance

In order to establish a legal and regulatory framework that will be conducive to microinsurance products, a joint project with the Inter-American Development Bank (IADB) and the Access to Insurance Initiative (A2ii). The project commenced with conducting a country diagnostic survey of the market and regulatory framework in Jamaica, regulatory reforms and promotion. As at the end of the 2013-2014 fiscal year, the report on the diagnostic study was in progress.

OUT AND ABOUT... INTERNATIONAL SCENE

To bring our financial market systems in line with international practice, we actively participate in the activities of international organizations to keep abreast of the trends and best practices in financial regulations. Our interactions with major international organizations in 2013-2014 included:

INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS (IOSCO)

The FSC, a signatory B member of the IOSCO, continued throughout the reporting period to pursue an application to the International Organization of Securities Commissions (IOSCO) for participation in its Multilateral MOU. The FSC also attended the IOSCO annual conference and contributed to a number of IOSCO's discussion paper and surveys.

INTERNATIONAL ASSOCIATIONS OF INSURANCE SUPERVISORS (IAIS)

During the reported period, the FSC sent delegates to attend the Annual IAIS conference in Taipei and the Global

meetings in Canada respectively. Rosemarie Henry, Senior Director of Insurance was recently appointed to serve for two years as the vice-chair of the Financial Inclusion Sub-Committee of the IAIS.

CARIBBEAN GROUP OF SECURITIES REGULATORS (CGSR)

April 10, 2014, the FSC along with three entities in the Caribbean responsible for the regulation of the securities sector, signed a memorandum of understanding (MOU) for the exchange of information and cooperation and consultation to enhance their capability to thwart any illegal activity from taking root in respective securities markets.



From left to right, the signatories are as follows: Chairman of the TTSEC - Professor Patrick Watson; Executive Director of the FSC (Jamaica) - Ms. Janice Holness; Chairman of the FSC (Barbados) Sir Frank Alleyne K.A.; and Deputy Chairman of the ECSRC - Mr Arthur Thomas.

On November 6-8, 2013, the FSC hosted the 10th CGRS Annual Conference in Montego Bay, Jamaica, featuring distinguished speakers and panellists from International Monetary Fund, United States Securities and Exchange Commission, Caribbean Regulators. Over 40 regional participants took part in the forum, including CEOs, directors, supervisors, and senior executives of local and regional securities firms and financial enterprises.

INTERNATIONAL ORGANIZATIONS OF PENSION SUPERVISORS (IOPS)

Jamaica is a member of IOPS and was represented by the FSC at the Global Forum of IOPS on Private Pensions held in Seoul, Republic of on November 5-6, 2013. As a member of IOPS, the FSC forms a part of a large network of members internationally and this provides the FSC with an opportunity for capacity building arising from the training facilities which the IOPS convenes annually. As part of the continued collaboration and cooperation, Ms Sherika Ellis, has been on secondment to IOPS for a year.

CARIBBEAN ASSOCIATION OF INSURANCE REGULATORS (CAIR)

Representatives of the FSC attended the CAIR Workshop which was held during June 4-7, 2014 in Barbados with twenty jurisdictions represented from the region. The focus of the seminar was on the Insurance Core Principles (ICPs) which provide supervisors with prudential and market conduct standards to regulate insurers, reinsurers and insurance intermediaries. At the workshop, representatives of the FSC (Jamion Shreeves and Rose-Marie Connolly-Panton) presented an overview of the standard on IFRS 4 Phase II – Insurance Contracts, which is a forthcoming update to the financial reporting standards for the insurance landscape. This is expected to have a profound impact on the industry players in terms of how insurance contracts are valued, the accounting impact of reinsurance transactions and a dramatic change in the presentation of income statements and balance sheet for insurers.

CARIBBEAN ASSOCIATION OF PENSION SUPERVISORS (CAPS)

Mrs Nicolette Jenez, Senior Director, Pension Division, was appointed President of the Association during the year 2013-2014. CAPS held its 3rd Annual Conference and Annual General Meeting May 23-24, 2013 in St. Georges, Grenada. This was the first time the conference was been held outside of Jamaica.

The FSC's Pension Division on behalf of CAPS conducted training for members of staff of the pension regulatory bodies in Suriname and the Cayman Islands. Intra-regional training is one of the mandates of CAPS and it is anticipated that further training will be offered to other CAPS members. In addition CAPS has also participated in the Caribbean Actuarial Association (CAA) Advisory Council meetings

which provide the CAA with an opportunity to discuss with regulators any key issues regarding actuarial matters.

COUNCIL OF SECURITIES REGULATORS OF THE AMERICAS (COSRA)

The FSC also strengthened its links with its counterpart in North, South, and Central America, as well as the Caribbean. The FSC joined the Conflicts of Interest in Self-Regulatory Organizations Working Group which seeks to share practical experiences on how regulators and self-regulatory organizations (SROs) identify and manage SRO conflicts of interest. The FSC will be hosting the 2015 meeting of COSRA.

CHILD AND YOUTH FINANCE INTERNATIONAL (CYFI)

Child and Youth Finance International (CYFI) is a global network, spanning over 100 countries and reaching more than 18 million children, dedicated to enhancing the financial capabilities of children and youth. CYFI's objective is to give children and youth aged 8- 18 with the (i) knowledge to make wise financial decisions, (ii) the opportunity to accumulate savings, and (iii) the skills to find employment, earn a livelihood and ultimately break the cycle of poverty.

The FSC met with a representative from Child and Youth Finance International and Alatoun International and is examining ways to present some of their educational products to children in Jamaica. Additionally, the FSC participated in CYFI's Global Money Week commemorations. Global Money Week takes place every year during the second week of March and involves about 80 countries and around 400 organizations. During the week's celebrations, various worldwide activities are held to engage children, youth and their communities to learn how money works, including saving, creating livelihoods, gaining employment, and becoming an entrepreneur. Going forward, the FSC plans to make this event a very significant part of our activities to promote financial education in Jamaica.

APPENDIX A

LIST OF REGISTERED AND LICENSED ENTITIES & INDIVIDUAL DEALERS

List of Licensed Securities Entities & Individuals Dealers

Dealers (Companies)	Dealers (Individuals)
Alliance Investment Management Limited	Bailey, Lorreston ^B
Barita Investments Limited	Berry, Christopher *
BPM Financial Limited	Berry, Konrod *
Barita Unit Trusts Management Company Limited	Issa, Christopher
BCW Holdings Limited D/B/A BCW Capital	
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)	Investment Advisors
Citifinance Limited	Allistair 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 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 ^L	
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	
Sagicor Investments Jamaica Limited (formerly Pan Caribbean Financial Services Limited)	
Prime Asset Management Limited	
Proven Management Limited	

List of Licensed Securities Entities & Individuals Dealers (Contin)

Proven Wealth Limited (Formerly Guardian Asset Management)

RBTT Securities Limited

Sagicor 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 ^L

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, 2014, 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 Multiple Portfolio Funds
CI Sector Fixed Income Funds		Barita Unit Trusts Capital Growth Fund
CI Sector Focused Equity Funds		
Jamaica Select Index Fund	JMMB Fund Managers Limited (formerly Capital & Credit Fund Managers Limited)	Jamaica Investment Income & Growth Fund (formerly Capital & Credit Income & Growth Fund)
		Jamaica Investment Giltedge Fund (formerly Capital & Credit Giltedge 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 Scotia DB&G Caribbean Income Fund Inc. ("SDCIF"))	Sagicor Investments Jamaica Limited (formerly Pan Caribbean asset Management Limited)	Sagicor 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	Ten (10) 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
Sagicor Life Jamaica Limited	General Accident Insurance Jamaica Company Limited
Scotia Jamaica Life Insurance Company Limited	Guardian General Insurance Jamaica Limited (formerly Globe Insurance Company of Jamaica Limited)
	Jamaica International Insurance Company Limited
	Key Insurance Company Limited
	JN General Insurance Company Limited (formerly NEM Insurance Company (Jamaica) Limited)
	The Insurance Company of West Indies Limited
Fourteen (14) Insurance Agents	One (1) Association of Underwriters
Chancellor Insurance Agency Limited	Lloyds
Crichton Insurance Agency Limited	
Dionne Audrey Webb T/A Destiny Insurance Agency	
Doran Ferguson T/A Apex Insurance Agents	
George Henderson Williams T/A Quality Insurance Agent	
Gersham McLaughlin T/A Global Risk Management Insurance Agents	
Herman Gary Norton T/A Impact Insurance Agents	
Jamaica Co-operatives Insurance Agency Ltd. (Formerly NUCS Co-operative Insurance Services Limited)	
Kenrick Ryland Brissett T/A Brissett Standard Insurance Agent	
Mutual Enterprises (Insurance) Agents Limited	
Nationwide Insurance Agents and Consultants Limited	
Paul Anthony Simpson, General Insurance Agent	
Riviera Insurance Agency Limited	
Sagicor International Administrators Limited	

List of Registered Insurance Entities (Contin)

Twenty -Five (25) Insurance Brokers		Eighteen (18) Facultative Placement Brokers	
Allied Insurance Brokers Limited		Allied Insurance Brokers Limited	
Assurance Brokers of Jamaica Limited		Assurance Brokers of Jamaica Limited	
Associated Owners Insurance Brokers Limited		Billy Craig Insurance Brokers Limited	
Billy Craig Insurance Brokers Limited		Caribbean Assurance Brokers Limited	
Caribbean Assurance Brokers Limited		CGM Gallagher Insurance Brokers Jamaica Limited	
CGM Gallagher Insurance Brokers Jamaica Limited		Desmond Mair Insurance Brokers Limited	
Covenant Insurance Brokers Limited		Excel Insurance Brokers	
Desmond Mair Insurance Brokers Limited		Firm Insurance Brokers Limited	
Excel Insurance Brokers		Fraser Fontaine & Kong Limited Insurance Brokers	
Firm Insurance Brokers Limited		JMMB Insurance Brokers Limited	
Fraser Fontaine & Kong Limited Insurance Brokers		Lawe Insurance Brokers Limited	
Genesis Insurance Brokers Limited		Marathon Insurance Brokers Limited	
Jamaica Citadel Insurance Brokers Limited		Maritime General Insurance Brokers Limited	
JMMB Insurance Brokers Limited		Mutual Security Insurance Brokers Limited	
Lawe Insurance Brokers Limited		National Property & General Insurance Brokers Limited	
Marathon Insurance Brokers Limited		Sagicor Insurance Brokers Limited	
Maritime General Insurance Brokers Limited		Spectrum Insurance Brokers Limited	
Mutual Security Insurance Brokers Limited		Thwaites Finson Sharp Insurance Brokers Limited	
National Property & General Insurance Brokers Limited			
Orion Insurance Brokers Limited			
Progressive Insurance Brokers Limited			
Sagicor Insurance Brokers Limited			
Solid Life and General Insurance Brokers Limited			
Spectrum Insurance Brokers Limited			
Thwaites Finson Sharp Insurance Brokers Limited			
One (1) Overseas Reinsurance Broker		Two (2) Local Reinsurance Broker	
Aeon Limited (Formerly Benfield Limited)		CGM Gallagher Insurance Brokers Jamaica Limited	
		Maritime General Insurance Brokers Limited	

List of Registered Insurance Entities

Thirteen (13) Insurance Investigators	Thirty-four (34) Insurance Loss Adjusters
AB Investigation Services Limited T/A AB Investigation	Advanced Insurance Adjusters Limited
Charles Oliver Rodriquez T/A Charles Rodriquez Investigations	Alert Motor Loss Adjusters & Valuers Limited
Conrad Vaughn Myrie T/A C.I.S Claims Investigation	Anthony O'Neil Uter T/A Delta Loss Adjusters
Delroy Anthony Lawson T/A DL Express Investigation & Process Service	Auto Assessors and Associates Limited
Detect Investigations Company Limited	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	Casualty & Property Insurance Services Limited
Jones Solomon Jaisingh T/A Network Coordinate	Crawford Jamaica Limited
Joseph Clement Messam T/A PROCUR (Professional Procurers)	Evan Evans T/A Evans Insurance Consultants Limited
Latoure DeAvergne Duhaney T/A Genesis Protective Services	General Motor Adjusters Limited
Priority Investigations Limited	Innovative Consulting Services Limited T/A International Claims Services
Vinel Central Investigation & Security Consultancy Limited	Jamaica Loss Adjusters Limited
	Jamaica Motor Assessment Limited
	Joan Elizabeth Williams T/A Virtual Insurance Services
	John Grewcock /A Talisman Adjusters
	Karen Alethea Scarlett T/A KAS Loss Adjusters and Valuers
Three (3) Insurance Consultants	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
Six (6) Claims Negotiators	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
	Precision Adjusters Limited
Karen Patricia Murphy T/A Image Claims Negotiating Services	Reliable Loss Adjusters Limited
Natalie Kerr T/A Direct Claim Services	Stellar Caribbean (Jamaica) Limited
	Toplis & Harding (Jamaica) Limited
	Trans Jam Loss Adjusters Limited
	Vincent Lloyd McLaughlin T/A Larmax Loss Adjusters
	Vision Adjusters Limited

List of Licensed Pension Entities

Twenty-eight (27) Pensions Administrators	Twenty-seven (26) 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
	BCW Capital
BPM Financials Limited	
Credit Union Fund Management Company Limited	City of Kingston Co-operative Credit Union Limited
CCU Investments	Credit Union Fund Management Company Limited
Development Bank of Jamaica Limited	Development Bank of Jamaica Limited
	FirstCaribbean International Securities Limited
Employee Benefits Administrator Limited	First Global Financial Services Limited
FirstCaribbean International Bank (Jamaica) Limited	FHC Investments Limited (formerly CCH Investments Limited)
FirstCaribbean International Securities Limited	Guardian Life Limited
First Global Financial Services Limited	Investment Nominees Limited
Guardian Life Limited	Jamaica Money Market Brokers Limited
	Jamaica National Building Society
IBM	JN Fund Managers Limited
Investment Nominees Limited	Mayberry Investments Limited
Jamaica Co-operative Credit Union League Limited	MF&G Asset Management Limited
Jamaica Money Market Brokers Limited	MoneyMasters
JN Fund Managers Limited	NCB Insurance Company Limited
Mayberry Investments Limited	Prime Asset Management Limited
MF&G Asset Management Limited	RBTT Securities Limited
NCB Insurance Company Limited	Sagikor Life Jamaica Limited
Nestle Jamaica Limited	Scotia Investments Limited
Prime Asset Management Limited	Veritat Nominees Limited
Saxons Pension Service Limited	
Scotia Investments Limited	
Scotia Jamaica Life Insurance Company Limited	
Veritat Nominees Limited	

BULLETINS, GUIDELINES & DISCUSSION PAPERS

In keeping with the principle of the risk-based approach for the regulation and supervision of the three regulated industries, we continued to provide information and guidance to our licensees, registrants, other stakeholders and the general public through the issuance of the bulletins, guidelines and discussion papers. The following bulletins, guidelines and discussion papers were released during the review year:

INSURANCE INDUSTRY

Bulletin Registration of Insurance Adjusters: To inform individuals who have not yet submitted all the required documents to submit all documents and information to the FSC by October 31, 2013.

Guidelines on Reinsurance Practices and Procedures: To provide guidance for insurers' reinsurance programmes.

Proposed Amendment to section 26(1)(b) of the Insurance Act, 2001 and regulations 31 and 33 of the Insurance Regulations, 2001: To elicit feedback from the industry on the proposed amendments to section 26(1)(b) of the Insurance Act, 2001 and its attendant regulations, to vary the requirement for registered insurers to publish a copy of the audited financial statement in a daily newspaper printed and circulated throughout Jamaica.

Bulletin: Repurchase agreements (repos) backed by government of Jamaica (GOJ) obligations denominated in foreign currency: To clarify the asset factor that should apply, for the purposes of carrying out the Minimum Capital Test.

SECURITIES INDUSTRY

Proposed amendment to the Securities (Take-Overs And Mergers) Regulations: To obtain comments and suggestions

from the industry on the proposal to amend the regulation 26 of the Securities (Take Overs and Mergers) Regulations (TOM).

PENSIONS INDUSTRY:

Bulletin: Lump Sum Payment on Death: PR-GUID-13/05-0025 – May 2013. This document seeks to clarify the provision in the Pensions Act which provides a ceiling for lump sum payments on death.

Bulletin: Using Multiple Administrators or Investment Managers for a Pension Plan: PR-GUID-13/06-0026 – June 2013. The bulletin provides guidance related to reporting requirements for Funds and Schemes that have contracted multiple administrators and/or investment managers.

Bulletin: Minimum Content of the Statement of Transfer Values: PR-GUID-13/09-0027 – September 2013. The aim of this bulletin is to highlight the pertinent information that ought to be incorporated in "Statements of Transfer Values" when a transfer of a member's accrued pension benefits takes place.

Bulletin: Disclosure Regarding the Forfeiture of Benefits: PR-GUID-14/01-0028 – January 2014. This document seeks to assist agents of the trustees, to provide adequate disclosures to members, where the Trust Deed and Plan Rules include a provision which results in the forfeiture of members' benefits.

Discussion Paper: Pension Pay-out Products: PR-CONSUL-14/01-0010 – January 2014. This paper seeks feedback from the industry on FSC's proposal for additional pension pay-out products.

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 (2001) amended 2004;

The Financial Services (Overseas Regulatory Authority) (Disclosure) Regulations (2005)

The Insurance Act (2001);

The Insurance Regulations (2001) amended 2004;

The Insurance (Actuaries) (Life Insurance Companies) Regulations (2001);

The Insurance (Actuaries) (General Insurance Companies) Regulations (2002) amended 2011;

The Insurance (Prescribed Sum) Regulations (2004);

The Securities Act (1993) amended in 2001, 2013;

The Securities (Licensing and Registration) Regulations (1996) amended 2003, 2008;

The Securities (Conduct of Business) Regulations (1999) amended 2003;

The Securities (Disclosure of Interest) Regulations (1999);

The Securities (Take-Overs and Mergers) Regulations (1999) amended 2000;

The Securities (Central Securities Depository) Regulations (2000) amended 2002;

The Securities (Collective Investment Schemes) Regulations (2013);

The Pensions (Superannuation Funds and Retirement Schemes) Act (2004) amended 2005, 2006;

The Pensions (Superannuation Funds and Retirement Schemes) (Specified Pension Funds and Specified Pensions Scheme) Regulations, (2006);

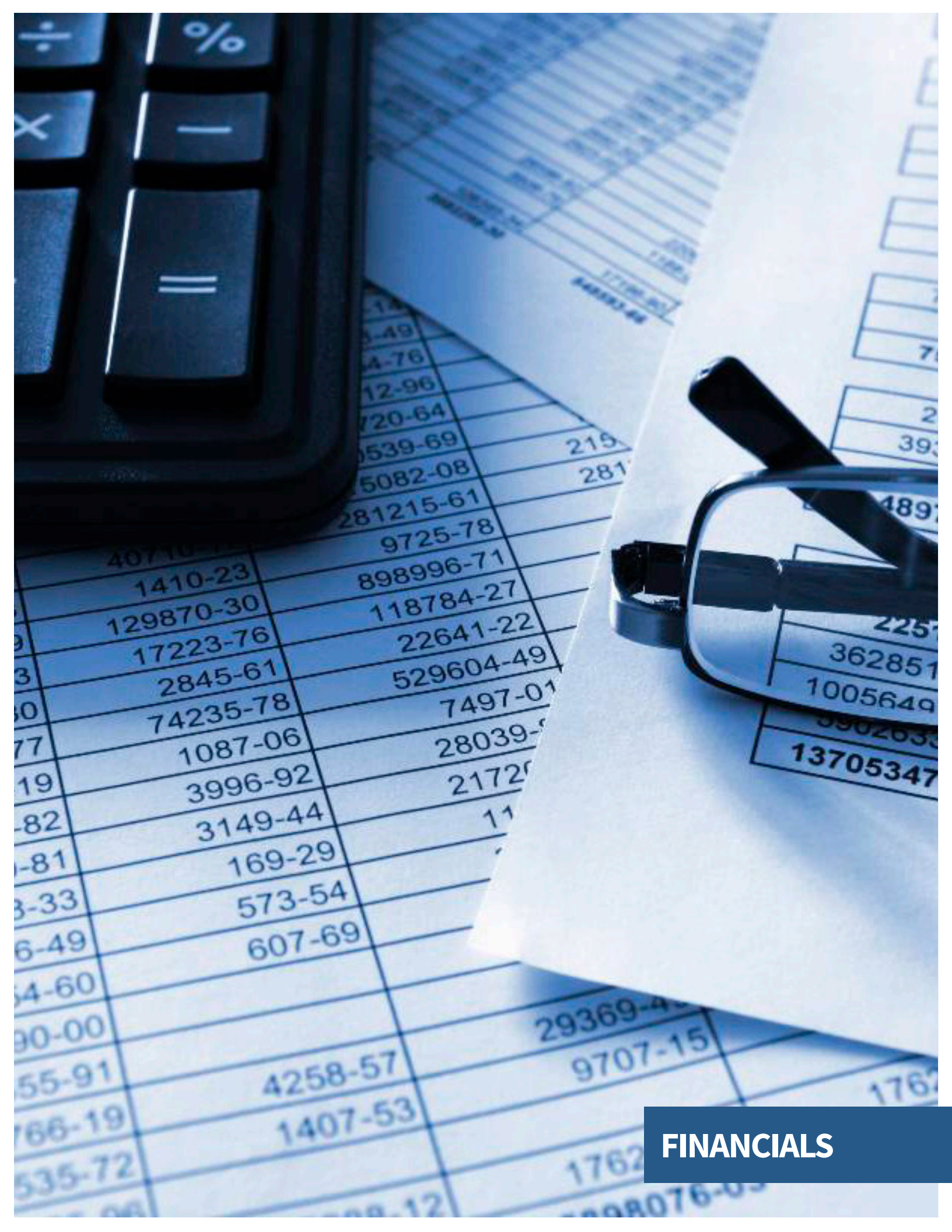
The Pensions (Superannuation Funds and Retirement Schemes) (Registration, Licensing and Reporting) Regulations, (2006);

The Pensions (Superannuation Funds and Retirement Schemes) (Governance) Regulations, (2006);

The Pensions (Superannuation Funds and Retirement Schemes) (Investment) Regulations, (2006);

The Proceeds of Crime Act 2007 & the Proceeds of Crime (Money Laundering Prevention) Regulations 2007

The Terrorism Prevention Act 2005 & the Terrorism Prevention (Reporting Entities) Regulations 2010



FINANCIALS



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

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

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 68 to 91 which comprise the statement of financial position as at March 31, 2014, statements of profit or loss and other 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 member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

R. Tarun Handa
 Patricia O. Dailey-Smith
 Linroy J. Marshall
 Cynthia L. Lawrence
 Rajan Trehan

Norman O. Rainford
 Nigel R. Chambers
 W. Gihan C. de Mel
 Nyssa A. Johnson

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, 2014, and of its financial performance, changes in reserves and cash flows for the year then ended, in accordance with International Financial Reporting Standards.



Chartered Accountants
Kingston, Jamaica


FINANCIAL SERVICES COMMISSION


STATEMENT OF FINANCIAL POSITION

YEAR ENDED MARCH 31, 2014

	<u>Note</u>	<u>2014</u>	<u>2013</u>
CURRENT ASSETS			
Cash and cash equivalents	3	25,430,513	15,848,761
Resale agreements	4	632,316,692	521,423,504
Accounts receivable and prepayments	5	153,160,035	129,618,189
Taxation recoverable	6	<u>8,310,263</u>	<u>8,308,026</u>
		<u>819,217,503</u>	<u>675,198,480</u>
CURRENT LIABILITIES			
Accounts payable	7	(70,031,184)	(78,566,739)
Deferred fees		<u>(245,125,138)</u>	<u>(253,408,117)</u>
		<u>(315,156,322)</u>	<u>(331,974,856)</u>
NET CURRENT ASSETS		504,061,181	343,223,624
NON-CURRENT ASSETS			
Intangible assets	8	1,780,302	1,779,456
Property, plant & equipment	9	<u>36,250,455</u>	<u>34,918,138</u>
		<u>38,030,757</u>	<u>36,697,594</u>
		<u>\$542,091,938</u>	<u>379,921,218</u>
Financed by:			
RESERVES	10	<u>\$542,091,938</u>	<u>379,921,218</u>

The financial statements on pages 68 to 91 were approved by the Board of Commissioners on June 26, 2014, and signed on its behalf by:

 Chairman
Colin Bullock

 Commissioner
Winston Hayden

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

	<u>Note</u>	<u>2014</u>	<u>2013</u>
INCOME			
Fees		785,546,823	748,858,697
Interest income		33,594,740	24,433,203
Other		<u>1,085,959</u>	<u>3,742,935</u>
		<u>820,227,522</u>	<u>777,034,835</u>
EXPENSES			
Advertising		454,278	959,226
Appeal Tribunal		3,322,133	4,009,766
Audit		1,650,000	1,550,000
Bad debts	5	12,933,600	37,899,951
Bank charges		764,030	856,240
Building maintenance		8,067,911	11,547,383
Commissioners' fees		1,815,000	1,822,750
Data security		6,757,355	7,313,688
Depreciation and amortisation	8,9	15,886,373	21,819,165
Motor vehicle and parking expenses		10,077,805	9,144,582
Office expenses		21,495,411	18,395,574
Printing and stationery		3,468,393	3,481,263
Professional fees		12,728,406	17,162,878
Public education		18,981,481	23,790,806
Rent	11(ii)	36,000,000	36,000,000
Staff costs	12	474,341,326	440,364,779
Subscriptions		8,318,119	8,527,672
Training and conferences		25,146,757	26,163,594
Utilities		<u>27,778,424</u>	<u>24,845,620</u>
		<u>689,986,802</u>	<u>695,654,937</u>
Surplus before grant		130,240,720	81,379,898
Grant	11(ii)	<u>36,000,000</u>	<u>36,000,000</u>
Surplus for the year		<u>\$166,240,720</u>	<u>117,379,898</u>

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

STATEMENT OF CHANGES IN RESERVES

YEAR ENDED MARCH 31, 2014

	<u>General Fund</u>	<u>Capital Reserve (Note 10)</u>	<u>Total</u>
Balances at March 31, 2012	261,462,756	1,078,564	262,541,320
Total comprehensive income for the year			
Surplus for the year	<u>117,379,898</u>	<u>-</u>	<u>117,379,898</u>
Balances at March 31, 2013	378,842,654	1,078,564	379,921,218
Total comprehensive income for the year			
Surplus for the year	<u>166,240,720</u>	<u>-</u>	<u>166,240,720</u>
Financial distribution (note 20)	<u>(4,070,000)</u>	<u>-</u>	<u>(4,070,000)</u>
Balances at March 31, 2014	<u>\$541,013,374</u>	<u>1,078,564</u>	<u>542,091,938</u>

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

FINANCIAL SERVICES COMMISSION

STATEMENT OF CASHFLOWS

YEAR ENDED MARCH 31, 2014

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FINANCIALS

	<u>Note</u>	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus for the year		166,240,720	117,379,898
Adjustments for:			
Depreciation and amortisation		15,886,373	21,819,165
Write-off of property, plant & equipment		2,599,900	-
Loss/(gain) on disposal of property, plant & equipment		26,267	(1,223,174)
Interest income		(33,594,740)	(24,433,203)
		151,158,520	113,542,686
(Increase)/decrease in current assets:			
Resale agreements		(110,893,188)	(114,972,245)
Accounts receivable and prepayments		(21,843,118)	(24,290,369)
Taxation recoverable		(2,237)	1,359,947
Increase in current liabilities:			
Accounts payable		(8,535,555)	(22,518,203)
Deferred fees		(8,282,979)	27,394,994
Net cash provided/(used) by operating activities		<u>1,601,443</u>	<u>(19,483,190)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant & equipment	9	(18,681,105)	(9,428,221)
Additions to intangible assets	8	(1,244,598)	(835,472)
Proceeds from disposal of property, plant & equipment		80,000	2,235,475
Interest received		<u>31,896,012</u>	<u>22,740,367</u>
Net cash provided by investing activities		<u>12,050,309</u>	<u>14,712,149</u>
CASH FLOWS FROM FINANCING ACTIVITY			
Financial distribution, being net cash provided by financing activities	20	(4,070,000)	-
Net increase/(decrease) in cash and cash equivalents		9,581,752	(4,771,041)
Cash and cash equivalents at beginning of the year		<u>15,848,761</u>	<u>20,619,802</u>
Cash and cash equivalents at end of the year		<u>\$ 25,430,513</u>	<u>15,848,761</u>

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

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, 2014, the Commission had in its employment 121 (2013:119) employees, out of a Board-approved establishment of 127 (2013:125) 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.

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 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.

- 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.
- IFRS 13, *Fair Value Measurement* (effective 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 IFRSs, 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.

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

At the date of authorization of the financial statements, 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:

- IFRS 9, *Financial Instruments* is effective for accounting periods beginning on or after January 1, 2017. The standard retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The standard includes guidance on classification and measurement of financial liabilities designated as at 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.

Notes to the Financial Statements (Continued)

March 31, 20142. 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):

- Amendments to IAS 36, *Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets*, which is effective for accounting periods beginning on or after January 1, 2014, reverse the unintended requirement in IFRS 13 *Fair Value Measurement*, to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. The amendment requires the recoverable amount to be disclosed only when an impairment loss has been recognised or reversed.
- Improvements to IFRS 2010 - 2012 and 2011 – 2013 cycle contains amendments to certain standards and interpretations and are effective for accounting periods beginning on or after July 1, 2014. The main amendments applicable to the Commission are as follows:
 - *IFRS 13 Fair Value Measurement* is amended to clarify that issuing of the standard and consequential amendments to IAS 39 and IFRS 9 did not intend to prevent entities from measuring short-term receivables and payables that have no stated interest rate at their invoiced amounts without discounting, if the effect of not discounting is immaterial.
 - *IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets*. The standards have been amended to clarify that, at the date of revaluation:
 - (i) the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset and the accumulated depreciation (amortization) is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking account of accumulated impairment losses or
 - (ii) the accumulated depreciation (amortization) is eliminated against the gross carrying amount of the asset.

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 2010 - 2012 and 2011 – 2013 cycle contains amendments to certain standards and interpretations and are effective for accounting periods beginning on or after July 1, 2014. The main amendments applicable to the Commission are as follows (cont'd):
 - *IAS 24 Related Party Disclosures* has been amended to extend the definition of 'related party' to include a management entity that provides key management personnel services to the reporting entity, either directly or through a group entity. For related party transactions that arise when key management personnel services are provided to a reporting entity, the reporting entity is required to separately disclose the amounts that it has recognized as an expense for those services that are provided by a management entity; however, it is not required to 'look through' the management entity and disclose compensation paid by the management entity to the individuals providing the key management personnel services.

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

(b) Basis of preparation:

The financial statements, as at and for the year ended March 31, 2014 (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.

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.

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

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

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.

(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.

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

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

(ii) Subsequent costs (cont'd):

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 1st \$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 31st December of the year immediately prior to the anniversary of the grant of the licence taken without the netting of its liabilities plus the aggregate value, at that date, of securities or other investment instruments held or managed on behalf of clients whether on a discretionary or non discretionary basis; or

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 31st 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 20th schedule, which came into effect on October 1, 2003, renewal fees for Intermediaries were the greater of the fee indicated on the amended 20th schedule or 0.5% of earned commissions. Fees for General & Life Insurance companies are based on assets as outlined in the amended 20th schedule.

Renewal Fees – Insurance Companies

(1) Jamaican and CARICOM Life/Sickness & Health Insurance Companies

A fee of \$1 million, or the sum of:
First \$5 billion of total assets at 0.14%;
Second \$5 billion of total assets at 0.07%; and
Total assets in excess of \$10 billion at 0.04%, whichever is greater.

(2) Jamaican and CARICOM General Insurance Companies

In accordance with the amended 20th 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 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 superannuation fund 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>2014</u>	<u>2013</u>
Current and saving accounts	25,424,558	15,842,811
Petty cash	<u>5,955</u>	<u>5,950</u>
	<u>\$25,430,513</u>	<u>15,848,761</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 7.15% and 7.30% (2013: 5.4% and 6.15%) as at the year-end. The market value of the underlying securities as at March 31, 2014 was approximately J\$663,932,526 (2013: J\$547,495,000).

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

5. Accounts receivable and prepayments

	<u>2014</u>	<u>2013</u>
Trade receivables [note 16(b)(i)]	103,762,071	98,896,292
Prepayments and deposits (note 19)	40,482,052	24,236,227
Other receivables	2,717,433	1,985,919
Interest receivable	<u>6,198,479</u>	<u>4,499,751</u>
	<u>\$153,160,035</u>	<u>129,618,189</u>

Trade receivables are shown net of an allowance for impairment losses of \$12,933,600 (2013: \$Nil).

The Pensions (Validation and Amendment) Act 2013 was passed on December 17, 2013, to make clear provisions for the payment of license fees both upon the initial grant and upon the renewal of a license, and to validate and confirm the collection of fees by the Financial Services Commission, its officers and staff and other persons in support of those acts during the period commencing on the 1st day of March 2005 and ending on the commencement of this Act and indemnify the Commission, its officers and staff and other persons acting on its behalf in respect of actions taken bona fide in execution of their duties in relation to such collection. Consequently, amounts outstanding, totaling approximately \$3 million (2013: \$36 million), were provided for and written-off, respectively, 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 \$Nil (2013: \$1,363,248).

7. Accounts payable

	<u>2014</u>	<u>2013</u>
Trade and other payables	23,384,087	19,706,675
Employee benefits –accrued vacation, gratuities and salary	<u>46,647,097</u>	<u>58,860,064</u>
	<u>\$70,031,184</u>	<u>78,566,739</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 \$8,284,726 (2013: \$23,186,292) 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.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED MARCH 31, 2014

8. Intangible assets

These represent software cost capitalized as follows:

	<u>2014</u>	<u>2013</u>
Cost:		
At beginning of year	39,590,075	38,754,603
Additions	<u>1,244,598</u>	<u>835,472</u>
At end of year	<u>40,834,673</u>	<u>39,590,075</u>
Amortisation:		
At beginning of year	37,810,619	36,556,269
Charge for the year	<u>1,243,752</u>	<u>1,254,350</u>
At end of year	<u>39,054,371</u>	<u>37,810,619</u>
Net book value	<u>\$ 1,780,302</u>	<u>1,779,456</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, 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	2,339,280	119,742,390	56,075,602	178,157,272
Additions	5,793,991	3,895,930	8,991,184	18,681,105
Disposals	<u>(291,845)</u>	<u>(498,403)</u>	<u>-</u>	<u>(790,248)</u>
Reclassification	<u>-</u>	<u>(2,599,900)</u>	<u>-</u>	<u>(2,599,900)</u>
March 31, 2014	<u>7,841,426</u>	<u>120,540,017</u>	<u>65,066,786</u>	<u>193,448,229</u>
Depreciation:				
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	1,914,101	94,053,444	47,271,589	143,239,134
Charge for year	389,843	8,912,988	5,339,790	14,642,621
Eliminated on disposals	<u>(262,661)</u>	<u>(421,320)</u>	<u>-</u>	<u>(683,981)</u>
March 31, 2014	<u>2,041,283</u>	<u>102,545,112</u>	<u>52,611,379</u>	<u>157,197,774</u>
Net book values:				
March 31, 2014	<u>\$5,800,143</u>	<u>17,994,905</u>	<u>12,455,407</u>	<u>36,250,455</u>
March 31, 2013	<u>\$ 425,179</u>	<u>25,688,946</u>	<u>8,804,013</u>	<u>34,918,138</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>2014</u>	<u>2013</u>
General Fund	541,013,374	378,842,654
Capital reserve	<u>1,078,564</u>	<u>1,078,564</u>
	<u>\$542,091,938</u>	<u>379,921,218</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>2014</u>	<u>2013</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 (2013: \$36,000,000) which has been recognised as a grant.		

12. Staff costs

	<u>2014</u>	<u>2013</u>
Salaries, wages and related costs	407,075,354	383,960,662
Payroll statutory costs	27,542,653	23,344,473
Gratuity	26,122,775	19,872,931
Pension (note 14)	11,431,341	11,302,330
Motor vehicle loan subsidy*	<u>2,169,203</u>	<u>1,884,383</u>
	<u>\$474,341,326</u>	<u>440,364,779</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 3% (2013: 8%) per annum and the Commission will provide a subsidy of the difference between the 3% (2013: 8%) per annum 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 \$2.7 million (2013:\$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 fund

Effective June 1, 1996, the Securities Commission commenced operations of a contributory pension fund 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 fund is a defined-contribution plan which is set up under trust and is administered by a life insurance company.

The fund 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 \$11,431,341 (2013: \$11,302,330).

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, 2014 were valued at approximately \$1,132 million (2013: \$1,048 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>2014</u>	<u>2013</u>
Past due 0-30 days	89,979,473	73,945,852
Past due 30-60 days	2,184,304	17,123,368
Past due 60-90 days	4,505,787	1,211,399
Past due over 90 days	<u>20,026,107</u>	<u>6,615,673</u>
	116,695,671	98,896,292
Allowance for impairment losses	<u>(12,933,600)</u>	<u>-</u>
Trade receivables (note 5)	<u>\$103,762,071</u>	<u>98,896,292</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>2014</u>	<u>2013</u>
	US\$	US\$
Foreign currency assets:		
Cash and cash-equivalents	13,399	1,024
Accounts receivable and prepayments	<u>196,748</u>	<u>187,748</u>
	<u>210,147</u>	<u>188,772</u>

The exchange rate for US\$1, in terms of Jamaica dollars, at the reporting date, was \$109.56 (2013: \$97.94).

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, 2014, the Commission is contingently liable in respect of the following lawsuits filed against the Commission:

- (a) The Commission issued together with an insurance company and an insurance broker by an insured. There is no relief sought against the Commission. A decision has been taken to strike out the claim as it discloses no reasonable grounds for bringing the claim. The Commission's legal counsel is of the view that the claim is ill conceived as drafted and an application by the FSC to strike out the claim has a real prospect of success. It is expected that costs will be granted to the Commission upon a successful application to strike out the claim. In the event that the application is unsuccessful, the Commission is of the view that liability for legal fees to be incurred in defending this matter will be approximately **One Million Dollars (J\$1,000,000)**.
- (b) In another suit, an action was brought against the Commission by an unregulated financial entity contesting the execution of a cease and desist order. The challenge to the Order was made on both procedural and substantive grounds including allegations of breach of natural justice by the Commission. The matter was heard and judgment reserved. If the Claimant prevails, the Commission will appeal. General damages will be assessed and awarded by the Court; it is difficult to determine what those damages will be. The amounts are yet to be quantified.
- (c) In another matter which went on appeal before the Privy Council from a judgment of the Court of Appeal in the Commission's favour; the Privy Council ruled in the Appellant's favour. Costs were awarded for the Commission in relation to the appeals but the Privy Council ordered costs against the Commission for the judicial review matter before the Supreme Court. The Appellant has filed a Bill of Costs in the Supreme Court claiming costs of **Five Million, Six Hundred and Seventy Three Thousand, Two Hundred and Thirty Dollars and Twenty-Two Cents (J\$5,673,230.22)**. This amount is subject to taxation and is being challenged by the Commission's Attorneys-at-Law. The Commission's Attorneys-at-Law have advised that the sum of **Two Million (J\$2,000,000)** is a more equitable sum for costs payable to the Appellant. It is proposed that this sum be set off against the costs awarded to the Commission for the appellate hearings.

17. Contingent liabilities (cont'd)

(c) (Cont'd)

The costs that are to be paid to the Commission is **Four Million, Four Hundred and Fifty Five Thousand, Three Hundred and Thirty-Two Dollars and Sixty Cents (J\$4,455,332.60)**. If those costs are agreed by the Appellant the sum of **Two Million, Four Hundred and Forty Five Thousand, Three Hundred and Thirty Two Dollars and Sixty Cents (J\$2,445,332.60)** will remain due to the Commission as costs, once the amount paid to the claimant is offset. There is no further potential for liability for costs in this matter except for its own legal fees payable its external counsel estimated at **Five Hundred Thousand Dollars (J\$500,000)**.

(d) The Commission has been joined as a party to a suit for damages and aggravated damages for libel, slander and unlawful interference with business. The other defendants to the claim are the former Executive Director and Deputy Executive Director. The Commission has undertaken to indemnify these defendants for any damages assessed against them. The amounts of liability are yet to be quantified.

(e) The Commission is also sued in an action brought by an insured against its insurer, insurance broker and the Commission for liquidated damages of **Two Million Six Hundred and Twenty-Six Thousand, Two Hundred and Seventy Six Dollars (J\$2,626,276)**, interest and damages for breach of contract, statutory duty and negligence. The claim for damages for breach of statutory duty, contract and negligence is brought against the other Defendants. The Claimant alleges that the alleged special damages are due under the policy of insurance and should be paid from the Insurance Contributory Fund. The Commission has applied to strike out this claimant on the basis that it discloses no reasonable grounds for bringing the claim against the Commission.

(f) The Commission appealed the decision of the Supreme Court in an action brought in relation to one of its licencees in temporary management. In that matter, the Supreme Court held that funds held by the licensee were held on trust for a third party and did not form part of its assets accessible to clients and creditors. The Commission appealed the decision in 2012. This appeal was withdrawn with costs to be taxed if not agreed. Legal fees and court costs in respect of the appeal are estimated at **Seven Hundred and Fifty Thousand Dollars (J\$750,000)**.

The eventual outcome of these matters cannot be reliably determined at this time and no provision has been made in the financial statements in these regards. However, 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.

18. Related party balances and transactions (cont'd)

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

	<u>2014</u>	<u>2013</u>
	\$	\$
Accounts payable:		
Trade and other payables:		
Commissioners	272,250	283,500
Other key management	1,408,567	2,108,559
Employee benefits – other key management	<u>19,031,118</u>	<u>20,356,420</u>

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

	<u>2014</u>	<u>2013</u>
	\$	\$
Key Management Personnel compensation:		
Commissioners fees	1,815,000	1,822,750
Salaries	96,337,082	76,877,702
Gratuity	21,130,148	15,263,050
Pension Contribution	<u>434,853</u>	<u>160,630</u>

19. Capital commitment

In the prior year, the Commission entered into contracts for capital expenditure in the amount of US\$391,975 (\$38.6 million)], in respect of which deposits amounted to US\$187,748 (\$18.5 million)]. With respect to these contracts entered into in 2013, additional payments of US\$123,836 (\$18.17 million)] have been made during the year, as stipulated in the contracts and based on work in progress to date, 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”.

On March 12, 2014, the Commission upon request from the Ministry of Finance and Planning remitted \$4,070,000 to the Accountant General’s Department on March 31, 2014. This represented the distribution approved by the Board of Commissioners for the last financial year 2012/13.

As at the date of approval of the financial statements, such distribution for the current financial year 2013/14 has not yet been ratified by the Board of Commissioners for submission to the Financial Secretary.



A: 39 - 43 BARBADOS AVE T: 876 906 3010 / 876 906 3018 E: INQUIRY@FSCJAMAICA.ORG
WWW.FSCJAMAICA.ORG