FINANCIAL SERVICES COMMISSION



ANNUAL REPORT 2016-17

July 28, 2017

The Honourable Audley Shaw, CD, M.P. Minister of Finance and Public Services Minister of Finance and Public Services 30 National Heroes Circle, Kingston 4

Dear Minister Shaw:

In accordance with section 13(1) of the Financial Services Commission Act, 2001, we hereby submit to you, the Annual Report of the Financial Services Commission (FSC) for the Financial Year 2016/2017 and a copy of the FSC's Financial Statements for the year ended March 31, 2017, duly certified by its Auditors.

Sincerely,

Janice P. Holness Executive Director

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GLOSSARY

AML	Anti-Money Laundering	IOSCO	International Organization of
BOJ	Bank of Jamaica		Securities Commissions
CAIR	Caribbean Association of Insurance	JSE	Jamaica Stock Exchange
CARC	Regulators	MCCSR	Minimum Continuing Capital and Surplus Requirement
CAPS	Caribbean Association of Pension Supervisors	MCT	Minimum Capital Test
CFATF	Caribbean Financial Action Task Force	MMOU	Multilateral Memorandum of Understanding
CGRS	Caribbean Group of Securities	MOU	Memorandum of Understanding
	Regulators	MOFP	Ministry of Finance and Public
CICD	Compliance & Internal Control		Service
	Division	NFIS	National Financial Inclusion
CIS	Collective Investment Scheme		Strategy
CFT	Counter Financing of Terrorism	USD	United States Dollars
CPFCWG	Consumer Protection and Financial Capability Working Group		
DB	Defined Benefit		
DC	Defined Contribution		
EFF	Extended Fund Facility		
ERP	Economic Reform Programme		
FRC	Financial Regulatory Committee		
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		



CELEBRATING FIFTEEN YEARS OF THE FINANCIAL SERVICES COMMISSION: SIGNIFICANT MILESTONES

2001-2002

FSC established.

New Insurance Act & Regulations promulgated.

Amendment to the Unit Trust Act & the Securities Act

Development of Supervisory

2003-2004

Became financially independent

Island-wide public education programme intensified.



2005-2006

Commencement of on-site examinations for Insurance companies

Three pensions' regulations were promulgated. Favourable assessment of the

ravourable assessifierto in instructions and securities regulatory frameworks from the International Monetary Fund/World Bank Financial Sector Assessment Programme.

Issued Cease & Desist Orders against unregulated financial organisations.

2007-2008

FSC designated as Competent Authority under POCA The "Think and Check before You Invest" public education campaign began.

Trust

Lifting of the moratorium of the granting of new Unit

Hosted the IOPS Workshop –first in the Caribbean.

2009-2010



examination of pension plans

commenced

Desk-based and on-site

2002-2003

Risk Assessment models-CARMELS & CARAMELS developed &implemented. Designated as a Competent Authority under the Money Laundering Act.

First industry seminar held.

Became a member of the international Association of insurance Supervisors (IAIS).

Amendments to the Securities (Licensing and Registration) Regulations and the Securities (Conduct of Business) Regulations.

2004-2005

The Financial Service Commission (Overseas Regulatory Authority Disclosure) Regulations became effective.

under the Pensions (Superan-

registration and licensing

Retirement Schemes) Act.

nuation Funds and

Over 2,200 applications for

2006-2007

The Pensions (Superannuation Funds and Retirement Schemes) Act enacted.

Pensions was declared a financial service.

Became a member of International Organisations of Pensions Supervisors (IOPS).

2008-200

Exempt Distributions Regime came into effect.

2010-2011

insurance Legislation amended to replace Minimum Assets Test (MAT) with the MCT

Led the formation of the Caribbean Association of Pensions Supervisors (CAPS). FSC hosts National Financial Literacy Forum for Stakeholders The FSC signed MOU for cooperation with the insurance regulator in Turk and Caicos.

CELEBRATING FIFTEEN YEARS OF THE FINANCIAL SERVICES COMMISSION: SIGNIFICANT MILESTONES

repo product were transferred Central Securities Depository The operations of the retail to a new segregated trust managed by the Jamaica 2015-2016 The Insurance Act was Trustee Services. amended. The Securities (Retail Repurchase) Regulations and the structural benchmarks under the four-year Extended Fund cooperation among regional Eastern Caribbean Securities The Securities Act was amended and the Securities Tobago, Barbados and the quantitative targets and regulators -Trinidad and 2013-2014 2014-2015 (Collective Investment Schemes) Regulations Signed an MMOU for The FSC met all the Promulgated. Regulators. Facility. As a member of the Organiza-FSC hosted the Inaugural Conference and Annual Caribbean Association of General Meeting of the 2011-2012 2012-2013 Pension Supervisors.

2016-2017

The implementation of FSC's tightening for securities Strategy for Prudential dealers.

The Securities (Takeover and Mergers) Regulations, 1999

was amended

Financial Education (INFE), the FSC commissioned a National

International Network on

Financial Literacy Baseline

Securities (Prudential) Regulations were promulgated.

tion for Economic Cooperation

and Development's (OECD's)

The FSC revised its Anti-Money Laundering/Combating the insurance, private pensions and securities industries. Financing of Terrorism (AML/CFT) Guidelines for the

Multilateral Memorandum of Understanding (MMoU)

The FSC became a signatory of the International Organisation of Securities Commissions (IOSCO) Jamaica won the bid to host the 2017 IOSCO Conference

ORGANIZATIONAL OVERVIEW

OUR VISION

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

OUR MISSION

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

OUR VALUES

Fairness
Accountability
Confidentiality
Communication
Excellence
Integrity
Teamwork



Section 6 of the Financial Services Commission Act outlines our responsibilities. These include:

- 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 operations 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.



The FSC is also committed to increasing the level of financial inclusion and promoting the integrity of the Jamaican financial market.



PROFILES OF COMMISSIONERS





Mr Howard Mitchell is a graduate of the University of the West Indies, with a B.Sc. in Government. He is also a graduate of the University of Miami, with an LL.M in International Trade Law. Mr Mitchell was admitted to the Jamaican Bar in September 1967 and has a legal career which spans more than 30 years. He was appointed as Chairman of the FSC's Board in April 2016.

Mr. Mitchell is the Vice-President of the Jamaica Manufacturers Association. He also currently serves as Chairman of Corrpak Jamaica Limited, Chicken Mistress Limited T/A Island Grill, TM Traders Limited, Ajas Limited and Caribbean Flavours and Fragrances Limited. In addition to the Jamaica Deposit Insurance Corporation, Mr. Mitchell also holds directorships on the boards of the Episcopal Vicariate of St. Catherine, the G Raymond Chang Foundation, the St. George's College Endowment Fund, the Union Gardens Foundation, the Walkerswood Group, Cari-Med Limited and Kirk Distributors Limited.

He was the Chairman of the National Housing Trust, the Coffee Industry Board, the Bauxite and Alumina Trading Company of Jamaica Limited, Jamaica Bauxite Mining Limited and the Private Sector Working Group to advise on CARICOM and other free trade agreements.

Mr. Mitchell has been successful in the start-up of Jamaica's largest Corrugated Cardboard Factory in 2006 and the completion of the multi-million dollar acquisition/merger of the Jamaica Lottery Company Limited in 2005. He is co-author of the book "Legal Aspects of Doing Business in Jamaica" and was nominated as "The Observer Business Leader" in 1997. He is a fellow of the Center for International Legal Studies in Austria; and has been a Justice of the Peace since 2009.

MS. Janice P. Holness was appointed Executive Director of the Financial Services Commission in March 2013. Ms Holness oversees the operations of the FSC, a 127-employee financial services regulator with responsibility for regulating, monitoring and supervising the insurance, private pensions and securities industries.

With over 21 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 BSc. degree, summa cum laude, and a Juris Doctor degree from St. John's University in New York as well as a certificate in Small Countries Financial Management from the University of Oxford, Saïd Business School in the UK. She is a member of the boards of the Bank of Jamaica and the FSC.

Ms Katherine P.C. Francis is Vice President of Legal & Compliance as well as Corporate Secretary and General Counsel of Jamaica Public Service Company Limited since June 2006. She has portfolio responsibility there for the Claims, Risk & Insurance, Environment, Health, and Safety Departments. She was appointed to the FSC's Board in August 2016.

In previous years, Ms. Francis has acted as Crown Counsel and as Assistant Attorney General in the Attorney General's Chambers of Jamaica. Ms. Francis has vast years of experience in the areas of Commercial Law and Civil and Commercial Litigation. She is a member of the Jamaican Bar Association and is a member of its Disciplinary Committee. Ms. Francis is also a member of the New York Bar. She received a Juris Doctor from Fordham Law School, a Legal Education Certificate from the Norman Manley Law School and holds a Master's Degree in European Literature.

Mr. Joseph Shoucair was appointed to the FSC's Board in October 2016. He is an Attorney-at-Law who has amassed over four decades of diverse experience. Mr. Shoucair previously held the positions of General Counsel and Corporate Secretary at the NCB Group of Companies for over 20 years and Managing Director of the Housing Agency of Jamaica for over four (4) years.

Mr. Shoucair is currently the Chairman of the Transport Authority of Jamaica, and also serves as a Director of the Housing Agency of Jamaica Limited and as a consultant to the Ministry of Health.

Mrs Myrtle Halsall is an economist and a retired Central Banker. She spent over thirty years at the Bank of Jamaica (BOJ) where she retired at the level of Senior Deputy Governor. She was a member of the Bank's economic policy management team. Mrs Halsall has served on several Public Sector Boards and currently serves on the boards of the Jamaica Deposit Insurance Corporation as well as the Morant Bay High School.

Mrs Halsall was appointed to the FSC's Board in April 2016.











Mrs Jacqueline Stewart Lechler, JP is Managing Director of the Stewart's Automotive Group of Companies, with over 30 years' experience in the Automobile Industry with a focus on Finance, Administration, Operations and Human Resources. She was appointed to the FSC's Board in April 2016.

Mrs Stewart Lechler also holds board positions with the Stewart's Automotive Group of Companies, the Jamaica Chapter of Young Presidents Organization (YPO) and the National Education Trust (NET).

Mr Andre Hutchison was appointed to the FSC Board of Commissioners in June 2016. He is an accomplished financial services professional with over a decade of experience in the local and regional financial services sector. His expertise in the bond, currency and equity trading sectors has been developed from knowledge acquired through working in progressively senior positions at some of the most highly regarded institutions in the Caribbean. Currently, Mr. Hutchinson is the CEO of Caribbean Industrial Systems, a leading supplier of protective coatings throughout the Caribbean.



Mr Erwin Burton BSc., MSc., J.P. is currently the Chairman of Hardware and Lumber Limited and was appointed to the FSC's Board of Commissioners in April 2016. Mr. Burton has had a long and distinguished career at Grace Kennedy Group of Companies. He has held various senior managerial positions there, including Chief Executive Officer (CEO) of GK Foods, Deputy CEO of Grace Kennedy Ltd and Senior Adviser to the CEO of Grace Kennedy. Mr. Burton also served on the Boards of several Grace Kennedy subsidiaries including Grace Kennedy (Belize) Limited, Grace Foods USA, Inc., Grace Kennedy Canada Ltd and Grace Foods UK Limited. He is a member of the Board of the Mico University College. In the past, he was the Chairman of the Sugar Company of Jamaica Holdings Limited.

EXECUTIVE MANAGEMENT TEAM

ed by the Executive Director, the executive management team fosters the creation and implementation of FSC's 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



Ms Janice P. Holness, Executive Director



Mrs Janet Johnson Haughton, Acting Deputy Executive Director



Ms Ingrid Pusey, (General Counsel & Board Secretary) Head of Legal Services, Research and Policy Division



Mrs Amina Maknoon, Senior Director, Investigation and Enforcement





Mr Laurence Crossley, Senior Director, Securities



Ms Sekayi Campbell, Chief Actuary



Mrs Nicolette Jenez, Senior Director, Pensions



Mrs Joan Walker-Stewart, Senior Director Corporate Services

Vacant – Senior Director, Insurance & Senior Director, Compliance & Internal Control





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t is with great delight and honour that I present this annual report of the Financial Services Commission (FSC). This report covers the fiscal year 2016-2017 (FY2016/17), the year in which I was appointed Chairman and more significantly the year in which the FSC celebrated its fifteenth anniversary.

Anniversaries tend to invoke a sense of reflection, and this one is no different. The FSC's 15-year milestone takes us back to the establishment of the organization in 2001. The creation of the FSC was one of the critical pillars of the Government of Jamaica's regulatory reform agenda to rectify the then regulatory framework which lacked the institutional capacity and resources to supervise the growing financial market and to protect the users of financial services. With legislative reforms, another critical pillar, the regulators were empowered to:

- i. more effectively monitor the market;
- ii. prescribe and enforce prudential standards and best practices; and
- iii. establish and ensure compliance with proper market conduct practices.

Over the course of the past fifteen years, the FSC has undeniably made significant strides in developing the financial market and providing greater protection to users. There are a number of ways to measure financial development, including the following:

Growth

While the FSC supervised approximately 1,500 entities and individuals at the end of March 2003, the number of regulated pension plans, entities and individuals by the end of March 2017, was about 5,300. Over the same period, the categories of regulated entities have expanded to include others such as insurance investigators and claim negotiators. Meanwhile, aggregate funds under management grew from \$344.9 billion as at the end of 2004 to \$1,112.3 billion as at the end of 2016. Insurance gross premiums (combined life and general) moved from \$23.7 million in 2004 to \$89.2 million in 2016; this expansion represents 32 per cent real growth. Additionally, pension assets more than doubled from \$196.4 billion as at the end of 2008 to \$453.1 billion by December 31, 2016. These growth indicators point to the confidence and stability in Jamaica's financial market;

Quicker and Easier Financial Intermediation

The primary objective of any capital market is to channel funds from those with a surplus, to individuals who have productive ideas but lack the necessary financial resources to either materialise an idea into a new good or service or expand an existing product. To ease the process and reduce the cost and burden of raising the capital, the FSC pursued several initiatives over the past fifteen years. For example, the FSC established the Exempt (XD) Regime in 2008. Subject to certain conditions, the XD regime permits a distribution of securities to be exempted from registration of a prospectus or offering document with the FSC. By the end of 2008, there were 35 exempt distributions which amounted to approximately \$24 billion. By the end of FY2016/17, there were 86 distributions totalling \$177.6 billion;

Another successful initiative, which resulted from the collaboration of the FSC with the Ministry of Finance and the Jamaica Stock Exchange (JSE), was the launch of the JSE Junior Market in April 2009. The Junior Market made it easier for small and medium-sized businesses to access equity financing, which has led to an expansion of businesses and the creation of many needed jobs. Also, the Junior Market created investment opportunities for individuals. While there was only one listing on the Junior Market by December 31, 2009, there were 29 listing by the end of 2016. Through the Junior Market, over \$5 billion was raised and 1,000 jobs have been created by these 29 companies¹;

Innovation in the Financial Markets

For several years, the growth of the collective investment scheme (CIS) sector was hindered for several reasons. With the collaboration of other ministries, departments and agencies, the FSC was able to eliminate the obstacles and paved the way for the establishment of a wide range of CIS and not only unit trusts and mutual funds. With the legislative amendments in 2013 to the Securities Act, the establishment of mutual funds and investment clubs became permissible in Jamaica. March 31, 2016, there were 10 overseas mutual funds with a combined fund under management of US\$200 million; meanwhile, there were 13 unit trusts with a combined asset under management of \$184 billion. Back in 2003, there were only 6 mutual funds and

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4 unit trusts. Currently, the FSC is exploring new products, such as micro insurance. The purpose of these products is to create and preserve wealth as well as to improve the level of financial inclusion; and

• Financial Resilience

Over the past 15 years, the FSC increased the capacity of the financial institutions to withstand risks and challenges through improving the prudential standards, as well as, prescribing and enforcing corporate governance standards. As a result, the financial institutions continue to generate profit and growth despite the local and international economic challenges such as the recent international financial crisis. Examples of the initiatives to build financial resilience and instil proper corporate governance include the following:

- Replace the Minimum Assets Test for general insurance companies with the more risk-based Minimum Capital Test;
- In addition to legislative provisions mandating corporate governance practices, the FSC holds a corporate governance seminar annually;
- o Mandating best practices in risk management; and
- o Develop and promulgate prudential regulations for securities dealers.

Having sound and viable financial institutions is an important aspect of improving the level of protection for users of financial services. Such institutions are better equipped to honour their financial obligations to their clients. Below are examples of methods by which the FSC has improved the level of protection:

• Fitness and Propriety Assessments

The integrity of the financial markets and the protection of investors can be significantly improved and risks minimised if an examination of the qualifications and reputations of those seeking positions that involve managing and protecting other people's assets or money is conducted. From inception, the FSC has and will continue to conduct fit and proper assessments on prospective applicants and existing service providers;

Licensing and Registration

Another important element of promoting integrity and improving consumer protection is to ensure that only registered or

licensed entities provide financial services;

Supervision, Handling Complaints and Enforcement Actions

In addition to receiving and investigating complaints, the FSC monitors the companies to determine their viability and compliance with the relevant legislation. Based on the information gathered from its monitoring and investigations, the FSC has conducted enforcement actions on a number of individuals and entities for breaching the relevant legislation. Enforcement should not be seen as simply a matter of maintaining the rule of law, but rather a precondition for (i) deep and efficient financial markets and (ii) the protection of investors and policyholders; and

• Financial Education

In keeping with its mandate to promote the understanding of the operations of the regulated financial institutions, the FSC continues to disseminate financial knowledge to the public through various media. In addition to its financial education programme in schools, the FSC organises seminars and promotes public education. The objective is to equip the Jamaican populace with the requisite knowledge and skills to make informed financial decisions, evade fraud and exercise their consumer protection rights.

Fifteen years later, the FSC continues to be a central cog of Jamaica's financial regulatory framework and we remain very much resolute in fulfilling our mandate of protecting users of financial service. This is for one simple reason. It is because the FSC is convinced that a growing economy needs a vibrant financial market, which requires that:

- The financial institutions are efficiently and effectively regulated and supervised according to international standards;
- The financial institutions adopt risk management best practices that are appropriate to the nature, scale, and complexity of their businesses and risk exposures;
- The financial market remains stable;
- The public understands and has confidence in the operations of financial institutions; and



 The regulatory framework facilitates financial institutions modernising their operations in order that they can attain international benchmarks of competence, efficiency and competitiveness.

Certainly, as it was in the past fifteen years of success, the FSC will definitely need the collaboration and cooperation of other ministries, departments and agencies as well as, the industry, overseas financial regulators, and international agencies, to fulfil its mandate. To the previous Board of Commissioners, I am grateful for your contribution to our previous successes. Of course, without the commitment and tremendous effort of the staff, we would not have been able to celebrate so many achievements on our fifteenth anniversary.

Mr Howard Mitchell

Chairman

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EXECUTIVE DIRECTOR'S MESSAGE

BUILDING A LEGACY OF BEING AN EFFICIENT, EFFECTIVE AND RESPONSIVE REGULATOR

his year marks our fifteenth anniversary as the regulator for the non-deposit taking financial sector comprising the insurance, securities and the private pension industries. Since its inception in 2001, the FSC has been striving to be an efficient, effective and a responsive regulator. This remains an important aspiration for the FSC as we are convinced that it is a critical factor in creating the following:

- i a well-functioning and orderly financial market;
- ii. public confidence;
- iii. a stable financial market; and
- iv. economic growth.

Being operationally independent is seen globally as an essential factor in building an efficient, effective and a responsive regulator. In the fiscal year 2003/2004, the FSC achieved and maintained financial independence as the FSC was no longer a recipient from the government recurrent budget and became a self-financing public entity.

Five key areas in which the FSC strives to be an efficient, effective and responsive are briefly highlighted:

i. Improving Market Conduct - From inception, the FSC recognised that unethical and improper market conduct is a grave threat to the development and continued success of the financial markets. In response, the FSC sought to and raised the standards by which firms interact with their clients. This was accomplished through a wide range of measures such as the promulgation of regulations, the issuance of guidelines, and the establishment of the FSC's internal

procedures for receiving and investigating complaints from the public and, where necessary, implementing enforcement actions.

During the fiscal year 2016/2017 (FY2016/17), the FSC established two internal committees; namely – the Enforcement Committee and the Whistleblower Committee. The Enforcement Committee is mandated to develop and implement co-ordinated and robust enforcement policies and procedures that are efficient, transparent and harmonised across the regulated sectors. The Whistleblower Committee is responsible for developing the FSC's policies and procedures for the receipt, investigation and handling of protected disclosures from employees within the FSC-regulated sectors;

- ii. Advancing Regulatory Developments In identifying the weaknesses within the regulatory framework, the FSC, with technical assistance from international agencies and consultation with relevant industry groups, was able to review and revise the regulatory framework. For example, the FSC strengthened the capital and prudential standards for insurance companies and securities dealers, as well as improved the risk management and corporate governance practices by the regulated entities. In the FY2016/17, the FSC collaborated with the Ministry of Finance, the Bank of Jamaica and the Jamaica Deposit Insurance Corporation to develop a crisis resolution regime for all financial institutions. It is anticipated that the process of making legislative amendments to establish this regime will begin in the FY2017/18;
- iii. Promoting Financial Education Ever since its inception, the FSC recognized the need to improve the public's understanding of financial services and their financial literacy and capability; hence, the FSC embarked on a financial education campaign. Various channels have been used over the past fifteen years to advance this initiative. During the period, the thrust of public information was both proactive and responsive to the educational needs of the investing public.

- On May 31, 2016, the FSC won the 2016 Junior Achievement President's Award for its consistent commitment to the provision of financial education to youths in order to improve the financial literacy and capability. The FSC continued its collaboration with other agencies to develop Jamaica's National Financial Inclusion Strategy (NFIS) while the FSC discharged its duties as the Chair of the Consumer Protection and Financial Capability Working Group (CPFCWG) of the NFIS;
- iv. Strengthening Regulatory Cooperation and Collaboration - Given the growing interconnectedness within the global marketplace as well as the occurrence of international financial crimes, the FSC has strengthened its cooperation and coordination with local and overseas regulators. During the FY2017/18, the FSC continued its efforts to complete a Multilateral Memorandum of Understanding with the International Association of Insurance Supervisors (IAIS) and Memorandum of Understanding (MOU) with the Financial Regulatory Committee (FRC) and the Financial Investigation Division (FID). The FSC also submitted to the MOFP its proposal for developing its consolidated supervision framework which will increase the collaboration and coordination between the FSC and other financial regulators in assessing the risks arising from a financial group, especially those that have crossborder operations; and
- Deterring Money Laundering & **Terrorism Financing** - The FSC was first designated as Competent Authority under the Money Laundering Act in February 2003 for the insurance and the securities industries. Since then, the FSC began (i) monitoring the compliance of insurance companies, securities dealers and investment advisers with the provisions of the Money Laundering Act and (ii) providing training opportunities and guidelines to enable and foster compliance. The FSC maintained these activities and even more so after the enactment of the Proceeds of Crime Act (POCA) in FY2007/2008 and when the FSC was designated a Competent Authority for all three sectors - insurance, securities and

private pensions.

The FSC conducts examinations annually on regulated entities to ensure compliance with all the requirements under the POCA legislation and the FSC's Guidelines for Anti-Money Laundering and the Counter-Financing of Terrorism. In the instances of deficiencies, entities were cited and directed to implement remedial actions within specific timeframes. A follow-up examination is then conducted to confirm compliance with the directions to rectify the deficiencies. Noncompliance with the directions will give rise to further enforcement actions in keeping with the legislation. During the FY2016/2017, the FSC focussed on building the capacity of the Anti-Money Laundering (AML) Unit which was established in FY2015/2016 as a specialised and centralised unit to address all aspects of the FSC's supervisory oversight in relation to Anti-Money Laundering and Countering-Financing Terrorism (AML/CFT).

The FSC was able to accomplish these and other successes by pursuing an approach that includes the following considerations:

- Regulatory and supervisory actions must not place unnecessary costs and burden on the regulated entities;
- Regulatory and supervisory measures, including enforcement actions, must be proportionate to the risks being addressed. Therefore, the intensity of monitoring, the frequency of examination and the allocation of resources must be done accordingly; and
- There must be opportunities for the timely exchange of clear and targeted information between the FSC and the regulated entities utilizing the various communication channels.

Going forward, the FSC will intensify this approach in order to continue to build its legacy of being an efficient, effective and a responsive regulator. Over the short to medium term, the FSC will accomplish the following:

- Adapt international best practices that will continue to enhance the level of protection and the development of our markets;
- Finalise the development and implementation of the FSC's risk-based supervision framework;
- Develop and implement a data loss prevention programme to enhance data security in light

- of increasing global cyber risks;
- Improve our human resources and our institutional capacity with the development of an integrated regulatory system. The integrated regulatory system is an enterprise information management system that will automate, integrate and harmonise business processes across the FSC;
- Strengthen the AML Unit;
- Conduct a quantitative impact study (QIS) to determine an optimal position for the Minimum Capital Test (MCT) that balances growth and stability of the insurance industry; and
- Conduct a customer satisfaction survey to determine the priority areas for the FSC to improve the quality and efficiency of its service delivery.

As the FSC focuses on these priority areas in order to protect customer of financial services and build a sound and vibrant financial market, we will continue to strive to be an efficient, effective and a responsive regulator.

I must express my appreciation to the former Board of Commissioners who guided the FSC from February 2012 to 2016. I also extend a warm welcome to the recently appointed Board of Commissioners and I am grateful for the tremendous support received. I am extremely appreciative for the continued efforts of the employees whose contribution led to another productive year. For the FY2015/2016, the FSC met 80 per cent of its targets under its corporate strategic plan.

Last but certainly not least, I remain deeply appreciative for the support and productive working relationship between the FSC and the various industry associations.

Janice P. Holness Executive Director



BOARD OF COMMISSIONER'S REPORT

he Board of Commissioners hereby provides its report pursuant to section 22 of the Public Bodies Management and Accountability Act (PBMA). This report serves as a brief highlight of the matters required in the PBMA as details are also to be found elsewhere in this Annual Report.

(i) REVIEW OF Financial Year (FY) 2016/2017

Operational Review

The financial year (FY) 2016/2017 (April 1, 2016, to March 31, 2017) was another successful year for the FSC. In addition to achieving its deliverables under the International Monetary Fund (IMF) agreement, the FSC completed a number of activities in a timely and satisfactory manner as outlined in its corporate plan. For example:

- 1. In order to establish and maintain a proactive and responsive regulatory environment, the FSC advocated changes to its regulatory framework by
 - i. Preparing and submitting to the MOFP concept papers which outlined proposed amendments to existing legislation. These papers also provided justification for the proposed changes and in keeping with the Financial Services Commission Act (FSCA), are only submitted to the MOFP after the FSC has taken into consideration the industries' feedback on the proposed changes; and
 - ii. Providing feedback to the Chief Parliamentary Counsel (CPC) on drafted amendments in order to have the amendments finalised and effected.

The proposed changes to the regulatory framework included the following:

- The amendments to the Schedules of the Insurance Regulations were approved by the Regulations Committee of the Senate;
- Instructions were sent to the MOFP to amend section 96 of the Insurance Act to remove the uncertainty surrounding the requirement for group insurance policies to have an insurable interest; A concept paper on consolidated supervision was sent to the MOFP;
- Proposals to amend the Pensions (Superannuation Fund and

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Retirement Schemes) Investment Regulations with a view to unlocking the ability of pension funds to invest in broader categories was sent to the MOFP;

- Review of the various versions of (i) the Pensions (Superannuation Fund and Retirement Schemes) (Funding & Solvency) Regulations, and (ii) the Pensions (Superannuation Fund and Retirement Schemes) Bill, and
- The FSC sent comments to the MOFP on the latest version of the Insurance (Actuaries) (General Insurance Companies) Regulations on March 31, 2017. The new regulations will allow for the relaxation of the Minimum Capital Test (MCT) requirement under certain conditions.

As a responsive regulator, the FSC strives to enhance relationships and partnerships with both internal and external stakeholders and customers by addressing their needs and concerns in a timely manner. As a result, the FSC developed its Customer Service Manual and Charter. With this, a framework is established for defining service delivery standards and improvements in customer service delivery. The manual also addresses the rights of customers as well as how queries and complaints will be handled.

The terms of reference were completed and source of funding was identified in FY2016/2017 for development and implementation of a customer survey in FY2017/2018 to determine the level of customers' satisfaction with the FSC's services and procedures. It is anticipated that, based on the findings, the FSC will be able to identify and prioritise actions to improve the level of customers' satisfaction;

2. Through various media, the FSC facilitated access to financial education and the awareness of financial information that will lead to an increased level of the citizen's (i) ability to comfortably make informed financial decisions, (ii) understanding of the financial institutions' operations, and (iii) confidence in the regulated sector. There were several initiatives in which the FSC partnered with other Ministries Departments and Agencies (MDAs) to develop the financial market and improve customer protection as well as financial inclusion. These MDAs ranged from the MOFP, Ministry of Foreign Affairs and Foreign Trade (MFAFT), BOJ, JDIC, Tax Administration of Jamaica (TAJ), Financial Investigations Division (FID), Major Organized Crime and Anti-Corruption Agency

(MOCA), Counter-Terrorism and Organized Crime Branch (CTOC), Jamaica International Financial Services Authority (JIFSA), National Development Bank of Jamaica (NDBJ) and the Companies Office of Jamaica (COJ). Another outcome of these partnerships was a review of Jamaica's Anti-money Laundering & Counter-financing Terrorism regime; subsequently, recommendations were made to strengthen the regime.

Likewise, the FSC maintained its relationship and collaboration with regional and international agencies in order to address cross-border financial crimes and to strengthen both the local and international regulatory framework. This included the FSC collaborating on investigations with overseas regulators and participating in a number of projects, surveys and supervisory colleges, seminars, workshops and conferences. The FSC hosted four attachments from the Caribbean in order to exchange ideas and build and develop new skills set at the local and regional level;

- 3. The FSC fostered and enforced compliance with the relevant legislation. A number of examinations and risk assessment reports were completed across the three regulated sectors. These examinations and reports provide a basis for the FSC to ensure that the entities (i) comply with their respective governing legislations; (ii) engage in proper conduct; and (iii) remain prudentially sound. These examinations and reports included the following:
 - Over 400 examination reports (including annual and quarterly risk assessments) and where necessary, a wide range of enforcement action was taken;
 - Eighteen onsite examinations;
 - Four reinsurance programmes; and
 - Eight offering circulars and 11 prospectuses received and reviewed within the stipulated timeframe.
- 4. A number of initiatives were undertaken in order to enhance the FSC's performance through the alignment and management of human, information and financial resources. These include the following:
 - The establishment of a revised Reward and Recognition Programme to recognise team members, individually or collectively, for outstanding performance or effort, for demonstrating an exemplary attitude or exhibiting the core values of the organisation;



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- Staff participated in a range of learning and development exercises. This included two leadership interventions as a component of the FSC's succession planning;
- The terms of reference was completed and source of funding was identified in FY2016/2017 for a project to strengthen the institutional, technological and operational capacity via information in FY2017/2018; and
- Success was achieved in cost containment exercises.

Financial Review

This subsection provides a brief overview of the FSC's financial performance during the FY2016/2017 period. It highlights the composition of FSC's revenue and should be read in conjunction with the financial statements. The financial statements in this report present the financial position, operating results and cash flows of the FSC for the financial year ended March 31, 2017, based on International Financial Reporting Standards (IFRS).

As total revenue for the FY2016/17 was \$982.8 million (2015-2016: \$930.6 million) and total expenses were \$814.71 million (2015/2016: \$808.03 million), the FSC achieved a net surplus of \$204.06 million compared to \$158.3 million for the previous year. Highlights of the income items are presented as in Chart 1.

Chart 1: Composition of FSC's Revenue, FY2015 - 2016 & FY2016 -2017

Fees 2015 – 2016 2016 - 2		
	\$ Million	\$ Million
Licensing/Registration Fees	868.99	919.03
Interest Income	54.30	57.68
Fees from seminars/workshops	1.66	1.12
Miscellaneous Income	5.60	4.94
Total	930.55	982.77

Charts 2-4 provide details of the sources of fee income from the Securities, Insurance and Pensions Industries for FY2015/2016 & FY2016/2017.

Chart 2: Revenue from the Securities Industry 2015 – 2016 & 2016 -2017

	2015 – 2016		2016 - 2017	
Source	Revenue	%age of	Revenue	%age
	('\$000)	Total	('\$000)	of
				Total
Annual Licensing/Registration	154,647	73	161,261	79
Fees- Securities Dealers Mutual				
Funds				
Stock Exchange & JCSD Fees	45,683	22	29,893	15
Application Fees	11,687	5	12,945	6
Totals	212,017	100	204,099	100



Chart 3: Revenue from the Insurance Industry 2015 – 2016 & 2016 -2017

	2015 – 3	2016	2016 - 20	017
Source	Revenue	% of	Revenue	%of
	('\$000)	Total	('\$000)	Total
Annual Registration Fees-	304,846	91.4	320,184	92
Life and General Companies				
Annual Fees-	20,583	6.2	21,383	6
Intermediaries				
Application Fees	7,999	2.4	6,749	2
Totals	333,428	100	348,316	100

Chart 4: Revenue from the Pensions Industry 2015 – 2016 & 2016 -2017

	2015 – 2016		2016 - 2017	
Source	Revenue	% of	Revenue	%of
	('\$000)	Total	('\$000)	Total
Annual Licensing Fees-	322,165	99.6	365,462	99.6
Investment Managers				
Application Fees	1,380	0.4	1,146	0.4
Totals	323,545	100	366,608	100

(ii) PROPOSED CHANGE IN THE NATURE & SCOPE OF THE FSC'S ACTIVITIES

The role of the FSC is likely to be expanded to include the regulation of providers of non-deposit-taking financial services to clients residing outside of Jamaica. The proposed International Trust and Corporate Services Providers went before the Parliament in the FY2016/2017. While the Bill was passed in the House of Representatives, the House of Senate was reviewing the bill. The Bill envisions that the FSC will administer the legislation and regulate the international trust and corporate services providers.

It should be noted that the FSC Act was amended to confer borrowing powers on the FSC effective November 14, 2016. Borrowing powers are typical powers granted to public bodies. Providing the FSC with borrowing powers will increase the options available to the FSC in managing its finances. Notwithstanding this amendment, the FSC will be required to (i) exercise prudence in utilising this power and (ii) obtain written approval from the Minister of Finance before exercising this power.

(iii) CHANGES TO ITS CORPORATE PLAN & SUMMARY OF ITS ACHIEVEMENT AGAINST TARGETS

For the FY2016/2017, there were no changes to the FSC Corporate Plan. Chart 5 outlines the FSC's performance against its FY2016/2017 objectives and targets:



Chart 5: Summary of FSC's Achievements Measured Against its Strategic Objectives for 2016-2017

Strategic Objectives	Results
Initiatives	
Strategic Goal 1: Establish and maintain a proactive and responsive regulatory environment for the securities, insurance and pensions industries.	
1.1 Strategic Objective: To advocate timely policy and legislative changes in anticipation of, or response to, environmental dynamics	Met
1.2 To respond quickly to upside and downside risks	Met
1.3 To enhance customer service	Met
Strategic Goal 2: Facilitate public education and awareness of information pertaining to the securities, insurance and pensions industries, as well as the general work of the FSC.	
2.1 Strategic Objective: To foster financial awareness and education among all our stakeholders in order to advance a consumer protection and financial inclusion agenda	Met
2.2 Strategic Objective: To build the FSC brand and reputation	Met
Strategic Goal 3: Foster and enforce compliance with legislation relating to the securities, insurance and pensions industries, through a robust enforcement programme.	
3.1 Strategic Objective: To quickly deter, detect and prosecute violations of the laws	Met
3.2 Strategic Objective: Collaborate and cooperate with partners locally and overseas to address global financial crimes	Met
Strategic Goal 4: Enhance FSC's performance through alignment and management of human, information and financial resources.	
4.1 Strategic Objective: To attract, develop and retain the best talent	Met
4.2 Strategic Objective: To transfer knowledge to and from partners	Met
4.3 Strategic Objective: To leverage new technology	Met
4.4 Strategic Objective: To enhance self-financing capabilities	Met

(iv) FORECAST AND PROJECTIONS OF KEY FINANCIAL & OPERATING MEASURES

Chart 6 provides a forecast of key financial and operating measures for the fiscal year 2017-2018

Chart 6: FSC's Financial Projections for 2017-2018 (\$' 000)

·	Actual	Projected
	FY2016-2017	FY2017-2018
INCOME:	(\$' 000)	(\$' 000)
Fees	919,026	989,091
Interest Income	57,679	59,448
Other	6,029	1,380
IOSCO Conference	0,025	26,000
Gain/Loss on disposal of Property , plant &	O	20,000
Equipment		
-40/	34	-
TOTAL INCOME	982,768	1,075,919
EXPENSES:		
Advertising	827	906
Appeals Tribunal	3,289	3,916
Audit	1,750	1,846
Bad Debts	14,410	-
Bank Charges	919	739
Building Maintenance	10,120	18,992
Commissioners Fees	2,116	2,029
Data Security	8,862	11,800
Depreciation and amortisation	20,783	31,676
Motor Vehicle and parking expense	12,855	11,218
Office Expenses	23,537	26,792
Irrecoverable General Consumption Tax	13,626	51,480
Printing and stationery	1,602	4,004
Professional fees	16,120	33,858
Public Education	23,403	40,963
IOSCO	0	26,000
Rent	36,000	0
Technical assistance	0	1,890
Staff Cost	547,846	662,154
Subscriptions	24,787	31,993
Training and conferences	26,967	35,621
Utilities	24,888	30,252
TOTAL EXPENSES	814,707	1,028,129
Surplus/(loss) before grant	168,061	47,790
Grant	36,000	-
SURPLUS FOR THE YEAR	204,061	47,790



(v) Dividend

The FSC is funded mainly through fees charged to regulated entities on a cost-recovery basis and is a not- for- profit organisation. As a result, the FSC does not pay dividends and therefore, for the purposes of Part 1 of the Second Schedule to the PBMA, it is not necessary for the FSC to provide notification of payment of dividend.

Conclusion

Overall, it was another productive year for the FSC.

The Board of Commissioners expresses gratitude to the management, staff, clients and partners for their continued support, dedication and commitment to the organisation during the FY20I6/2017.

Dasall

Commissioner

for Chairman



CORPORATE GOVERNANCE

ound corporate governance is vital to ensure the proper and effective discharge of our regulatory functions. This section is pursuant to the GOJ's Corporate Governance Framework².

OUR BOARD OF COMMISSIONERS

By overseeing and directing the FSC's work, the Board plays an essential role in ensuring that the FSC performs its regulatory functions effectively. The Board sets the FSC's overall direction and policies and provides strategic guidance to senior management. Our Board consists of a Chairman, the Executive Director (ex officio) and up to eight (8) other members. Each Commissioner, with the exception of the Executive Director, is appointed by the Minister of Finance for a term of up to five years and may be reappointed to serve additional terms. The Board of Commissioners appoints the Executive Director.

BOARD COMMITTEES

The work of the Board in governing the FSC is facilitated by various board committees established to focus on clearly-defined areas of the FSC's operations that deal with corporate governance and regulatory issues. Chart 7 shows the key responsibilities of each committee, while Chart 8 displays the Commissioners' attendance record.

Chart 7: Board Committees & Functions

Name of Board	Function of Board Committee
Committee	
Audit Committee	 Oversees the effectiveness of the FSC's internal controls, ensures the independence of the FSC's internal and external auditors and monitors the risk management policies and systems of the FSC.
Finance Committee	 Oversees the integrity of the FSC's financial management and reporting systems. Reviews and recommends the fee structure for the

² Corporate Governance Framework for Public Bodies in Jamaica (Revised 2012)

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_	

Name of Board Committee	Function of Board Committee
	regulatory services provided by the FSC.
Human	Has overall responsibility for the Human Resource policies
Resources &	and practices in line with the strategic goals of FSC.
Administration	 Oversees the compensation policies and programmes,
Committee	succession plans and performance evaluation.

Chart 8: Board and Board Committees - Number of Meetings Attended out of Total Meetings, 2016/2017

Commissioners	Full Board	Audit	Finance	Human Resources & Administration
Howard Mitchell	8/8	-	-	-
Janice P. Holness	8/8	2/2	2/2	2/3
Myrtle Halsall	8/8	2/2	-	-
Erwin Burton	7/8	-	2/2	3/3
Jacqueline Stewart -Lechler	5/8	2/2	-	1/13
Andre Hutchinson ⁴	6/8	1/1 ⁵	2/2	-
Katherine Francis ⁶	5/6	-	2/2	3/3
Joseph Shoucair ⁷	5/5	2/2	-	-

Board & Executive Management Remuneration

The Board of Commissioners is remunerated as determined by the Minister of Finance. Chart 9 provides information on the remuneration paid to the Non-Executive Commissioners.



³Please note that Mrs Stewart-Lechler was appointed to the HRA Committee in February 2017.

⁴ Mr Hutchinson was appointed to the Board of Commissioners in July 2016

⁵ Mr Hutchinson was not a member of the Audit Committee at the time but attended the meeting

 $^{^{\}rm 6}$ Ms Francis was appointed to the Board of Commissioners in September 2016

⁷ Mr Shoucair was appointed to the Board of Commissioners in October 2016

Chart 9: Compensation of Commissioners FY2016/2017 (\$'000)

Name of Commissioner	Fees (\$'000)	Motor Vehicle Upkeep/Travelling or Value of Assignment of Motor Vehicle (\$'000)	Honoraria (\$'000)	All other Compensation including Non- cash Benefits as applicable (\$'000)	Total (\$'000)
Michael Vacianna	65	-	-	-	65
Collin Bullock	481	-	-	-	481
Andre Hutchinson	113	-	-	-	113
Jacqueline Stewart –Lechler	153	-	-	-	153
Erwin Burton	132	-	-	-	132
Katherine Francis	113	-	-	-	113
Joseph Shoucair	132	-	-	-	132
Myrtle Halsall	155				155
Howard Mitchell	772				772
Total	2,116	-	-	•	2,116





Chart 10 Remuneration to the Executive Management Team

Position of Senior Executive	Year	Base Salary (\$)	Gratuity (\$)	Perform ance Incentiv e (\$)	Travelling Allowance (\$)	Other allowance (\$)	Non- Cash Benefit housing and value of the Company 's motor vehicle (\$)	Total (\$)
Executive Director	2016/2017	15,800,200	-	1,227,200	-	132,000	5,458,235	22,617,635
Acting Executive Director	2016/2017	8,687,257	2,099,934	677,330	1,341,624	132,000	-	12,938,145
Chief Actuary	2016/2017	8,497,384	2,082,958	694,580	1,341,624	132,000	-	12,748,546
Senior Director	2016/2017	6,960,553	3,343,259	536,212	1,341,624	132,000	-	12,313,648
Corporate Services								
Senior Director Insurance	2016/2017	-	-	-	-	-	-	-
Senior Director Pensions	2016/2017	7,386,710	1,723,933	603,376	1,341,624	132,000	-	11,187,643
Senior Director Securities	2016/2017	7,102,605	1,671,525	559,381	1,341,624	132,000	-	10,807,136
Senior Director Investigations & Enforcement	2016/2017	6,960,553	3,346,969	549,452	1,341,624	132,000	-	12,330,598
Senior Director Compliance & Internal Control	2016/2017	_	-	_			-	-
General Counsel	2016/2017	7,098,466	3,343,259	520,179	1,341,624	132,000	-	12,435,528

Notes:

- 1. All contracts are in Jamaican currency.
- 2. The Gratuity of the Executive Director was paid in May 2017.
- 3. The gratuity for General Counsel, Snr. Director Corporate Services and the Snr Director, Investigation and Enforcement includes amounts for 2015/2016 and 2016/2017.
- 4. Where a non-cash benefit is received (eg. Government housing) the value of that benefit is quantified and stated in the "non cash benefits" column.
- 5. The positions of Snr. Director Insurance and Snr. Director Compliance and Internal Control were vacant for the entire year.
- 6. The FSC's Performance Incentive Award is in accordance with the MOFP Circular No.11. All employees share in this award.



AUDIT COMMITTEE REPORT

- he FSC's Board Audit Committee (the Committee) overseas compliance with the organisation's system of internal controls and provides risk assurance to the Board by monitoring the risk management activities of the FSC. In performing its work, the Committee considers the following:
 - The reliability and integrity of the accounting principles and practices, financial statements and other financial reporting;
 - The FSC's enterprise risk management activities;
 - The effectiveness of the systems of internal controls and procedures; and
 - The FSC's compliance with the MOFP Circulars, The FSC Act and other legislation including but are not limited to:
 - o The Financial Administration & Audit Act,
 - o Public Bodies Management and Accountability Act (PBMA) & Regulations,
 - o The Public Sector Procurement Regulations,
 - o Government of Jamaica Procurement Guidelines,
 - o Securities Act and Regulations,
 - o Insurance Act and Regulations, and
 - o Pension Act and Regulations.

In FY2016/2017, the Committee received regular updates from the Control and Internal Compliance Division (CICD) regarding compliance with the FSC's operational policies and procedures and risk management activities. The Committee also reviewed reports covering financial, operational and compliance audits of the FSC. Based on the findings of the audits, recommendations for improvements to the operational policies and procedures were made to the Executive Management Team.



Chart 11: The Risk Process

STEP 5 STEP 1 STEP 2 STEP 3 STEP 4 MANAGING RISK PLANNING REPORTING IDENTIFICATION **PRIORITIES RISKS** Risks are prioritized based The FSC's Board/Audit Com-The ERM, strategic planning, Risks are identified based on Risks can either be accepted. upon their influence (High, mittee has a real-time view of and budgeting process are approved at the board level reduced transferred or elimithe FSC's strategic objectives and the FSC's risk tolerance Medium or Low) on the FSC's the key risks and how they nated depending on the risk. based on recommendations and appetite which are set by objectives, risk tolerance and are being managed based on risk appetite. Resorces are reports from the Risk Manfrom management. the board. then allocated to the approagement Committee. priate risks.

The FSC continues to take a proactive approach to risk management and understands that risk management is essential to meeting the organization's mission and strategic objectives. Risk management begins with the strategic planning phase, where management and the Board identify objectives which are consistent with the mission and mandate of the FSC and consider the risks associated with meeting these objectives. The FSC appreciates that risk is inherent in the fulfilment of our mission and mandate and embrace the challenges that arise in our efforts to identify and correctly treat (transfer, mitigate and eliminate) risk. The amount and type of risk that we are prepared to be exposed to, accept or tolerate, has to be incorporated and developed in tandem with our strategic objectives and embedded within our operational policies and procedures. The risk is managed on an enterprise-wide basis and we believe that the relevant risk framework (risk strategy, environments, infrastructure and processes) must be in place to ensure that we effectively and efficiently manage risks across the FSC. By focusing on promoting a strong risk management culture which guides our employee's decision-making process at both the strategic and operational level, we have experienced improved execution of our objectives and greater accountability throughout the organization.

The FSC is constantly customizing and integrating its ERM policies and procedures into the operations of the organization in order to keep pace with the organization's exposure to strategic, financial and

operational risks. Monitoring of risks is done on an on-going basis and reported quarterly to the Executive Director and Audit Committee.

These risks can emerge if the FSC:

- Fails to deliver on its service standards, mission and objectives
- Breaches laws and regulations
- Exhibits unethical conduct
- Fails to adhere to its own policies, established practices, internal controls, procedures and best practices
- Fails to meet stakeholder expectations and build trust

The FSC conducts annual risk management training for all employees in order to reinforce risk management concepts and practices at all levels of the organization. During this exercise, feedback is encouraged on recommended improvements to the ERM framework. This inclusive organisation-wide approach has improved communication at the FSC, as employees now speak a common language when it comes to risk and understand that they are an integral part of the risk management process.

INTERNAL CONTROL

The mission of the Compliance and Internal Control Division (CICD) is to provide independent, objective assurance and consulting services, designed to add



value and improve the FCS's operations by utilising an appropriate risk- based audit methodology. The CICD incorporates this risk-based approach to the development of its annual audit plan and the management of its audits. It concentrates predominantly on the areas of highest risk in an effort to identify and recommend mitigating actions for the risks that can have the greatest impact on the FSC's objectives and mission.

The CICD helps the FSC to accomplish its objectives by bringing a systematic and disciplined approach to the evaluation and improvement of risk management as well as control and governance processes. It is charged with the responsibility of developing and maintaining (i) an effective risk management framework for the FSC, and (ii) an institutional framework that gives assurance that all applicable laws, regulations, rules, best practices, policies and procedures are adhered to. The CICD has administrative and functional reporting lines to the Executive Director and Audit Committee respectively enabling a system of good corporate governance within the organisation.

The CICD has performed detailed reviews and assessments on various functional units of the FSC. The result of this exercise has been the identification of the FSC's exposure to strategic, financial, and operational risks. For the FY2017/2018, the FSC will implement internal risk mitigation strategies and monitor key risk indicators to ensure that risks are kept at an acceptable level.

CORPORATE SOCIAL RESPONSIBILITY REPORT

The FSC has a sense of responsibility to promote sustainable development of the people, the community, and the environment in which it operates. The list below shows the various activities that have been implemented and will be taken in the FSC's Corporate Social Responsibility framework:

- The FSC contributed to a number of charities including the Sigma Run;
- The full implementation of the Electronic Records Management System since last year, as well as the proposed Integrated Regulatory System, will lead to substantial reductions in paper costs and paper utilization;
- Software that tracks paper utilization and

- costs have been implemented. This facilitates monitoring to ensure reduction in paper usage and costs;
- The FSC utilizes energy saving LED bulbs for most lighting fixtures, is on track toward total conversion to LED bulbs, and is currently exploring further reducing the hours of use for the air conditioning units;
- Timed water faucets and energy saving water closets (toilets) are used in the bathrooms thereby resulting in minimal water waste;
- The FSC is finalizing arrangements with recycling companies to collect the used newspaper for recycling;
- The FSC will continue to utilize environmentally-friendly cleaning products; and
- Any refurbishing or modernization of the FSC premises that is approved to be undertaken will be done with a view to incorporate progressive environmental trends.



OVERVIEW OF THE FINANCIAL SECTORS

or the 2016 calendar year, it is estimated that Jamaica's Gross Domestic Product (GDP) grew by 1.7 per cent. The financial services sector saw real growth in each of the calendar quarters. This improved performance of the financial services sector was derived from the higher profitability generated by both the FSC's and BOJ's regulated entities. The growth in the sector coincided with general improvements in Jamaica's macroeconomic environment such as a reduction in the debt to GDP ratio, low inflation, continued growth in the Net International Reserves and strengthening of the current account balance. See Chart 12.

The outlook for the Jamaican financial services industry will be influenced by both the international and local economies. The global economy continues to present both opportunities and challenges for the Jamaican economy. The opportunities are associated with (i) the anticipated improving economic performance in the United States including the possibility of wage increases which could result in positive spillover for Jamaica's tourism sector, and (ii) the forecasted oil prices of below US\$ 50 per barrel will greatly assist in keeping inflation in low single digits. However, there are downside risks which include weaker global growth, the escalation of geopolitical tensions and the uncertainty regarding the impact of (i) the new US administration's proposed budget and taxes especially relating to funding of the US & Mexico border wall, and (ii) the UK's pending exit from the European Union.

Notwithstanding the global challenges, the local macroeconomic outlook remains positive as the economy is expected to continue to generate quarterly growth from both the goods-producing and services industries. Additionally, the Government of Jamaica has demonstrated its commitment to (i) continued implementation of its Economic Reform Programme, and (ii) maintaining prudent monetary and fiscal policies in order to maintain macroeconomic stability while pursuing its growth and debt reduction strategies. Included in its growth strategy is the financial sector reform which entails initiatives to improve access to finance and to increase financial inclusion.

Chart 12: Selected Macro Indicators for Jamaica, 2012-2016

chart 12. Scietted Mater Materials for Jamaica, 2012 2010								
Selected Macroeconomic								
Indicators	2012	2013	2014	2015	2016			
Real GDP Growth Rate (%)	-0.5	0.2	0.5	0.8	1.4			
Net International Reserves								
(US\$M)	1,125.6	1,052.8	2,001.6	2,437.3	2,719.4			
Inflation (%)	8.0	9.5	6.4	3.7	1.7			
T-Bill Yield (6 months) (%)	7.18	8.25	7.14	6.04	6.56			
JSE Combined Market Index								
(points)	93,504	82,935	78,223	158,269	204,960			
Average Unemployment Rate (%)	13.9	15.2	13.7	13.5	12.9			
Exchange Rate (end of period)	92.99	106.38	114.66	120.42	128.44			
Percentage Rate of FX								
Depreciation (J\$ vs US\$)	7.4	7.8	14.4	5.3	6.7			

PROMOTING A STRONG INSURANCE INDUSTRY

Guidelines.

The Insurance Division is responsible for the supervision and monitoring of the insurance industry, pursuant to the Insurance Act and relevant Regulations, The division through its quarterly and annual reviews, has ensured that solvency, proper internal controls and risk management systems of the insurance companies are maintained. Chart 13 provides a snapshot of the Insurance Division's achievements.

Conducted annual and quarterly risk assessements.

Promoting public awarenes of microinsurance.

Completed six onsite examinations.

Formulated proposal for legislative amendments.

Chart 13: Achievements of the Insurance Division



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OVERVIEW OF GENERAL INSURANCE INDUSTRY

Chart 14: Number of Registrants in the Insurance Industry as at March 31, 2017

Type of Registrants	Registered At March 2016	Additions	Less Terminations/ Cancellations	Less Merged Entities	Registered At March 2017
Life Insurance Companies	7	0	1	0	6
General Insurance	10	1	0	0	11
Companies					
Association of Underwriters	1	0	0	0	1
Insurance Brokers	27	0	0	0	27
Facultative Placement Brokers	18	1	0	0	19
Overseas Reinsurance Brokers	1	0	0	0	1
Local Reinsurance Brokers	2	0	0	0	2
Insurance Agents	28	4	0	0	32
Insurance Sales Reps	3,220	220	139	0	3,301
Loss Adjusters	35	1	0	0	36
Loss Adjusters - Employed Practitioners	7	0	0	0	7
Investigators	16	4	0	0	20
Claims Negotiators	7	0	0	0	7
Insurance Consultants	3	0	0	0	3
Total	3,382	231	140	0	3,473

For the year ended December 31, 2016, general insurers employed approximately 1,230 persons (2015: 1,215) and wrote 394,365 policies (2015: 367,050). The accumulated sum insured totalled approximately \$5,773.9 billion (2015: \$4,772.7 billion.) Chart 15 illustrates the aggregate financial performance of the general insurance companies.



⁸ Preliminary data for 2016.

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PERFORMANCE REVIEW OF THE INDUSTRY

Chart 15 - Statistical Information and Financial Position of the General Insurance Industry					
As at	Dec 14 ^A \$'B	Dec 15 ^A \$'B	Dec 16 [₽] \$'B		
Balance Sheet					
Total Investment Assets	41.1	45.2	48.0		
Total Assets	60.2	65.0	71.2		
Insurance Liabilities	34.6	35.3	38.8		
Other Liabilities	4.9	6.1	5.9		
Total Liabilities	39.5	41.4	44.7		
Capital & Surplus (incl. reserves)	20.8	23.6	26.4		
Profit and loss (YTD)					
Net Premium Earned	16.1	16.3	17.1		
Underwriting Expenses	15.3	15.3	17.0		
Net Investment Income	2.8	2.8	3.3		
Other Income	0.8	0.7	1.1		
Income before Tax	4.3	4.5	4.6		
Taxes	1.2	1.1	1.0		
Income (Loss) after Tax	3.1	3.3	3.7		

A -Actual; P-Preliminary;

Aggregate assets amounted to \$71.2 billion and reflected an increase of 9.5 per cent over the \$65.0 billion reported as at December 31, 2015. Aggregate invested assets amounted to \$48.0 billion, representing an increase of 6.4 per cent over 2015, and accounted for 67.9% of total assets. The increase was generally due to insurers acquiring more short term deposits.

The weighted average Minimum Capital Test (MCT) ratio for these companies at the end of 2016 was 314.1 per cent (2015: 299.5 per cent), which exceeded the prescribed capital required of 250 per cent. Each general insurance company's MCT score

was above the 250 per cent benchmark

Total revenue comprising the three income categories, net premium earned, net investment income and other income amounted to \$21.5 billion in 2016 (2015: \$19.8 billion). However, the industry's overall underwriting performance deteriorated as the growth (11.1 per cent) in underwriting expenses outpaced the rate of growth (4.9 per cent) in Net Premium Earned (NPE). The upward movement in underwriting expenses was mainly driven by significant increases in claims expenses. Chart 16 provides the claims per class of business.



Chart 16: General Insurance Industry Data for 2016 P							
			Motor	Pecuniary			
	Liability	Property	Vehicle	Loss	MAT	Accident	Total
Number of Policies	7,150	53,291	314,318	4,694	1,770	13,142	394,365
Gross Direct							
Premiums Written							
(J\$'000)	1,952,412	18,057,383	17,777,115	1,607,660	388,721	199,078	39,982,369
Reinsurance							
Assumed (J\$'000)	2,528	60,671	15,024	844	0	419	79,486
Reinsurance ceded							
(J\$'000)	812,000	17,395,506	2,441,294	1,483,586	300,429	78,159	22,510,974
Net Premiums							
Written (J\$'000)	1,142,940	722,548	15,350,845	124,918	88,293	121,338	17,550,882
Percentage of							
Gross Premiums							
ceded (%)	41.6	96.3	13.7	92.3	77.3	39.3	56.3
Net Premiums							
Earned (J\$'000)	1,086,023	878,142	14,784,679	139,529	80,294	147,159	17,115,826
Gross Direct Claims							
Incurred (J\$'000)	1,118,919	4,016,112	8,512,072	26,158	2,774	47,386	13,723,421
Claims on							
Reinsurance							
assumed (J\$'000)	_	-	181	-	-	-	181
Claims on							
Reinsurance Ceded	664.446	2.064.222	4 252 222	20.440	(2.424)	40.00:	5.040.400
(J\$'000)	661,140	3,864,323	1,353,839	20,143	(2,124)	12,801	5,910,122
Net incurred claims (J\$'000)	402 001	267 161	0 0E3 330	6 020	(420)	26 744	0.057.003
,	493,981	367,161	9,053,339	6,920	(130)	36,711	9,957,982
Claims ratio (%)	45.5	41.8	61.2	5.0	(0.2)	24.9	58.2

Notes:

- (i) P: Preliminary data
- (ii) While not shown in the above table, gross premium written (GPW) is the sum of Gross Direct Premiums Written and Reinsurance Assumed.

In 2016, aggregate claims amounted to \$9.96 billion which represented a growth of 12.6 per cent over the amount recorded in 2015. The aggregate claims ratio of 58.2 per cent was 3 percentage points higher than the 2015 claims ratio of 55 per cent. This deterioration was fuelled by significant adverse movements in claims for the property and motor vehicle classes of business. Property and motor vehicle claims increased by \$287.8 million (362.5 per cent) and \$991.3 million (12.3 per cent) respectively.



OVERVIEW OF THE LIFE INSURANCE INDUSTRY

For the year ended December 31, 2016, the six registered life insurance companies employed 1,899 persons (2015: 1,904). Total GPW in 2016 amounted to \$48.8 billion (2015: \$46.8 billion). Chart 17 exhibits the percentage of GPW by class of business. Chart 18 provides selected statistics for the period 2014-2016.

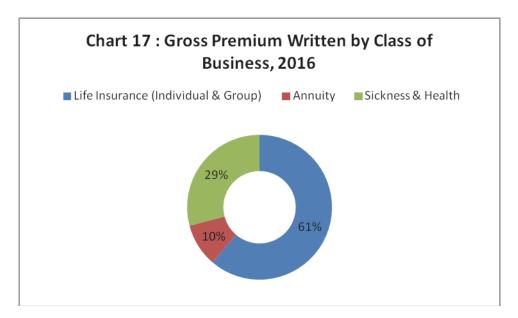


Chart 18 - Statistical Information and Financial Position of the Life Insurance Industry						
Year to Date	Dec 14 ^A \$'B	Dec 15 ^A \$'B	Dec 16 ^P			
Balance Sheet						
Total Investment Assets	245.3	263.5	276.5			
Total Assets	261.5	281.7	297.2			
Insurance Liabilities	78.5	81.1	87.8			
Other Liabilities	121.5	132.0	140.0			
Total Liabilities	200.0	213.1	227.8			
Capital & Surplus (incl. reserves)	61.6	68.6	69.4			
Profit and loss (YTD)						
Total Revenue	66.4	72.9	77.4			
Consists of						



Chart 18 - Statistical Information and Financial Position of the Life Insurance Industry							
Year to Date	Dec 14 ^A \$'B	Dec 15 ^A \$'B	Dec 16 ^P				
Net Premium Earned	41.8	45.9	48.0				
Net Investment Income	19.4	23.0	24.7				
Other Income	5.2	4.0	4.7				
Total Expenses Consists of	50.9	55.6	60.6				
Policy Benefits	23.4	25.4	28.4				
Operating Expenses	26.8	26.7	27.6				
Taxes	0.8	3.5	4.6				
Net Income after tax	15.5	17.3	16.9				

A -Actual; P-Preliminary;

Aggregate assets amounted to \$297.2 billion and reflected an increase of 5.5 per cent over the \$281.7 billion reported as at December 31, 2015, whilst total industry liabilities increased by 6.9 per cent or \$14.7 billion over the same period. Aggregate invested assets amounted to \$276.5 billion and accounted for 93.1 per cent of total assets.

Aggregate net income reported for 2016 was \$16.9 billion (2015: \$17.3 billion) representing a decrease of 2.4 per cent compared to the corresponding year ended December 31, 2015. Other income, consisting

mostly of management fees, increased by 17.5 per cent. Net investment income recorded an increase of 7.4 per cent over 2015 partly due to the improved performance of the bond and equities markets.

Policy benefits accounted for about 47 per cent of total expenses and were the main contributor to the nine (9) per cent growth in total expenses. See Chart 18. Chart 19 displays the composition of and the movement in policy benefits over the period 2014-2016.

Chart 19: A	ggregate Policy Ben	efits, 2014-2016			
Policy Benefits	2014 ^A	2015 ^A	2016 °		
	\$ 'Millions				
Claims:	13,482.0 14,571.9 16,101.3				
of Which:					
Sickness & Health	9,089.1	9,753.6	10,933.4		
Death Claims	4,124.9	4,473.8	5,013.0		
Disability Claims	18.6	13.6	29.0		
Matured Endowments	249.3	330.9	125.8		
Annuity Payments	4,357.9	4,898.3	5,522.1		
Surrender Values	4,886.3	5,191.1	5,894.6		
Other	610.8	614.4	740.1		
Total Policy Benefits	23,336.9	25,275.7	28,258.0		
A Astronia D Destination					

A -Actual; P-Preliminary



CAPITAL

By the end of 2016, the aggregate capital, surplus and reserves increased by 1.2 per cent to \$69.4 billion (2015: \$68.6 billion). For 2016, the weighted average Minimum Continuing Capital and Surplus Requirement (MCCSR) for the life insurance sector stood at 312.3 per cent (2015: 362.1 per cent) which was more than twice the regulatory benchmark of 150 per cent.

The companies with high MCCSR ratios skewed the industry weighted average to significantly higher than the 150 per cent benchmark. These companies typically offer investment products which have very low mortality and morbidity risk exposures. The other companies have typical life insurance products which carry much more life insurance liabilities. Each life insurance company's MCCSR score was above the 150 per cent benchmark.

SUPERVISORY RISK ASSESSMENT OUTCOME

The FSC has a supervisory framework for off-site or desk monitoring and on-site examinations. The FSC applies the CARAMELS⁹ framework in its assessment. All insurance companies are subject to an annual offsite examination based on the annual and audited statements for the year ended December 31. The FSC utilises a supervisory ladder to rank the company. The off-site analysis includes the calculation of a set of early warning indicators. Deviations from the specified benchmarks may trigger an additional review by the FSC. Risk Assessment Reports are generated and used to inform the FSC decision makers of the risk profile of each company; and to identify the companies and areas within companies that should be given priority status, for on-site examinations and closer monitoring.

During 2015, there were ten registered companies within the general insurance industry, however, risk assessment reports were prepared for the nine active companies. Of the nine off-site examinations conducted on the operations of general insurers, eight were rated as "Stage Zero" or "Normal" while one was rated "Stage One". Of the six off-

site examinations conducted on the operations of life insurers, five were rated as "Stage Zero" or "Normal" while one was rated "Stage One". "Stage Zero" or "Normal" indicates that there is no major risk identified while "Stage One" indicates that the company is exposed to risks that if left unattended could escalate into major challenges.

All companies are also subject to a quarterly risk assessment. The outlook of the company is assessed quarterly and the company ranked: positive, negative or neutral. Outlook is based on the analysis of financial trends. Based on the review of the unaudited results as at December 31, 2016, the overall outlook for each insurance company (which was operational during the entire prior year (2015) and current year), was "neutral". A neutral outlook indicates that no general trend was identified.

Charts 20 and 21 show selected financial soundness indicators for both life and general insurance companies. These indicators seek to provide insight into the financial health and soundness of a country's financial institutions.

⁹ The CARAMELS framework assesses insurers' risk profile according to the following areas of exposure: C-Capital; A-Assets; R-Reinsu Actuarial, M-Management; E-Earnings; L-Liquidity; Subsidiaries.



Chart 20	Chart 20: Selected Core Financial Soundness Indicators (FSI) : Life Insurance Sector P				
#		Data Variable	2014	2015	2016
C.1	Capital Adequacy	Capital/Total Liabilities (Life) %	30.70	32.12	30.45
C.2	Caj Ade	Capital/Technical Reserves (Life) %	78.25	84.40	79.03
A.1	Asset Quality	(Real Estate +Debtors) / Total Assets (Life) %	3.14	3.87	3.96
A.2	Ŏ	Receivables / (Gross premium) %	13.05	16.90	16.19
A.3	Asset	Equities / Total Assets (%)	7.19	8.81	10.00
R.1	Reinsura nce and Actuarial Risk	Risk Retention ratio (Net Premium / Gross Premiums) - Life (%)	98.12	98.23	98.26
E.1	Earnings and Profitabilit y	Expense ratio (Expenses Net Premiums) - Life %	63.97	58.15	57.37
E.2	arnin and ofitak	Return on Equity (Life) %	25.19	25.21	24.38
E.3	E.	Return on Assets (Life) %	6.05	6.35	5.84
E.4		Investment Income/Investment Assets (Life) %	7.89	8.72	8.94

P-Preliminary data



Chart	Chart 21: Selected Core Financial Soundness Indicators (FSI): General Insurance Sector P					
#		Data Variable	2014	2015	2016	
C.1	tal lacy	Net Premium/Capital %	79.92	69.46	66.33	
C.2	Capital Adequacy	Capital/Total Assets %	33.99	36.19	37.18	
C.3	Ac	Capital/Total Liabilities %	51.88	56.80	59.23	
A.1	set lity	(Real Estate +Debtors) / Total Assets %	6.26	5.99	5.72	
A.2	Asset Quality	Receivables / (Gross premium) %	5.97	5.32	5.25	
R.1	Reinsurance and Actuarial Risk	Risk Retention ratio (Net Premium / Gross Premiums) %	46.86	42.26	43.81	
E.1		Loss ratio (Net Claims/Net Premiums) %	56.48	54.13	56.75	
E.2	Earnings and Profitability	Expense ratio (Expenses/Net Premiums) %	37.98	39.55	40.65	
E.3	ngs tabi	Combined ratio (loss +expense ratio)	95.52	93.75	98.83	
E.4	Return on Equity %		15.05	14.21	14.02	
E.5	Ea P1	Return on Assets %	5.11	5.14	5.21	
E.6	inary data	Investment Income/Net Premium %	16.99	17.15	18.97	

P-Preliminary data





OUTLOOK FOR THE DIVISION

The Insurance Division is at an advanced stage in terms of designing a Risk-Based Supervision (RBS) methodology for insurance entities. This forward-looking system is designed to identify key risk factors to which an insurance company is exposed to, based on its significant activities, business strategy and the economic environment.

The benefits of this RBS approach to supervision include but are not limited to the following:

- improve oversight and reporting on problem entities:
- more informed judgement;
- quickly and consistently taking supervisory action where necessary; and
- ensure that supervisory interventions are targeted and timely.

Additionally, the Insurance Division will continue its development of the regulatory framework for micro insurance. In collaboration with the Actuarial Division, a review will be conducted on the solvency requirements for both life and general insurance companies by way of a Quantitative Impact Study (QIS) to determine an optimal position for both the MCT & MCCSR that balance growth and stability of the insurance industry.



BUILDING A SOUND SECURITIES MARKET

The activities of the Securities Division support the development of a sound securities market which facilitates fairness and efficiency, provides investor protection, instils a culture of market integrity, and prudently encourages financial innovation. By doing this, the Securities Division seeks to create an environment in which business decisions can be made in a rational and orderly manner and in a way which mitigates risks to the securities industry and its participants.

During FY2016/17, the Securities Division continued to build on key reform measures which were implemented over the past few years as part of the GOJ's financial sector reform programme under the Stand-By Arrangement with the IMF. These measures have served to enhance the prudential supervision of the securities industry, promote adequate disclosure and transparency, advance financial stability and preserve public trust in our financial markets.

The main enhancements in the supervisory framework pursued during the year related to the implementation of bottom-up stress testing, implementation of an operational risk-weighted assets capital charge and pursuit of mechanisms geared towards ensuring compliance with the requirement in the Securities (Retail Repurchase Agreements) Regulations, 2014 for all retail repurchase agreements to have a signed Master Retail Repurchase Agreement.



Chart 22: A Snapshot of the Division's Achievements



OVERVIEW OF THE SECURITIES INDUSTRY

Chart 23 shows the number of entities and individuals licensed and registered by the FSC by category of licenses or registration as at March 31, 2017.

Chart 23: Licensees & Registrants by Category

Chart 23. Literisees	Licensed/ Registered At 31/3/16	Additions	Less Terminations/ Cancellations	Licensed/ Registered At 31/3/17
Securities Dealers	48	1	3	46
Unit Trust Managers	7	0	0	7
Securities Dealers'	064	407	424	027
Representatives Investment Adviser	861	187	121	927
Investment Advisers'	2	0		2
Representatives Mutual Funds	2	0	0	11
Unit Trust Schemes	11	1	0	15
Total	948	189	124	1,013

As at March 31, 2017, there were 44 companies licensed as securities dealers in the market. **Chart 24** categorises each dealer based on its primary activities, namely core securities dealers and non-core securities dealers. The term "core securities dealers" is used to describe securities dealers which are companies engaged in securities dealing as their principal activity. It, therefore, includes unit trust fund 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 businesses, for example, pension fund management.



Chart 24: Number of Licensed Securities Dealers, by Type of Company, as at March 31, 2017

Institution Type	2017
Core Securities Dealers ¹⁰	32
Non-Core Securities Dealers	10
of which:	
Building Society	1
Insurance Companies	4
Others	5
Total	42

PERFORMANCE REVIEW OF THE INDUSTRY

As at December 31, 2016, the total balance sheet assets of the securities industry (comprising core and non-core securities dealers) stood at approximately J\$1.02 trillion, reflecting an increase of J\$63.85 billion or 6.7 per cent over the corresponding period in 2015 (See Chart 25). This increase was primarily attributable to a J\$45.54 billion or 10.83 per cent increase in the total assets held by non-core securities dealers, which accounted for 45.84 per cent of the total assets held by the industry, a greater share of total assets when compared to previous years.

The Government of Jamaica (GOJ) debt securities accounted for approximately 50 per cent of the balance sheet assets, while foreign currency denominated (FX) investments made up the bulk of the investments that were reported on the balance sheet, a trend which has been noticeably increasing over the past few years. This trend suggests that securities dealers have been repositioning their investment portfolios to take on more FX exposure, possibly fuelled by an increased appetite from clients for their investments to be backed by hard currency as opposed to local currency. This view is supported by the fact that in excess of 50 per cent of the client funds reported on the balance sheet are denominated in foreign currency.

¹⁰ Seven of the core securities dealers are also unit trust fund management companies. In addition, the licences of two core securities dealers, UGI Finance and Investments Limited, and Intertrade Finance Corporation are currently suspended and are therefore not included among the thirty-two core dealers.



Chart 25: Total Balance Sheet Assets of Securities Dealers by Type of Company, 2014-2016							
Category of Securities Dealers			Total A	Assets			
(Company)	Dec -	2014	Dec-2	015	Dec-2	016	
	\$ Billions	% of total	\$ Billions	% of total	\$ Billions	% of total	
Core Securities Dealers	559.15	58.32	532.37	55.86	550.69	54.16	
Non-Core Securities Dealers	399.67	41.68	420.59	44.14	466.13	45.84	
of which:							
Building Society/Commercial bank ¹¹	124.34	12.97	128.44	13.48	153.32	15.08	
Insurance Companies	259.58	27.07	275.38	28.90	294.73	28.99	
Others	15.75	1.64	16.77	1.76	18.08	1.78	
Total	958.82	100.00	952.96	100.00	1,016.82	100.00	

Chart 26 displays the total balance sheet capital of securities dealers for the period 2014 – 2016. As at December 31, 2016, the total balance sheet capital the securities industry (comprising core and non-core securities dealers) stood at J\$163.1 billion, an improvement of 4.7 per cent when compared to the similar period in 2015. The improvement in the total balance sheet capital for the securities industry was primarily attributable to a 5.7 per cent increase in the capital held by the core securities dealers.

Chart 26: Total Balance Sheet Capital of Securities Dealers by Type of Company, 2014-2016							
Category of Securities Dealers			Сар	ital			
(Company)	Dec-2	2014	Dec-2	015	Dec-2	016	
	\$ Billions	% of total	\$ Billions	% of total	\$ Billions	% of total	
Core Securities Dealers	74.47	49.47	73.67	47.32	77.94	47.79	
Non-Core Securities Dealers	76.06	50.53	82.00	52.68	85.15	52.21	
of which:							
Building Society/Commercial bank	19.01	12.63	19.35	12.43	20.44	12.53	
Insurance Companies	55.34	36.76	60.49	38.86	62.11	38.08	
Others	1.71	1.14	2.16	1.39	2.60	1.59	
Total	150.53	100.00	155.67	100.00	163.09	100.00	

Chart 27 illustrates the total funds under management (reported both on and off the balance sheet) of securities dealers for the period 2014 – 2016. As at December 31, 2016, the total Funds under Management (FUM) of the securities industry stood at approximately J\$1.4 trillion, representing an increase of 21.84 per cent over the similar period in 2015. The core securities dealers accounted for approximately 79.35 per cent of this amount. Notably, these core dealers include Collective Investment Schemes (CIS) fund managers which have seen an increase in the size of their portfolios CIS under management in recent times. This increase in CIS activity is not surprising in light of the Retail Repo Reform measures which may have contributed to a decline in the size of the retail repo market and the transference of investor funds into alternative product offerings, such as for example, CIS.



 $^{^{\}rm 11}$ In 2016, a building society was converted into a commercial bank.

Chart 27: Total Funds under Management of Securities Dealers by Type of Company, 2014-2016								
Category of Securities Dealers Funds under Management (
(Company)	Dec-2	014	Dec-2	015	Dec-2	016		
	\$ Billions	% of total	\$ Billions	% of total	\$ Billions	% of total		
Core Securities Dealers	828.92	80.80	909.05	79.01	1,112.34	79.35		
Non-Core Securities Dealers	196.99	19.20	241.48	20.99	289.46	20.65		
of which:								
Building Society/Commercial Bank	0.00	0.00	0.00	0.00	0.00	0.00		
Insurance Companies	172.26	16.79	209.70	18.23	254.91	18.18		
Others	24.73	2.41	31.78	2.76	34.55	2.46		
Total	1,025.91	100	1,150.53	100.00	1,401.8	100.00		

The proportion of the industry off balance sheet FUM has been trending upwards in recent years. This suggests that securities dealers are strategically managing more of their clients' investments off their balance sheets. See **Chart 28.**

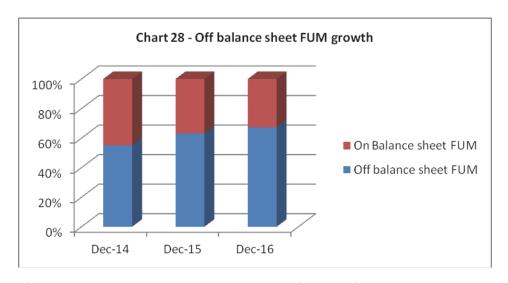


Chart 29 provides information on the earnings, expenditure and profitability of the core securities dealers over the last three years. Collectively, the core securities dealers remained profitable in 2016 recording a net after-tax profit of J\$8.37 billion. Of note, interest income continued to be the main revenue source of the industry, accounting for approximately 62.52 per cent of total revenue recorded for the calendar year 2016.

-



¹² FUM represents clients' funds which are managed by securities dealers either on or off the balance sheet.

Chart 29: Earnings, Expenditure and Profitability of Core Securities Dealers, 2014-2016							
	Dec-2014 Dec-2015 Dec-2016 \$'B \$'B \$'B						
Total Revenue	42.84	41.55	49.98				
Total Expense	33.26	31.08	34.46				
Total Interest Income	32.79	29.30	31.25				
Total Interest Expense	21.51	17.65	17.88				
Net Interest Income 11.28 11.65 13.3							
Net Profit after tax	6.40	7.36	8.37				

Chart 30 summarises selected prudential indicators for the core securities dealers for the period 2014 to 2016. Despite the implementation of key reforms in the industry, namely the Retail Repo Reform and an operational risk capital charge, the sector remained adequately capitalised and robust.

Chart 30: Selected Prudential Indicators for Core Securities Dealers, 2014 - 2016

	Dec-2014 %	Dec- 2015 %	Dec-2016 %	FSC Benchmark %
Capital Adequacy				
Capital / Total Assets	13.32	13.84	14.15	≥ 6
Capital Adequacy Ratio ¹³	21.59	20.98	20.35	≥ 10
Profitability				
Return on Assets ¹⁴	1.14	1.38	1.52	
Return on Equity ¹⁵	8.59	9.99	10.73	
Net Interest Margin ¹⁶	34.40	39.76	42.77	
Net Profit Margin ¹⁷	14.94	17.71	16.74	

OVERVIEW OF COLLECTIVE INVESTMENT SCHEMES

Unit Trusts

As at December 31, 2016, the Unit Trust Sector was comprised of thirteen (13) unit trust funds, managed by six (6) active fund managers. The unit trust portfolios consisted mainly of fixed income securities, real estate and equity investments. The total funds managed stood at \$184.3 billion, representing a 29.58 per cent increase over the previous year's amount of \$142.3 billion. See Chart 31. The growth in funds managed by the fund managers was primarily due to (i) new funds; (ii) large purchases made by investment managers for pension plans; and (iii) the continued movement of clients' funds from retail repo products into unit trust products.

¹⁷ Net Profit Margin is computed by dividing net profit after tax by total revenue.



¹³ The Capital Adequacy Ratio (CAR) is computed by dividing regulatory capital by aggregate risk-weighted assets and other risk exposures. Regulatory capital is comprised of tier 1 and tier 2 capital less prescribed deductions. An Operational Risk Weighted Assets capital charge was added to the CAR computation in 2016, which already included capital charges for credit risk, market risk, and foreign exchange exposure.

¹⁴ Return on assets is computed by dividing net income after tax by total balance sheet assets.

¹⁵ Return on equity is computed by dividing net income after tax by balance sheet capital.

¹⁶ Net Interest Margin is computed by dividing net interest income by total interest income.

Chart 31: FUM activities for the three-year period ended December 2016

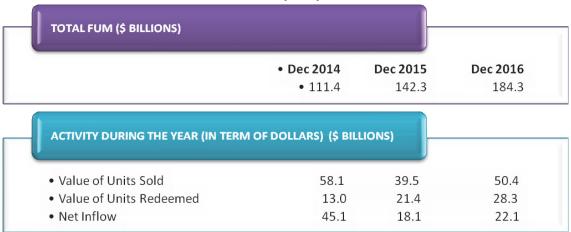
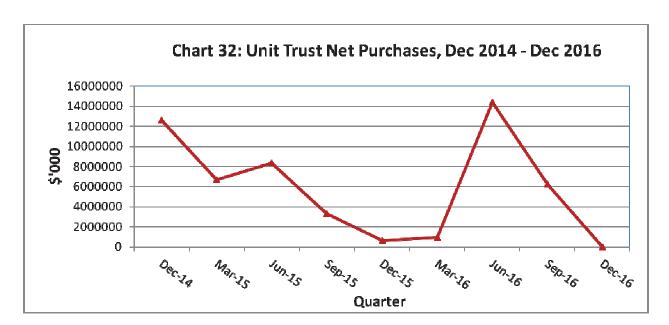


Chart 32 illustrates the combined unit trust net purchases over the period December 2014 to December 2016. All the quarters under review experienced net purchases, albeit at significantly different levels. Of significance, in the June 2016 quarter, there was a noticeable spike in net purchases which was primarily due to the effects of Retail Repo Reform measures which were being undertaken.





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Mutual Funds

For the year ended December 31, 2016, ten (10) overseas mutual funds were registered with the FSC for sale in Jamaica. The mutual fund investment portfolios comprised mainly of equities and fixed income securities. The total amount invested in these funds by Jamaicans amounted to USD 220 million. Chart 33 depicts the value of purchases and redemptions done by Jamaicans during the period December 2014 to December 2016.

2014 2015 2016 Total FUM (USD millions) 177 206 220 Activity during the year Value of Units Sold (USD millions) 39 65 46 Value of Units Redeemed (USD millions) 32 25 38 **Net Flows** Value (USD millions) 7 40 8

Chart 33: Summary of Mutual Funds under Management by Jamaicans

EQUITIES AND PRIVATE DEBT MARKETS OVERVIEW

Private Offerings

The private debt market is mainly comprised of short and medium term notes; instruments with tenures of five (5) years and more accounted for only twenty-five (25) per cent of the total instruments that were registered with the FSC in 2016. There were eighty-six (86) exempt distributions (XD's) registered during 2016, representing a one (1) per cent increase when compared to the eighty-five (85) XD's that were registered in 2015. The value of the transactions was, however, forty-seven (47) per cent more than what was recorded in 2015 (see Chart 34). The Accredited Investor Exemption was the most utilised exemption by issuers, accounting for forty-two (42) per cent of the distributions in 2016.

CHART 34: EXEMPT DISTRIBUTIONS REGISTERED: 2012 - 2016	2012	2013	2014	2015	2016
Number of Exempt Distributions	37	75	123	85	86
Value (\$ Billions)	40.1	31.1	75.9	120.1	177.6



Public Offerings

During 2016, seven (7) publicly traded equity securities were registered with the FSC, all of which were listed on the Jamaica Stock Exchange (JSE). The combined value of these listings amounted to approximately J\$2.4 billion, reflecting a year-over-year decline of 72 per cent in the value of registered equity securities. The reason for the significant decline in value stems from the fact that a single entity was responsible for more than 50% of the total value registered during the prior year. (See Chart 35)

CHART 35: PUBLIC OFFERINGS REGISTERED: 2012 - 2016	2012	2013	2014	2015	2016
Number of Public Offerings	4	17	6	10	7
Value (\$ Billions)	0.4	4.8	1.8	8.7	2.4

Equity Listings

Listings on the Junior Market totalled twenty-nine (29) by the end of 2016. However, the volumes traded on the Junior Market during 2016 amounted to just over 590 million units, representing a 51 per cent reduction when compared to the 1.2 billion units that were traded in 2015. The Main Market of the JSE experienced a smaller decline of 4 per cent in volumes traded, moving from 1.88 billion units in 2015 to 1.80 billion units at the end of 2016.

In 2016, both the Junior and Main Markets experienced year-over-year increases in the total number of transactions. The Junior Market recorded a 100 per cent increase in the total number of transactions, while there was a 41 per cent increase in the Main Market. However the monetary value of

the trades on the Junior Market declined by 50 per cent over the previous year, while the value traded on the Main Market increased by 25 per cent in 2016.

Average stock prices, both in the Junior and Main Markets experienced significant increases. The average price of stocks listed on the Main Market increased by 41 per cent in 2016 with 27 of the 33 stocks appreciating in value. The Junior Market showed a year-over-year average increase of 85.46 per cent, with 18 of its 29 listings appreciating in value during the year.

IMPLEMENTATION OF FSC'S STRATEGY FOR PRUDENTIAL TIGHTENING

The FSC issued the Guidelines to the Securities (Prudential) Regulations 2014 - Part 1 in June 2016. The guidelines serve to implement the FSC's Strategy for Prudential Tightening, which took effect on March 31, 2016. The approach of issuing the guidelines in parts was adopted in order to

- grant more time for the securities industry to become compliant with the Securities (Prudential) Regulations 2014;
- allow the FSC to adequately assess the impact of the new prudential measures on the industry, and
- properly develop other areas of the guidelines prior to their introduction.

In this first set of guidelines, the FSC provided clarity on how various areas of the regulations were to be implemented. For example, the guidelines provide guidance on the following:

- The inclusion of an operational risk-weighted assets component in the computation of the capital adequacy ratio;
- The benchmarks to be applied to the capital adequacy and leverage ratios;
- Expectations in relation to liquidity management practices; and
- The stress testing function and methodologies which licensees are expected to implement.



SUPERVISORY RISK ASSESSMENT OUTCOME

Annual assessments were conducted on nine (9) core securities dealers that accounted for approximately 40 per cent of the industry's total funds under management as at December 31, 2016. The assessments focused primarily on three quantitative areas, namely: capital adequacy, asset quality and sensitivity to liquidity and interest rate risks. Of the 9 core securities dealers, 8 were assigned a "stage 1 rating on the FSC's supervisory ladder of enforcement and overall ratings were primarily driven by the high levels of liquidity and interest rate risks faced by securities dealers. A brief summary is provided below:

- i. Capital Adequacy Overall, securities dealers remained adequately capitalised with an annual growth in capital exceeding 2% over the last 5 years. The FSC continued to actively monitor this component of the risk assessment;
- ii. Asset Quality Securities dealers' portfolios continued to be dominated by securities issued or guaranteed by the Government

- of Jamaica. This is indicative of high levels of concentration risk, however, some level of diversification was observed during the period under review; and
- iii. Sensitivity to Liquidity and Interest rate **risks** – Despite the recent reforms in the industry, given the significance of repurchase agreement transactions (repos) to securities dealers' activities, liquidity and interest rate risks continued to pose a serious threat to securities dealers and the sector as a whole. The high levels of liquidity and interest rate risks were primarily attributable to the mismatches between the maturities and/or repricing of the repos and their underlying securities. Of note, although securities dealers have implemented their liquidity management risk policies and continue to report high levels of rollover rates, these risks could have significantly impacted the securities dealers' operations if not appropriately managed.

OUTLOOK FOR THE DIVISION

Over the medium term, the areas of focus in the FSC's risk assessments will be further expanded to include detailed reviews of the corporate governance framework, control environment of securities dealers and their market conduct, in particular, treating customers fairly. This move will be accomplished as the Securities Division transitions to a full risk-based supervisory framework. The expected benefit from such a transition is the enhanced supervisory oversight of activities and practices in the industry which pose the greatest risk to the soundness of securities dealers' operations and their clients. This will also ensure that the levels of regulatory capital maintained by securities dealers are commensurate with their risk profiles. The results from the regular stress tests conducted by securities dealers and reviewed by the FSC will also be incorporated in the risk-based supervision framework. Additionally, the quality of core regulatory capital will be strengthened with the implementation of key provisions included in the Securities (Prudential) Regulations, 2014.

The FSC will continue to implement key reform measures under the GOJ's current Stand-By Arrangement with the IMF which is intended to improve the securities

sector's resilience to potential risk exposures. These include:

- Addressing the remaining balance sheet risks that are associated with the retail repo business by the development of appropriate indicators which are intended to establish a systemically safe and prudentially manageable level for retail repos; and
- Implementing limits on counterparty exposures on a phased basis.

Despite the phased increase in the foreign exchange cap from 5 per cent to 25 per cent, securities dealers' activities and their ability to diversify in and/or successfully structure foreign currency denominated securities continue to be restricted by section 22 of the Bank of Jamaica Act and the accompanying ministerial orders. In light of the challenges posed by this restriction, the FSC continues to advocate for a review of the limits in order to drive further innovation in the securities market.

The increase in off-balance sheet funds under management that was observed up to December



2016 is expected to continue. As the prudential standards for the industry are further enhanced, it is likely that securities dealers will continue to transfer client investments to off-balance sheet arrangements in order to reduce their financial risks and the capital charges associated with these risks. This realignment in the management of client funds means that the financial risks will be transferred directly to investors. As the FSC continues to build a sound securities market that is aimed at fostering innovation and financial inclusion while promoting investor protection, the Securities Division will also place additional focus on suitability requirements and enhanced disclosures to clients. This move is aimed at ensuring that investors have access to adequate information which can assist them in understanding the risks associated with their investments and promote confidence in the sector.

ENCOURAGING RETIREMENT SAVING THROUGH PENSIONS

The Pensions Division has responsibility for supervising and monitoring of private pension funds, pursuant to the Pensions Act and related Regulations. The division formulated its Vision and Mission statements which are shown in Chart 36.

Chart 36: Vision & Mission Statements for the Pension Division of the FSC

VISION

To be an effective, impartial, credible and relevant regulator, engaging stakeholder to support the development and growth of a robust pensions industry.

MISSION

To enable a sustainable regulatory emviornment, supportive of the preservation of pension benefits aimed at improving pension adequacy, protetion of members' rights, and increased coverage through the provision of information, guidance and oversight of all stakeholders.

In keeping with its Mission Statement, the Pensions Division continues to develop strategies to encourage the growth of the private pension industry in Jamaica. In so doing, during this financial year the FSC, for the purpose of protecting pension plan members and their beneficiaries, gave focus to three main and related multi-year objectives, as listed below, while strengthening its supervision of pension plans and corporate service providers that are at risk as well as promoting good governance and administration:

- i. Responding to risk,
- ii. Developing and enhancing operating policies and procedures, and
- iii. Promotion of best practices in keeping with international and local standards



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Chart 37: Provides a snapshot of the division's achievements.

Participated in two IOPS projects

The Role of Supervison related to Consumer Protection in Private Pension Systems; and

The Marco- and Micro Dimensions of Supervision of Large Pension Funds.

Examinations

Completed desk-based risk assessments for 363 superanuation funds (Funds) and retirement schemes (Schemes); and 21 corporate entities.

Completed six on-site examinations involvig one corporate entity, two Schemes and three Funds

Approvals

Registration of eight Funds and one Scheme as well as 159 individual trustees

Winding-up of 15 Funds and one non-objections for the partial winding-up of another.

Amendments to the Constitutive Documents for twelve Funds

Publications

Consultation Paper: Proposals for improved Access to Finance by way of Amendments to the Pensions (Superannuation Funds and Retirements Schemes) (Investments) Regulations

Bulletin for - Disclosure of Pension Assets Under Management in Audited Financial Statements

Quarterly Private Pension Statistics

OVERVIEW OF THE PENSIONS INDUSTRY

Charts 38 and 39 illustrate the number of pension plans and membership in these plans. The annual growth in the membership of DC Funds and Schemes, which reflected an increase of 6 per cent, continues to outpace that of DB Funds which registered a decrease in membership of approximately 4 per cent. Of the membership in DC Funds, there were 46,295 members in approved Schemes reflecting an increase of approximately 16 per cent from 40,023 members at the same date twelve months earlier. In addition, almost 63 per cent of total active membership is concentrated

in 20 Funds and Schemes each having more than 1,000 members. Further, approximately 30 per cent of the active membership was concentrated in three Schemes each having more than 5,000 members. Funds with 50 or fewer members accounted for less than 5 per cent of the total active membership.

DC and DB Funds which are inactive or are being terminated accounted for an additional 2,278 and 6,200 members respectively. Further, 5,070 pensioners were being paid directly from all Funds and Schemes.



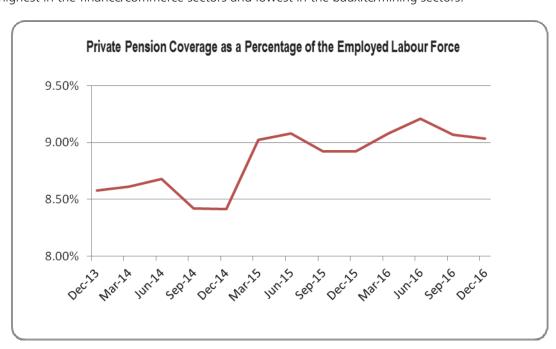
Chart 38: Number of pension plans monitored by the FSC as at December 31, 2016

Status	Defined Benefit	Defined Co	Total	
		Funds	Schemes	
Active	105	287	13	405
Inactive	4	12	0	16
Terminated	86	295	0	381
Total	195	594	13	802

Chart 39: Membership as at December 31, 2016

Status	Defined	Defined Co	Total	
	Benefit	Funds	Schemes	
Active	21,050	39,315	46,295	106,660
Inactive	2,226	52	0	2,278
Terminated	4,355	1,845	0	6,200
Total	27,631	41,212	46,295	115,138

Chart 40: shows the percentage of the employed labour force. Analysis of the data also reflects that coverage is highest in the finance/commerce sectors and lowest in the bauxite/mining sectors.



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Outsourcing of the administration and investment management of Funds and Schemes has decreased slightly during the fiscal period; with approximately 5% of these arrangements being self-managed.

Chart 41: The number of investment managers by category and the pension assets under their management.

Investment	Decembe	r 31, 2014	Decembe	er 31, 2015	Decembe	er 31, 2016
Managers	Number of Entities	Asset Values (\$'B)	Number of Entities	Asset Values (\$'B)	Number of Entities	Asset Values (\$'B)
Insurance Companies	3	173.9	3	207.6	3	239.7
Securities Dealers	16	133.7	16	155.2	16	178.5
Credit Unions/ Building Societies	2	0.2	2	0.3	2	0.4
Other	5	33.7	5	33.8	5	34.5
Total	26	341.5	26	396.9	26	453.1

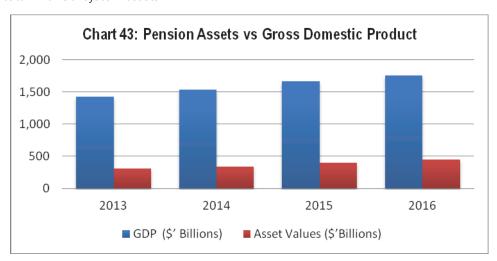


Aggregate total pension assets as at December 31, 2016, grew by 14% when compared with the previous year. (See table below) This growth occurred despite the fact that a few Funds and Schemes initiated the process of winding-up during the year.

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-14	D	ec-15	Dec-16		
Deposits	2.8	0.8%	4.1	1.0%	2.7	0.6%	
Commercial Paper	0.0	0.0%	0.2	0.1%	0.2	0.1%	
Securities of Governments	138.3	40.9%	133.4	33.8%	137.8	30.5%	
Repurchase Agreements	31.8	9.4%	25.4	6.4%	16.9	3.7%	
Bonds and Debentures	5.2	1.6%	11.7	3.0%	17.6	3.9%	
Mortgage Loans	0.3	0.1%	0.2	0.0%	0.2	0.0%	
Other Loans	2.3	0.7%	2.7	0.7%	3.6	0.8%	
Promissory Notes	2.4	0.7%	3.3	0.8%	3.8	0.8%	
Leases	1.8	0.5%	2.8	0.7%	2.8	0.6%	
Stocks and Shares	31.6	9.3%	58.1	14.7%	76.9	17.0%	
Real Estate	20.1	5.9%	21.4	5.4%	21.6	4.8%	
Investment Arrangements	100.6	29.7%	130.1	32.9%	165.8	36.7%	
Other Investments	1.2	0.3%	1.6	0.4%	2.3	0.5%	
Total Investments	338.4	100.0%	395.1	100.0%	452.1	100.0%	
Other Net Assets	3.0		1.8		0.9		
Total Assets	341.4		396.9		453.1		

The accumulated assets of Funds and Schemes combined over the past three calendar years were valued, on average, 24 per cent of GDP. The aggregate private pension industry assets accounted for 16 per cent of the total financial system assets.







SUPERVISORY RISK ASSESSMENT OUTCOME

(i) Off-site (Desk-Based) Examinations

Three hundred and sixty-three (363) assessments of pension plans were completed during the fiscal year and thirty-six (36) assessments done for corporate entities. The number of superannuation funds (Funds) and retirement schemes (Schemes) regarded as exposed to high levels of risk has seen a decrease of 38 per cent moving from 16 as at Mar 31, 2016, to 10 at the end of the fiscal period. However, issues relating to funding and solvency, continue to be the main contributing factor in the risk profile of plans assessed with high levels of risk.

As at March 31, 2017, there was a marginal improvement (from 94 per cent to 95 per cent) in the number of solvent Defined Contribution (DC) Funds and Schemes, and a similar increase in the number of solvent Defined Benefit (DB) Funds moving from 90 per cent to 91 per cent based on available data.

One company operating in the capacity as investment manager was considered as having high levels of risk as a result of breaches to the Pensions (Superannuation Funds and Retirement Schemes) (Investment) Regulations. The number of licensees evaluated with moderate risk levels reflects a reduction of 9 per cent moving from 23 as at March 31, 2016, to 21 at the end March 2017.

The outcomes of the assessments are as shown in Charts 44 and 45 below:

Chart 44: Results of Risk Assessment of Pension Plans

				Risk Level	
Early Warning Risk Assessment		Plan Impact	L	M	Н
Superannuation Funds	DC	L	126	0	2
		M	56	0	0
		Н	77	0	0
	Traditional	L	3	0	1
	DB ¹⁹	M	21	0	2
		Н	50	0	5
	Hybrid DB ²⁰	L	0	0	0
		M	1	0	0
		Н	5	0	0
	Mixed DB ²¹	L	2	0	0
		M	0	0	0
		Н	4	0	0
Retirement Schemes	RS	L	0	0	0
		M	0	0	0
		Н	8	0	0
		Total	353	0	10

¹⁹ This is a DB plan where benefits are linked through a formula to the members' wages or salaries, length of employment, or other factors ²⁰ A DB plan where benefits depend on a rate of return credited to contributions, where this rate of return is either specified in the plan rul independently of the actual return on any supporting assets (e.g.) fixed, indexed to a market benchmark, tied to salary or profit growth, etc is calculated with reference to the actual return of any supporting asset and minimum return guarantee specified in the plan rules.

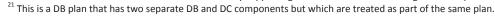




Chart 45: Results of Risk Assessment of Corporate Service Providers

		Risk Level				
	Plan Impact	Low	Moderate	High		
Administrators	Low	4	6	0		
	Moderate	2	1	0		
	High	4	3	0		
Investment Managers	Low	3	2	0		
	Moderate	2	7	0		
	High	0	3	1		
Corporate Trustees	Low	0	0	0		
	Moderate	0	0	0		
	High	0	0	0		
	Total	15	22	1		

(ii) On-site Examinations

Six (6) on-site examinations involving one (1) corporate entity, two (2) retirement schemes and three (3) superannuation funds have been completed.

(iii) Authorizations

During the FY2016/17, 167 applications were received, representing a 15 per cent increase compared with the 145 submissions recorded in the previous year. Chart 46 shows the number of submissions received and approved by categories of registrants and licensees.

Chart 46: Number & Types of Registrants & Licensees as at March 31, 2017

Registrants & Licensees	Approved as at March 31, 2016	New Applications	Approved	Terminations	Approved as at March 31, 2017
Funds	337	5	8	10	335
Schemes	12	0	1	0	13
Trustees (Individuals)	1,927	156	159	93	1,993
Trustees (Corporate)	3	0	0	0	3
Responsible Officers	41	6	3	7	37
Administrators	29	0	0	3	26
Investment Managers	28	0	0	2	26

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(iv) Risk Outlook

The 12-month inflation rate as at December 2016 stood at 1.7 per cent, according to Bank of Jamaica. In addition, the Jamaican economy recorded growth of 1.4 per cent, according to the Planning Institute of Jamaica (PIOJ). This represents the fourth consecutive year of economic growth.

The unemployment rate stood at 12.9 per cent as at October 31, 2016, down from the 13.5 per cent as at October 2015. There was a 16 per cent growth in the retirement scheme segment during the calendar year 2016. The viability of Schemes is dependent on the levels of disposable incomes within the Jamaican economy as well as the employment levels of the Jamaican workforce.

The Budget for the fiscal year 2017-18 included tax measures which continue the government's path to indirect taxation, thereby widening the tax net, notwithstanding the pending increase in the income tax threshold to \$1.5 million. Individuals will be assessing the effects of the new tax measures on their disposable incomes particularly, those in the lower income brackets. Lowering disposable income levels could stymy growth in the retirement scheme segment as the trade-off between current consumption and savings for retirement will have to be contemplated.

There was 6.7 per cent depreciation in the Jamaica dollar at end of 2016. There was a 28.8 per cent growth in the value of foreign currency denominated assets in the pension industry; given that foreign currency denominated assets represent approximately 9 per cent of invested pension assets, significant foreign currency risk exposure continues to exist.

The BOJ has declared that the era of government crowding out has come to an end. In addition, the debt to GDP ratio has fallen to 122 per cent. Consequently, government securities have been upgraded by both Moody's and Fitch rating agencies and the sovereign risk premiums have trended to an all-time low. This economic trend is consistent with the aggregate

direct investment in Government of Jamaica securities held by the private pension industry which continued to trend downwards during the year and stood at approximately 30 per cent of the total invested assets. Pooled arrangements are the most important asset class in which pension plans are invested and it is expected that this growth will continue as the pension plans share the investment risks with each other by moving from direct investments to the indirect investment opportunities provided by pooled arrangements. These asset classes represent the most significant investment risk exposure for pension plans.

The local stock market continued its recent positive out-turn on the main index, with an annual increase of 27.6 per cent in the main market. Seventeen per cent of the private pension assets are invested in equities and the performance of the local stock market continues to provide investment opportunities for Funds and Schemes which need to diversify their portfolios and reduce counterparty risk exposure.

The changes in the economic climate are accompanied by their own emerging risks, particularly in a low-interest-rate environment. Trustees and investment managers will ultimately seek higher yielding assets by investing in alternative investments. This poses a risk for financial stability, in that; it could increase the level of risk-taking by investment manager/trustees. Further, there may be a knowledge gap for trustees, investment managers and the regulator as it relates to new investments products and alternative investments (private equity, infrastructure investments, and derivatives). This will buttress the need for capacity building.

As the FSC continues to monitor and supervise the conduct and governance practices of investment managers and administrators, trustees and members of Funds and Schemes are encouraged to be vigilant where disclosure materials are concerned as well as ensuring that the assets are being prudently invested and in accordance with the relevant Statement of Investment Polices and Principles.



DEVELOPING AND ENHANCING OPERATING POLICIES AND PROCEDURES

In keeping with the FSC's mandate, the operating procedures of the Pensions Division are constantly being reviewed and assessed for effectiveness. Through technical assistance facilitated by CARTAC, the Division's staff has received additional training in risk-based supervision. Internal procedures for both on-site and off-site examinations are also being revamped in keeping with the risk-based approach to supervision of the pension industry that has been adopted by the Division.

The FSC remains committed to improving its institutional capacity by way of its information technology systems and continuous training and participation in regional and international workshops and seminars. The active participation of the FSC in the work of the International Organization of Pension Supervisors (IOPS) and representation on several technical committees continued during the year.

ON-GOING LEGISLATIVE DEVELOPMENTS

The Pensions (Superannuation Funds and Retirement Schemes) (Amendment) Bill (the "Amendment Bill") and the Pensions (Superannuation Funds and Retirement Schemes)(Funding & Solvency) Regulations, 2016 ("Funding & Solvency Regulations") were received by the FSC on October 6, 2016 and May 17, 2016 respectively. The Amendment Bill and the Funding and Solvency Regulations form part of Phase II (Adequacy Phase) reform measures. The Amendment Bill which deals with revisions to the Pensions Act addresses, among other things, matters such as, concurrent membership, unlocking of contributions, pension pay-out products, multiemployer pension plans, full and partial windingup of Funds and Schemes and enforcement and investigative powers of the FSC. The Funding and Solvency Regulations deals with requirements regarding actuarial valuations, funding policies and recovery plans, and solvency of Funds and Schemes.

The FSC provided the Ministry of Finance and the Public Service (MOFP) with its comments on the Funding & Solvency Regulations on October 28, 2016, and thereafter, a revised version of the Funding & Solvency Regulations was received by the FSC on November 21, 2016.

Additionally, a review of the Pensions (Superannuation Funds and Retirement Schemes) (Investment) Regulations ("Investment Regulations"), taking into account evolving international standards, was undertaken. On January 17, 2017, the FSC circulated a consultation paper to the industry stakeholders outlining aspects of the proposed amendments to this set of regulations to be fast-tracked with a view to accelerating the permissible investment options available to Funds and Schemes. On February 16, 2017, the FSC provided the concept paper to the MOFP.

OUTLOOK FOR THE DIVISION

Given the foregoing, the Pension Division has identified the following key areas of focus with regards to the monitoring and supervision of the pensions industry for the next fiscal year:

- Trustee Education particular emphasis will be placed on publishing a trustees' handbook as well as holding routine meetings with the Board of Trustees for Funds and Schemes.
- ii. The Investment Regulations The Pensions Division will be actively pursuing certain amendments to the Investment Regulations:
 - The fast track amendments of the Investment Regulations June 2017.

- A comprehensive review of the Investment Regulations with a view to including further amendments as part of Phase II of the Pension Reform.
- iii. Financial Inclusion Pension inclusion will be pursued, through the implementation of legislative changes, if necessary, to facilitate a market for micro-pension products.
- iv. Publications with regards to the following topics are being proposed for the fiscal year:
 - FSC's risk management framework
 - Trustees' Handbook
 - Good governance for trustees





- Risk management and internal controls for trustees
- Requirements for pension auditors
- Duties and Responsibilities of Nominees
- Conversion (update)
- Winding-up of Funds and Schemes

- Compliance
- Amendments (update)
- Court Proceedings
- Failure to Remit Contributions
- Buy-in Annuities
- Selecting Investment Funds

SHAPING MARKET CONDUCT THROUGH INVESTIGATIONS & ENFORCEMENT

The Investigation and Enforcement Division (I&E) conducts investigations into breaches of the various statutes administered by the FSC and ensures compliance. The Division is responsible for enforcing standards of good market conduct in the three diverse areas of financial services the FSC supervises. I&E also initiates and conducts enforcement activities, as well as collaborates with local, regional, and international partners to safeguard against and address financial crimes globally.

I&E recognises that information received from whistleblowers is important for early detection and intervention. Therefore, as the lead of the FSC's Whistle-blower Committee, I & E steered the membership throughout the year under review in drafting the FSC's policies and procedures for the receipt, investigation and handling of protected disclosures from employees within the FSC regulated sectors

STRENGTHENING MARKET CONDUCT THROUGH COLLABORATION

I&E maintains close coordination and collaboration with our domestic, regional and international regulatory counterparts. During the year under review, our efforts in this area included the following:

1. Cooperation through the IOSCO MMOU

We collaborated on investigations with our international counterparts through the International Organization of Securities Commissions (IOSCO) Multilateral Memorandum of Understanding (MMoU).

Additionally, through our membership of IOSCO and its MMOU Monitoring Group, we have also been actively involved in a project to establish an Enhanced MMOU, which provides for more heightened collaboration and greater sharing of information between securities regulators to preserve the integrity of international securities market and prevent conduct injurious to investors

2. Collaboration with Local Agencies on Financial Crimes

We establish multi-agency working groups, early on in our investigations, in order to bring together the collective force of the respective areas of expertise and resources of the different agencies, to plan and execute investigations into financial crimes. In this regard, we have collaborated with local agencies on a variety of financial crime investigations as well as in initiatives to establish MOUs and implement policies to combat financial crimes in the jurisdiction. Some of these agencies include the Financial Investigations Division (FID), Revenue Protection Division (RPD), Major Organized Crime and Anti-Corruption Agency (MOCA) and the Counter Terrorism and Organized Crime Branch (CTOC).



COMPLAINTS RESOLUTION

Of the 90 new complaints received for the period under review, 48 were resolved. However, I&E also resolved 73 of the 93 complaints that were brought forward from previous periods. Therefore, a total of 121 complaints of the 183 for the period was resolved. This was in part due to a greater compliance culture of our licensees and registrants as they (i)

have become more responsive to our requests for information and to complaints filed by their consumers, (ii) provided the information within the prescribed timelines, and (iii) were more amenable to offer restitution in cases where their conduct of a matter has fallen below the mark. Chart 47 illustrates the complaints received by each industry.

Chart 47: Complaints Received by Industries for FY2016/2017						
General						
Insurance	Life Insurance	Securities	Pensions	Total		
47	13	13	17	90		

INVESTIGATIONS

A total of 77 investigations were opened for the period under review. Approximately half of these investigations were resolved, 17 of which were fit and proper assessments and 18 were related to suspected breaches. The remaining investigations are still ongoing. Of the 35 investigations that were resolved, 11 were recommended for enforcement action. See Chart 48.

Chart 48: Type of Enforcement Action Recommended in FY2016/17

Type of Recommendation for Enforcement Action	Industry	Frequency
Individuals deemed not fit and proper	Insurance	3
Board Undertaking	Securities	1
Variation of Direction	Securities	1
Fixed Penalties	Insurance	6
Total recommendation for enforcement actions		11

ANTI-MONEY LAUNDERING & COUNTER-FINANCING TERRORISM DEVELOPMENTS

For the period under review, I&E continued to build on the prior fiscal year's progress and accomplishments in the anti-money laundering and counter-financing terrorism (AML/CFT) sphere. Chief among the initiatives undertaken were the following:

Capacity Building for the AML/CFT Unit.
 I&E leads the FSC's AML/CFT Unit, which is responsible for overseeing licensees' compliance with AML/CFT laws and leading regulatory actions relating to breaches of

the Proceeds of Crime Act and Terrorism Prevention Act. During the year, I&E focused on building out the capacity of the unit through targeted training initiatives and technical assistance from donor agencies on how to establish an appropriate and comprehensive supervisory and regulatory regime for AML/CFT. The implementation of the technical assistance for capacity building is currently underway;



- Action Task Force's (CFATF)²² Mutual Evaluation (MEV). I&E continued to represent the FSC by providing information and comments pursuant to CFATF's Mutual Evaluation (MEV) of Jamaica's level of implementation of the FATF recommendations. I&E coordinated and dispatched the FSC's contributions to the MEV exercise and represented the FSC at the November 2016 Plenary. Additionally, the FSC has membership on different working groups established to address the priority actions to improve Jamaica's compliance with the FATF Recommendation; and
- Other Training Opportunities Members of the AML/CFT Unit were also exposed to training on the PEACE²³ Model the method of interviewing techniques as well as several webinars on emerging trends and issues in the area of AML/CFT.

Outlook for the Division

For the upcoming fiscal year, I&E's objective is to continue to build on its strengths in these areas and secure collaboration and assistance to address noted gaps and deficiencies. I&E will also focus on enhancing its efforts in three key areas critical to a robust supervisory and enforcement programme as follows:

- Increased Efforts in Consumer Protection & Awareness Initiatives:
 - Guided by the FSC's overarching mandate to protect users of financial services, I&E plays a lead role on the FSC's behalf in contributing to the jurisdiction's National Financial Inclusion Strategy (NFIS), launched on March 20, 2017, with a principal goal to

aid the financially underserved to save and invest safely and build resilience against financial shocks. I&E has an instrumental role in coordinating and managing the implementation process of the actions flowing from the Consumer Protection and Financial Capability Working Group (CPFCWG) of the NFIS as well as in leading the contributions/deliverables to the following initiatives of the CPFCWG:

- Strengthening the FSC's capacity for market conduct supervision of the insurance, pensions, and securities industries
- Putting measures in place to see to the compilation and wide dissemination of information relating to fees and charges levied by licensees in the insurance, pensions, and securities industries
- Strengthening FSC's existing complaints handling and dispute resolution mechanisms;

Rolling out of the Whistleblower Programme

 With the FY2016/17 spent developing and fine-tuning the functions of the FSC's Whistleblower Committee and the drafting of policies and procedures to guide the administration of a Whistleblower programme through which the receipt and investigation of protected disclosures can be addressed, our principal objective in the FY2017/18 will be to enhance and finalize those policies and procedures and to educate our licensees on the Whistleblower programme and



²² CFATF is a regionally-styled body of the Financial Action Task Force (FATF). FATF is the international standard setting body for "developing and promoting policies to combat money laundering and terrorist financing."

²³ PEACE Model stands for

Preparation and Planning

Engage and Explain

Account, Clarify and Challenge

Closure

Evaluation

sensitize them to their obligations flowing therefrom; and

- Developing the Capacity AML/CFT Unit to Meet the FSC's AML/CFT Obligations:
 - The focus of the AML/CFT Unit in the FY2017/18 will be on critical capacity building and development and training initiatives to ensure that the Unit is adequately possessed of the competencies, knowledge and exposure to further aid the FSC in the effective accomplishment of the following key objectives:
 - To establish a robust AML/ CFT supervisory platform for preventing, detecting and eliminating efforts to abuse and use FSC-regulated sectors for ML and TF purposes;
 - To educate licensees and registrants of their AML/ CFT obligations and test their compliance in this regard; and

- To create an AML/CFT framework that is effectively tested against international standards and best practices and that will adequately combat the ML and TF challenges facing FSC's licensees and registrants.
- The FY2017/18 will also see an expansion of the AML/CFT Unit's reach and visibility as it begins to execute its pivotal function to conduct AML/CFT supervision of the FSC's regulated entities.

EMPOWERING INVESTORS

In keeping with the national agenda to facilitate greater financial inclusion and financial capability, the FSC actively pursues opportunities to improve the public's understanding of financial services and to contribute to initiatives that can improve access by the poor and the underserved in Jamaica. These opportunities include the following:

SFEP 2017



The FSC continues to invest in building financial capability among youth through its flagship Schools' Financial Education Programme (SFEP). The SFEP is a youth-focused and activity-based curriculum developed in partnership with Junior Achievement Jamaica and several private and public sector



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organisations. Approximately 380 students from 12 high schools across Jamaica participated in this year's programme. It is aimed at (i) delivering knowledge that is essential for developing healthy financial attitudes and behaviours; and (ii) equipping youth for making more prudent financial decisions presently as well as in the future as adults, parents and leaders in Jamaica's economy.

Along with 5 weekly structured lessons on managing personal finances, students also benefitted from an educational tour, mentorship experience, and training in dining etiquette and personal grooming. In addition to the staple essay and logo competitions, for the first time, a video challenge also allowed for creative expression of the lessons imparted during the programme. The SFEP culminated with an Awards Luncheon which also commemorated Global Money Week held March 27 - April 2, 2017, organised by our international partner Child & Youth Finance International (CYFI). The Global Money Week showcased local and international activities aimed at inspiring children and youth to learn about money, saving, creating livelihoods, gaining employment and becoming an entrepreneur. It was celebrated by approximately 7 million children and youth in 132 countries.

National Investor Education Week 2016

The FSC once again partnered with the Jamaica Stock Exchange in staging the 9th Annual National Investor Education Week, held September 25-30, 2016 under the theme: "Practical Ways to Save and Invest." The week of activities targeted students and staff of tertiary education institutions and emphasised helping youth to become committed savers and prudent investors, sooner rather than later. The FSC delivered a presentation on "Personal Finance for College Life" to hundreds of students at the University of the West Indies on September 30 and reached thousands through a live radio interview on the FSC's role in regulating the securities market.

VALUED PARTNER ON THE INTERNATIONAL FRONT

The FSC continues its strategic activities with international regulatory associations and overseas regulators in order to (i) build technical capacity of its staff, (ii) enhance Jamaica's regulatory framework and (iii) strengthen joint regulatory efforts to deal with cross-border financial services and financial crimes. These activities include but are not limited to the following:

Micro-insurance Workshops

Micro-insurance is a critical pathway to greater financial inclusion in Jamaica, by making insurance more affordable and accessible for all Jamaicans – including low-income earners – through a broader base of approved entities. The FSC hosted two workshops to promote the development of the micro-insurance market; these were

"Micro-insurance through Financial Inclusion: The Way Forward" - In partnership with the Inter-American Development Bank's Access to Insurance Initiative, the event was one deliverable of a three-year project to provide capacity-building and technical assistance for the development of micro-insurance business in Jamaica. A wide range of key stakeholders attended. These included the micro-financing institutions, credit unions, and insurance providers, along with telecommunications providers, and attorneys-at-law. Technical information on designing suitable products that are relevant to the needs of the Jamaican market was disseminated; and

o The FSC partnered with the International Association of Insurance Supervisors (IAIS), Access to Insurance Initiative (A2ii) and the Toronto Centre to host a 5-day Inclusive Insurance (also called micro-insurance) Training programme. The training was held on January 30 – February 3, 2017, at the Jamaica Pegasus Hotel in Kingston, Jamaica. The event targeted middle-to-senior level



officials from 16 agencies involved in the regulation and supervision of insurance in Latin America, the Caribbean and South Asia. The training was designed to assist the target group in understanding the importance of adopting a balanced and objective approach to the regulation and supervision of micro-insurance services and the protection of consumers in keeping with the tenets of financial inclusion.

Caribbean Securities Regulators Conference (CGSR) 2016 Conference

Representatives from the FSC and more than 15 Caribbean countries attended the 12th Annual Caribbean Group of Securities Regulators (CGSR) Conference and Workshop, hosted by the Securities Commission of the Bahamas in Nassau on April 20 -22, 2016, under the theme "Regional Capital Market **Development and Regulation"**. The event was co-sponsored by the Caribbean Regional Technical Assistance Centre (CARTAC). CGSR meetings provide a forum for Caribbean securities regulators to collaborate for improved technical capacity. They also facilitate the high-level discourse essential for regional regulators to present a strong, unified voice on shared regulatory concerns to international standards setters. Speakers from around the world presented on relevant topics including:

- the role securities regulators play in maintaining market confidence and financial stability;
- o the risks and opportunities presented by technological development; and
- o the shared challenges and experiences of Caribbean securities supervisors.

The International Organization of Pension Supervisors (IOPS)

The active participation of the FSC in the supporting the goal of the International Organization of Pension Supervisors (IOPS) which is to improve the quality and effectiveness of the supervision of private pension systems throughout the world in order to allow for the provision of a secure source of retirement income in as many countries as possible. This was done through several avenues such as:

- Participation in IOPS Technical Committee meeting, Executive Committee Meeting, Workshop & Seminar;
- o The FSC in February 2017 hosted, the IOPS/FSC International Seminar on Pension Supervision and Regulation. Over a three-day period, an IOPS Technical Committee meeting was held, followed by a workshop on Risk-Based Supervision for Regulators and an international seminar under the theme: "The Pensions Landscape: Progress, Prospects and Challenges;" and
- o Continued collaboration in IOPS projects, namely:
 - The Role of Supervision related to Consumer Protection in Private Pension Systems;
 - The Macro- and Micro Dimensions of Supervision of Large Pension Funds, and
 - The global database of private pension country profile.



The FSC Chairman Mr Howard Mitchell, in discussion with Dr. Edward Odundo, outgoing IOPS President, at the IOPS Spring Meeting, held in Jamaica, February 22-24, 2017.



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Caribbean Association of Pension Supervisors (CAPS)

The annual general meeting of CAPS was convened on June 20-21, 2016 in Suriname under the theme "Strengthening Pension Supervision and Regulation to Support Financial Stability". The meeting accomplished its objectives which were to:

- examine continuing and emerging issues and challenges facing pension regulators in the Caribbean, including alternative investments:
- update CAPS members on technical and regulatory methodologies in the global landscape; and
- engage in dialogue that will lead to the implementation of solutions to shared/ common challenges.

Additionally, on behalf of CAPS, the FSC leveraged its expertise by providing hands-on training for one employee each of the Suriname Central Bank (SCB)

and from the Grenada Authority for the Regulation of Financial Institutions (GARFIN) who participated in two of the on-site examinations conducted during the fiscal year. This training was a follow-up to the theoretical training provided by the FSC to the SCB and GARFIN employees previously.

Caribbean Actuarial Association (CAA) Annual Conference

The FSC collaborated with the Caribbean Actuarial Association (CAA) to host its 26th Annual Conference on November 30 to December 2, 2016, at the Torarica Hotel in Paramaribo, Suriname. The theme of the conference was "Connecting Minds: Sharing Knowledge and Impacting Societies". The FSC's collaboration with the CAA is a tangible expression of the FSC's support for the CAA's mandate which is to encourage and support the development of actuarial science in the Caribbean, as well as to maintain high professional standards within the region. The conference provided an excellent continued learning experience for the attendees and featured seasoned professionals addressing a variety of actuarial issues important to the region's financial services industries.

OPTIMIZING OUR PEOPLE'S PERFORMANCE

RECOGNISING OUR EMPLOYEES

Employee recognition is a powerful tool in developing and building highly engaged and performing team members and a positive morale in the work environment. During the FY2016/17, a new FSC Reward and Recognition Programme was developed by Human Resources and was approved by the Board for implementation in the organisation. The purpose of the programme is to recognise team members, individually or collectively, for outstanding performance or effort, for demonstrating an exemplary attitude or exhibiting the core values of the organisation. The awards may be either monetary or non-monetary.

Under this programme, three Divisions/Departments - Actuarial, Management Information Services and Office of Communications and International Relations were awarded the designation "Team of The Year" in recognition of their achievement of 100per cent of their operational objectives for the FY2015/16. They each received a Certificate that was signed by the Executive Director and presented by the Human Resources and Administration and the Training and Development Managers.



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OPPORTUNITIES TO BROADEN WORK EXPERIENCE.

Learning and development (L&D) is critical in ensuring our employees are equipped for their current position as well as preparing them for future roles that may arise. Of special note is the fact that over 70 per cent of the workforce or 95 different persons were engaged in some L&D activity over the review period. This is a significant part of the thrust for the organisation, to have as many of its employees exposed to L&D initiatives which will redound to their development and capacity building for the FSC. Several of these initiatives are included below, as well as a brief description of what each was about.

As the FSC operates in a global arena, it is imperative that employees be kept abreast of changes in the external environment. One such avenue came through the "Jamaica Stock Exchange's 12th Regional Investments and Capital Markets Conference" at Jamaica Pegasus Hotel. This conference covered various topics including the global economic outlook, leadership, the role of the Caribbean as a financial hub and the power of partnerships in fuelling Caribbean development through the capital market. We were pleased to field eleven (11) Individuals from the FSC. This allowed our staff members to obtain an increased understanding of the global environment; this knowledge can be utilised to improve monitoring of registrants and licensees as well as to better comprehend existing legislation and guidelines.

L & D initiatives are not limited by location or mode of learning. Once the need arises and it is a case where the initiative can add value to our employees and the organisation, we welcome it wholeheartedly. On June 22-24, 2016, we were pleased to field eleven (11) individuals to attend the "Caribbean Association of Insurance Regulators Annual Conference and Meeting" held in Paramaribo, Suriname. The conference covered key areas such as capital adequacy and solvency, regional capital standards, financial instruments and crisis management planning in the Caribbean. This provided individuals with the opportunity to obtain information on current trends in the insurance industry. Such exposure is critical in ensuring our team members are always abreast of pertinent subject matters.

Learning and Development initiatives are also facilitated through webinars. One such webinar held during this period was on "Fintech: A driving force for institutional Inclusion" which saw eleven (11) individuals participating. This webinar focused on Financial Technology (FinTech), one of the most pressing issues facing policy makers, financial regulators and supervisors. Speakers addressed how technological innovations can build more inclusive financial systems and why this matters for regulators and supervisors. They also discussed the promise and challenges that FinTech presents.

ATTRACTING AND DEVELOPING TALENT

The Summer Work/Internship Programme which first began on June 1, 2015. This initiative saw thirtyone (31) young individuals lending their talents and skills to the organisation. The FSC's interest in providing such opportunities for our young people is aligned with its goal to "attract and retain the best talent." A number of the interns did exceptionally well and were rewarded with extensions of their contracts. The success of the programme continued in the summer of 2016 when a total of twenty (20) young persons were offered contracts during July

and August, in various divisions within the FSC. This proved once more to be mutually beneficial. The individuals obtained invaluable experience, as well as job knowledge that will equip them for the world of work and enhance their professional demeanour. The FSC relishes the opportunity to provide young talent with a place to hone their skills, experience, personal development and garner professionalism. Initiatives such as these allow our younger generation to become significant contributors to our nation.



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OPTIMIZING PERFORMANCE

Employees are an integral and indispensable part of the company. Competent employees help to ensure operations are smooth and efficient; as such, performance management is crucial. Performance Management can ensure that employees not only fulfil their responsibilities but do so to the best of their abilities and in accordance with expectations.

The new FSC Performance Appraisal form will be used for the first time in the organisation to appraise employees' performance for the period April 2016 to March 2017. In preparation for this, the Training Unit conducted performance appraisal training during the month of March 2017.

ENHANCING WORK PRACTICES

The FSC aims to provide exceptional service to all its customers. In order to provide such service, it is important to know what exactly constitutes as exceptional or superb service and to incorporate best practices so that this can be done consistently. As a result of these ambitions, a Customer Service Charter was implemented in November 2016.

The primary objective of this charter is to provide a framework for defining service delivery standards and improvements in customer service delivery; the rights of customers; as well as how queries and complaints are handled. Standards are not only set

for the company on a whole but also specific to each division/department so that a high level of service is delivered within the entire organisation on a daily basis. Specifics such as turnaround times have been included which ensures that our service standards are measurable.

We sought to foster uniformity in training new employees and internal customers. The revised manuals were developed as part of the Customer Service Charter, these manuals are now being used by various divisions/departments which allow for consistency and a more structured approach.

OUTLOOK FOR THE HUMAN RESOURCES DEPARTMENT

Plans are underway for the conduct of a Job Evaluation and Re-Classification Exercise at the FSC during the FY2017/2018 period. The purpose of the exercise is to review the organisational structure to ensure its adequacy to support the demands posed by the organisation's mandate and at the same time ensure that our jobs are clearly defined and appropriately classified, in accordance with the requirements of the roles. The procurement of the consultant has commenced and it is anticipated that the project will be "on stream" during the latter half of 2017.

An organisation's greatest investment is in its team members. Learning and Development initiatives within the FSC are on-going and the organisation is committed to fostering personal development through these activities. As such, our efforts will continue during the period of FY2017/2018 and beyond to ensure sustainability and retention.



APPENDICES



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APPENDIX A: LIST OF REGISTERED & LICENSED ENTITIES AND INDIVIDUAL DEALERS

INSURANCE

Life Insurance Companies:

- CUNA Caribbean Insurance Jamaica Limited
- JN Life Insurance Company Limited
- Guardian Life Limited
- Sagicor Life Jamaica Limited
- NCB Insurance Company Limited
- Scotia Jamaica Life Insurance Company Limited

General Insurance Companies:

- Advantage General Insurance Company Limited
- American Home Assurance Company
- British Caribbean Insurance Company Limited
- AIG Jamaica Insurance Company Limited (formerly Chartis Jamaica Insurance Company Limited)
- General Accident Insurance Jamaica Company Limited
- GK General Insurance Company Limited (formerly Jamaica International Insurance Company Limited)
- Guardian General Insurance Jamaica Limited (formerly Globe Insurance Company of Jamaica Limited)
- IronRock 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

Associations of Underwriters:

Lloyds

Local Reinsurance Brokers:

- CGM Gallagher Insurance Brokers Jamaica Limited
- Maritime General Insurance Brokers Limited

Insurance Consultants:

- Nicholas James Wood
- Eberle Alric Robert Dawes T/A Flavoured Consultants In Insurance
- Action & Advice Claims Consultants Limited

Claims Negotiators:

- Colleen Veronica Pryce T/A Crowne Consultant Services
- Collin Michael Harley T/A Insight Insurance Services
- Claims Administrators Limited
- Egerton Orlando Stewart T/A Stewart Recovery Action & Solution
- Fidelity Insurance Claims Consultants Limited
- Karen Patricia Murphy T/A Image Claims Negotiating Services
- Natalie Kerr T/A Direct Claims Services

Overseas Reinsurance Brokers:

Aeon UK Limited (formerly Aeon Limited)



Insurance Investigators:

- AB Investigation Services Limited T/A AB Investigation
- BINOC Visions Investigations Limited
- Delroy Anthony Lawson T/A DL Express Investigation & Process Service
- Detect Investigations Company Limited
- Charles Oliver Rodriquez T/A Charles Rodriquez Investigations
- Clive Ashton Jones T/A Searchlight Investigators
- Conrad Vaughn Myrie T/A C.I.S. Claims Investigation
- Errol Orlando Rattray T/A Quality Adjusters
- Focus Investigations Limited
- Harcon Business and Investigations Services Limited

Insurance Brokers:

- Allied Insurance Brokers Limited
- Associated Owners Insurance Brokers Limited
- Assurance Brokers of Jamaica Limited
- Billy Craig Insurance Brokers Limited
- Caribbean Assurance Brokers Limited
- CGM Gallagher Insurance Brokers Jamaica Limited
- Covenant Insurance Brokers Limited
- Desmond Mair Insurance Brokers Limited
- Excel Insurance Brokers Limited
- Firm Insurance Brokers Limited
- Fraser Fontaine & Kong Limited Insurance Brokers
- Genesis Insurance Brokers Limited
- Jamaica Citadel Insurance Brokers Limited

- Ian Blackwood T/A ACTAR Investigations
- Impact Investigations Services Limited
- Jones Solomon Jaisingh T/A Network Coordinate
- Joseph Clement Messam T/A PROCUR (Professional Procurers)
- Kevin Aundrae Virgo T/A Quality Investigations
- Latoure DeAvergne Duhaney T/A Genesis Protective Services
- Priority Investigations Limited
- Roger Richard Robinson T/A Premier Loss Adjusting and Investigations
- Vinel Central Investigation & Security Consultancy Limited
- Wayne Michael Wallace T/A Trivalent Consulting Services
- JMMB Insurance Brokers Limited
- Lawe Insurance Brokers Limited
- Marathon Insurance Brokers Limited
- Maritime General Insurance Brokers Limited
- Mutual Security Insurance Brokers Limited
- National Property & General Insurance Brokers Limited
- Orion Insurance Brokers Limited
- Pinnacle Insurance Brokers Limited
- Progressive Insurance Brokers Ltd.
- Sagicor Insurance Brokers Limited
- Sarifa Insurance Brokers Limited
- Solid Life and General Insurance Brokers Limited
- Spectrum Insurance Brokers Limited
- Thwaites Finson Sharp Insurance Brokers Limited



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Facultative Brokers

- Allied Insurance Brokers Limited
- Assurance Brokers Jamaica Limited
- Billy Craig Insurance Brokers Limited
- Caribbean Assurance Brokers Limited
- CGM Gallagher Insurance Brokers Jamaica Limited
- Desmond Mair Insurance Brokers Limited
- Excel Insurance Brokers Limited
- Firm Insurance Brokers Limited
- Fraser Fontaine & Kong Limited Insurance Brokers
- JMMB Insurance Brokers Limited

- Lawe Insurance Brokers Limited
- Marathon Insurance Brokers Limited
- Maritime General Insurance Brokers Limited
- Mutual Security Insurance Brokers Limited
- National Property & General Insurance Brokers Limited
- Pinnacle Insurance Brokers Limited
- Sagicor Insurance Brokers Limited
- Spectrum Insurance Brokers Limited
- Thwaites Finson Sharp Insurance Brokers Limited

Insurance Agents:

- Alice Elizabeth Cohen T/A Alice Cohen Assurance
- Audrey Hyacinth Legister T/A Audrey Legister Insurance Agent
- Axia Jamaica Insurance Agency Limited
- Blossom Viviene Anderson T/A Bliss Insurance Agent
- Carol Elizabeth Grant T/A Carol Grant Insurance Agent
- Chancellor Insurance Agency Limited
- Crichton Insurance Agency Limited
- Cynthia Delores Benjamin T/A Saphire Insurance Agent
- Destiny Insurance Agency Limited
- Doran Ferguson T/A Apex Insurance Agents
- Elaine Patricia Reid T/A Vern Insurance Agent
- Eugena Gardener & Frederick George Gardener T/A Eugena Gardener Insurance Agency
- Gensure Insurance Agents Limited
- Gersham McLaughlin T/A Global Risk Management Insurance Agents
- Glenda Patricia Miller T/A Glenda Miller Insurance Agent

- Gleneta Joan Kenyon T/A Kenyon Insurance Agency
- 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
- Michael MCGowan T/A M. McGowan Sales Agent
- Milvik Insurance Agent Limited
- Mutual Enterprises (Insurance) Agents Limited
- Nationwide Insurance Agents and Consultants Limited
- Norma Joan Walcott T/A Norma Walcott Insurance Agent
- Paul Anthony Simpson, General Insurance Agent
- Pride Insurance Agency Limited
- Richard Harrison Wilson T/A Agency for Insurance Solutions
- Riviera Insurance Agency Limited



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Insurance Agents cont'd:

- Rosemarie Yvonne Wallace T/A Rose Wallace Insurance Agent
- Sagicor International Administrators Limited
- Sheila Kerline Powell T/A Powell Insurance Agency
- William Alexander Nash T/A William Nash Insurance Agent

Insurance Loss Adjusters:

- Advanced Insurance Adjusters Limited
- Alert Motor Loss Adjusters & Valuators Limited
- Anthony O'Neil Uter T/A Delta Loss Adjusters
- Auto Assessors and Associates Limited
- Auto Electrical Specialist Limited
- Axis (Jamaica) Limited
- Caribbean Loss Adjusters Limited
- Casualty & Property Insurance Services Limited
- Claim Centers of Jamaica Limited
- Crawford Jamaica Limited
- Evan Evans T/A Evans Insurance Consultants Limited
- General Motor Adjusters Limited
- Innovative Consulting Services Limited T/A International Claims Services
- Jamaica Loss Adjusters Limited
- Jamaica Motor Assessment Limited
- Joan Elizabeth Williams T/A Virtual Insurance Services
- Karen Alethea Scarlett T/A KAS Loss Adjusters and Valuators
- Lloyd Williams T/A Lloyd's Motor Insurance Adjusters
- Mathew John O'Donoghue T/A JMO Adjusters
- McLarens Young International (Jamaica) Limited
- Mendez Livingstone Incorporated Limited

- Michael Earl Xavier McKenzie T/A Red Line Collision Appraisal Specialist
- MSC McKay (Jamaica) Limited
- National Loss Adjusters and Trailway Cruiser Limited
- Orion Loss Adjusters Limited
- Pan Caribbean Consultants Limited
- Percival George Stewart T/A Kaution Jamaica
- Priority Loss Adjusters Limited
- Precision Adjusters Limited
- Reliable Loss Adjusters Limited
- Smiles Loss Adjusters Limited
- Vincent Lloyd McLaughlin T/A Larmax Loss Adjusters
- Vision Adjusters Limited
- Stellar Caribbean (Jamaica) Limited
- Toplis & Harding (Jamaica) Limited
- Trans Jam Loss Adjusters Limited



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SECURITIES

Dealers (Companies):

- Alliance Investment Management Limited
- Barita Investments Limited
- BPM Financial Limited
- Barita Unit Trust Management Company Limited
- BCW Holdings Limited D/B/A BCW Capital
- Capital Solutions Limited
- COK Sodality Co-operative Credit Union Limited
- Credit Union Fund Management Company Limited
- CWJ Employees Co-operative Credit Union Limited
- FHC Investments Limited (formerly CCU Investments)
- FirstCaribbean International Securities Limited
- Infiniti Capital Limited (formerly E. W. Lewis Investments)
- GK Capital Management Limited
- Guardian Life Limited
- Heritage Education Funds International (Jamaica) Limited
- Ideal Finance Corporation Limited
- Ideal Portfolio Services Company Limited
- Jamaica Money Market Brokers Limited
- Jamaica National Building Society
- JMMB Fund Managers Limited (formerly Capital & Credit Fund Managers)
- JMMB Securities Limited
- JN Fund Managers Limited

- MF&G Asset Management Limited
- M/VL Stockbrokers Limited
- Mayberry Investments Limited
- MoneyMasters 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
- Proven Wealth Limited (formerly Guardian Asset Management Limited)
- Proven Fund Managers Limited (formerly PWL Transition Limited)
- Sagicor Securities Jamaica Limited (formerly RBTT Securities Jamaica Limited)
- Sagicor Life Jamaica Limited
- Scotia Asset Management (Jamaica) Limited (formerly Scotia DBG Fund Managers Limited)
- Scotia Investments Jamaica Limited (formerly Scotia DBG Investments Limited)
- Scotia Jamaica Life Insurance Company Limited
- Sterling Asset Management Limited
- Stocks and Securities Limited
- Sygnus Capital Limited
- Victoria Mutual Wealth Management Limited
- West Indies Trust Company Limited



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Dealers (Individuals): [2]

- Berry, Christopher *
- Berry, Konrod *
- Issa, Christopher
- Berry, Christopher *

Investment Advisers:

- Allistair Macbeath
- SGF Investment Advisors Limited
- Wayne Wray
- Williams & Associates Investments Limited
- Thelwell Investments Limited

Collective Investment Schemes:

Mutual Funds:

- o CI Sector Balanced Funds
- o CI Sector Diversified Equity Funds
- o CI Sector Fixed Income Funds
- o CI Sector Focused Equity Funds
- o JNFM Mutual Funds Limited
- o Scotia US Growth Mutual Fund
- o Scotiabank Canadian Growth Fund
- o Scotia Caribbean Income Fund Inc. (formerly Scotia DBG Caribbean Income Fund Inc.)
- o Scotiabank Global Growth Fund
- Scotiabank Money Market Fund
- o Scotiabank US Dollar Bond Fund

Fund Managers:

- o Barita Unit Trusts Management Limited
- o Credit Union Fund Management Company Limited
- o JMMB Fund Managers Limited (formerly Capital & Credit Fund Managers Limited)
- o JN Fund Manager Limited
- o Sagicor Investments Jamaica Limited (formerly Pan Caribbean Asset Management Limited

- o Scotia Investments Limited
- o NCB Capital Markets Limited
- o Victoria Mutual Wealth Management Limited

Unit Trust Schemes:

- o Barita Multiple Portfolio Funds
- o Barita Unit Trusts Money Market Fund
- o Barita Unit Trusts Capital Growth Fund
- o CUFMC CUMax Fund
- o JMMB Life Goal Fund
- o Jamaica Investment Income & Growth Fund (formerly Capital & Credit Income & Growth Fund)
- Jamaica Investment Giltedge Fund (formerly Capital & Credit Giltedge Fund)
- o Jamaica Investment Optimum Capital Fund (formerly Capital & Credit Capital Growth Fund)
- o NCB Capital Markets Limited Unit Trust Scheme
- NCB Capital Markets Limited (Nondiversified) UTS
- o Scotia Premium Fixed Income Fund (formerly DB&G Money Market Fund)
- o Scotia Premium Growth Fund (formerly DB&G Premium Growth Fund)



^[2] The asterisks indicate individual dealers who are associated with a company that is also licensed as dealer



- Unit Trust Schemes cont'd:
 - o Sagicor Sigma Funds (formerly Pan Caribbean Assets Management Unit Trust)
- The Scotia Investment Fund
- o VMW Money Market Fund

PENSIONS

Administrators:

- Appliance Traders Limited
- Bank of Jamaica
- Barita Investments Limited
- Bank of Nova Scotia Jamaica Limited
- BPM Financial Limited
- Credit Union Fund Management Company Limited
- Development Bank of Jamaica Limited
- Employee Benefits Administrator Limited
- FHC Investment Limited
- First Caribbean International Securities Limited
- First Caribbean International Bank
- Guardian Life Limited
- IBM World Trade Corporation

- Jamaica Money Market Brokers Limited
- JMMB Fund Managers Limited
- JN Fund Managers Limited
- Mayberry Investment Limited
- MF&G Asset Management Limited
- NCB Insurance Company Limited
- Nestle Jamaica Limited
- Prime Asset Management Limited
- Proven Fund Managers Limited
- Saxons Pension Services Limited
- Scotia Investments Jamaica Limited
- Scotia Jamaica Life Insurance Company
- Veritat Nominee Limited

Investment Managers:

- Appliance Traders Limited
- Bank of Jamaica
- Barita Investments Limited
- BCW Capital Limited
- BPM Financials Limited
- City of Kingston Co-operative Credit Union
- Credit Union Fund Management Company Limited
- Development Bank of Jamaica Limited
- FHC Investments Limited
- First Caribbean International Securities Limited

- Guardian Life Limited
- Jamaica Money Market Brokers Limited
- Jamaica National Building Society
- JMMB Fund Managers Limited
- JN Fund Managers Limited
- Mayberry Investment Limited
- MF&G Asset Management Limited
- MoneyMasters Limited
- NCB Insurance Company Limited
- Prime Asset Management Limited
- Proven Fund Managers Limited



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Investment Managers cont'd:

- Sagicor Life Jamaica Limited
- Sagicor Securities Jamaica Limited
- Scotia Investments Jamaica Limited

Veritat Nominee Limited

APPENDIX B: BULLETINS, GUIDELINES AND DISCUSSION PAPERS

In keeping with the principle of transparency and communication, the FSC 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:

GENERAL

 Consultation Paper: Legislative Amendment to Establish Group-Wide Supervision for Non-Deposit-Taking Financial Institutions - CONSUL-17/02-0002 - February 17, 2017. The FSC invites feedback from all three industries on its proposed regulatory framework for groupwide supervision of financial groups which do not contain a bank.

INSURANCE INDUSTRY

- Guideline: Format for the Publication of Abridged Financial Statements IR-GUID-17/01-0018 January 2017. Section 26(1) (b) of the Insurance Act, was amended to allow for registered insurers to publish an abridged version of the audited financial statements in a daily newspaper printed and circulated throughout Jamaica. The Guideline sets out the proposed format of an abridged version of the audited financial statements to be published.
- Bulletin: Relaxation of the Minimum Capital Test Requirement AR-ADVI-17/01-0007 January 2017. This bulletin explains the conditions that must be satisfied by a general insurance company in order for the FSC to exercise regulatory forbearance in allowing a relaxation of the statutory minimum of 250% for the MCT.
- Bulletin: Macroprudential Surveillance IR-ADVI-17/03-0005 March 2017. An information
 bulletin was issued as the FSC continues to make strides towards aligning itself with the standards
 of Insurance Core Principle (ICP) 24. ICP 24 requires that the FSC identifies, monitors and
 analyses market and financial developments and other environmental factors that may impact
 insurers and insurance markets and uses this information in the supervision of individual insurers.

SECURITIES INDUSTRY

• Guidelines to the Securities (Prudential) Regulations, 2014 - Part I SR-GUID-16/6-0025 Part I of the Guidelines to the Securities (Prudential) Regulations, 2014 were released on June 30, 2016. These Guidelines support the Securities (Prudential) Regulations, 2014 by providing clarity with respect to several prescriptive measures which were outlined in the Regulations. Guidance is provided on (i) the revised methodology for computing the capital adequacy ratio, (ii) benchmarks for the capital adequacy and leverage ratios, (iii) liquidity management, and (iv) bottom-up stress testing.



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PENSIONS INDUSTRY:

- Consultation Paper: Proposals for Improved Access to Finance by way of Amendments to the Pensions (Superannuation Funds and Retirements Schemes) (Investment) Regulations – PR-CONSUL-17/01-0011 – January 17, 2017. This consultation paper puts forward proposals for the enhancement of the legislative framework for the investment of the assets of Funds and Schemes.
- Bulletin for: Disclosure of Pension Assets Under Management in Audited Financial Statements PR-GUID-17/03-0043 March 9, 2017. The purpose of the bulletin is to outline the FSC's expectations regarding disclosure of pension assets under management to ensure, among other things, the accuracy of industry data as it relates to pension assets and the appropriateness of fees levied on investment managers.

APPENDIX C: FSC STATUTES & REGULATIONS

The statutory duties and responsibilities of the FSC and the regulatory provisions governing financial services in the areas of insurance, pensions and securities are stipulated in a number of laws The statutes administered by the FSC are as follows:

- The Financial Services Commission Act (2001) amended 2004; 2013 and 2014
- The Financial Services (Overseas Regulatory Authority) (Disclosure) Regulations (2005)
- The Insurance Act (2001) amended 2016;
- 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; 2014
- The Securities (Licensing and Registration) Regulations (1996) amended 2003, 2008; 2014
- The Securities (Conduct of Business) Regulations (1999) amended 2003;
- The Securities (Disclosure of Interest) Regulations (1999);
- The Securities (Prudential) Regulations (2014)
- The Securities (Retail Repurchase Agreements) Regulations (2014) amended 2015
- The Securities (Takeovers and Mergers) Regulations (1999) amended 2000; 2014
- The Securities (Central Securities Depository) Regulations (2000) amended 2002;
- The Securities (Collective Investment Schemes) Regulations (2013) amended 2014, 2015
- 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);

In addition, the FSC monitors its licensees and registrants for compliance with:

- 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







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INDEPENDENT AUDITORS' REPORT

To the Members of FINANCIAL SERVICES COMMISSION

Opinion

We have audited the financial statements of Financial Services Commission (Commission), set out on pages 88 to 113, which comprise the statement of financial position as at March 31, 2017, the statements of profit or loss and other comprehensive income, changes in reserves and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Commission as at March 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Commission in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.







INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of FINANCIAL SERVICES COMMISSION

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with IFRS 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.

In preparing the financial statements, management is responsible for assessing the Commission's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Commission or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Commission's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

 Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.





INDEPENDENT AUDITORS' REPORT (CONT'D)

To the Members of FINANCIAL SERVICES COMMISSION

Auditors' Responsibilities for the Audit of the Financial Statements (cont'd)

- Obtain an understanding of internal control relevant to the audit 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 Commission's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Commission's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Commission to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Chartered Accountants Kingston, Jamaica

July 19, 2017

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED MARCH 31, 2017

Statement of Financial Position March 31, 2017

	Notes	<u>2017</u>	<u>2016</u>
CURRENT ASSETS			
Cash and cash equivalents	3	207,850,756	37,738,839
Resale agreements	4	1,081,203,119	1,023,947,729
Accounts receivable	5	183,879,924	158,715,201
Taxation recoverable	6	3,765	2,841
		1,472,937,564	1,220,404,610
CURRENT LIABILITIES			
Accounts payable	7	89,294,251	80,632,119
Deferred fees		311,920,269	276,592,798
		401,214,520	357,224,917
NET CURRENT ASSETS		1,071,723,044	863,179,693
NON-CURRENT ASSETS			
Intangible assets	8	19,199,726	27,953,726
Property, plant and equipment	9	26,621,667	26,659,434
		45,821,393	54,613,160
		\$ <u>1,117,544,437</u>	917,792,853
Financed by:			
RESERVES	10	\$ <u>1,117,544,437</u>	917,792,853

The financial statements on pages 88 to 113 were approved by the Board of Commissioners on July 19, 2017 and signed on its behalf by:

Myrtle Halsall

Commissioner

Andre Hutchinson

Commissioner



STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED MARCH 31, 2017

Statement of Profit or Loss and Other Comprehensive Income Year ended March 31, 2017

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
INCOME			
Fees		919,025,616	868,990,398
Interest income		57,679,253	54,303,825
Gain on disposal of			
property, plant and equipment		34,445	8,381
Other	11	6,028,940	7,255,638
		982,768,254	930,558,242
EXPENSES			
Advertising		826,861	648,933
Appeal tribunal		3,288,671	3,204,657
Audit		1,750,000	1,750,000
Bad debts, net of recoveries		14,410,099	13,215,545
Bank charges		918,591	519,044
Building maintenance		10,120,255	12,904,736
Commissioners' fees		2,116,245	2,689,518
Data security		8,862,110	8,611,695
Depreciation and amortisation	8,9	20,782,739	19,799,124
Irrecoverable General Consumption Tax		13,626,360	15,442,525
Motor vehicle and parking expenses		12,854,908	9,545,324
Office expenses		23,536,705	23,810,909
Printing and stationery		1,602,207	2,450,742
Professional fees		16,120,235	25,192,745
Public education		23,402,880	11,875,105
Rent	12(ii)	36,000,000	36,000,000
Staff costs	13	547,845,904	545,208,683
Subscriptions		24,787,515	19,404,505
Training and conferences		26,966,546	31,960,335
Utilities		24,887,839	23,798,122
		814,706,670	808,032,247
Surplus before grant		168,061,584	122,525,995
Grant	12(ii)	36,000,000	36,000,000
Surplus for the year		\$ <u>204,061,584</u>	158,525,995

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED MARCH 31, 2017

Statement of Changes in Reserves Year ended March 31, 2017

	General Fund	Capital Reserve (Note 10)	<u>Total</u>
Balances at March 31, 2015	773,788,294	1,078,564	774,866,858
Total comprehensive income for the year:			
Surplus for the year	158,525,995	-	158,525,995
Financial distribution (note 20)	(_15,600,000)		(15,600,000)
Balances at March 31, 2016	916,714,289	1,078,564	917,792,853
Total comprehensive income for the year:			
Surplus for the year	204,061,584	-	204,061,584
Financial distribution (note 20)	(4,310,000)		(4,310,000)
Balances at March 31, 2017	\$ <u>1,116,465,873</u>	1,078,564	1,117,544,437



STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED MARCH 31, 2017

Statement of Cash Flows Year ended March 31, 2017

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus for the year Adjustments for:		204,061,584	158,525,995
Depreciation and amortisation Gain on disposal of	8, 9	20,782,739	19,799,124
property, plant and equipment Interest income		(34,445) (57,679,253)	(8,381) (54,303,825)
		167,130,625	124,012,913
(Increase)/decrease in current assets: Resale agreements Accounts receivable and prepayments Taxation recoverable		(57,255,390) (24,378,071) (924)	(203,806,005) 26,265,816 8,380
Increase/(decrease) in current liabilities: Accounts payable Deferred fees		8,662,132 35,327,471	19,897,388 21,098,449
Net cash provided/(used) by operating activities		129,485,843	(_12,523,059)
CASH FLOWS FROM INVESTING ACTIVITIES Additions to intangible assets Additions to property, plant and equipment Proceeds from sale of	8 9	(722,395) (11,322,232)	(31,521,077) (12,422,158)
property, plant and equipment Interest received		88,100 <u>56,892,601</u>	306,000 53,875,575
Net cash provided by investing activities		44,936,074	10,238,340
CASH FLOWS FROM FINANCING ACTIVITY Financial distribution, being			
net cash used by financing activity	20	(_4,310,000)	(_15,600,000)
Net increase/(decrease) in cash and cash equivalents		170,111,917	(17,884,719)
Cash and cash equivalents at beginning of the year		37,738,839	55,623,558
Cash and cash equivalents at end of the year		\$ <u>207,850,756</u>	37,738,839

NOTES TO <u>FINANCIAL STATEME</u>NTS

FOR THE YEAR ENDED MARCH 31, 2017

Notes to the Financial Statements Year ended March 31, 2017

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 14).

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 (see note 9).

At March 31, 2017, the Commission had in its employment 115 (2016: 116) employees, out of a Board-approved establishment of 127 (2016: 127) employees.



NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2017

Notes to the Financial Statements (Continued) Year ended March 31, 2017

- 2. Statement of compliance, basis of preparation and significant accounting policies
 - (a) Statement of compliance:

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

New and amended standards effective during the year

Certain new and amended standards which were in issue, came into effect for the current financial year. The adoption of these standards and amendments did not result in any changes to the amounts recognised or disclosed in these financial statements.

New and amended standards issued 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, which is effective for annual reporting periods beginning on or after January 1, 2018, replaces the existing guidance in IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial assets and liabilities, including a new expected credit loss model for calculating impairment of financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. Although the permissible measurement bases for financial assets amortised cost, fair value through other comprehensive income (FVOCI) and fair value though profit or loss (FVTPL) are similar to IAS 39, the criteria for classification -into the appropriate measurement category are significantly different. IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.
- IFRS 15, Revenue From Contracts With Customers, effective for accounting periods beginning on or after January 1, 2018, replaces IAS 11, Construction Contracts, IAS 18, Revenue, IFRIC 13, Customer Loyalty Programmes, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfer of Assets from Customers and SIC-31 Revenue Barter Transactions Involving Advertising Services. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. It also does not apply if two entities in the same line of business exchange non-monetary assets to facilitate sales to other parties.

NOTES TO <u>FINANCIAL STATEME</u>NTS

FOR THE YEAR ENDED MARCH 31, 2017

Notes to the Financial Statements (Continued) Year ended March 31, 2017

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

New and amended standards issued that are not yet effective (cont'd):

• IFRS 15, Revenue From Contracts With Customers (cont'd)

The Commission will apply a five-step model to determine when to recognise revenue, and at what amount. The model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised at a point in time, when control of goods or services is transferred to the customer; or over time, in a manner that best reflects the entity's performance.

There will be new qualitative and quantitative disclosure requirements to describe the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

• IFRS 16, *Leases*, which is effective for annual reporting periods beginning on or after January 1, 2019, eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessees will be required to bring all major leases on-balance sheet, recognising new assets and liabilities. The on-balance sheet liability will attract interest; the total lease expense will be higher in the early years of a lease even if a lease has fixed regular cash rentals. Optional lessee exemption will apply to short- term leases and for low-value items with value of US\$5,000 or less.

Lessor accounting remains similar to current practice as the lessor will continue to classify leases as finance and operating leases.

Early adoption is permitted if IFRS 15, Revenue from Contracts with Customers is also adopted.

• Amendments to IAS 7, Statement of Cash Flows, effective for accounting periods beginning on or after January 1, 2017, requires an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash flows.

The Commission is assessing the impact, if any, that the above amendments, interpretations and new standards may have on its future financial statements when they become effective.



NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2017

Notes to the Financial Statements (Continued) Year ended March 31, 2017

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

(b) Basis of preparation:

The financial statements, as at and for the year ended March 31, 2017 (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.

Judgements made by management in the application of IFRS that have a 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.



FOR THE YEAR ENDED MARCH 31, 2017

Notes to the Financial Statements (Continued) Year ended March 31, 2017

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

(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 and equipment and intangible assets:

(i) Owned assets:

Items of property, plant and 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. 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 and 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:

Office furniture	10%
Motor vehicles	20%
Leasehold improvement	
and Equipment	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 and 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 and equipment is transferred from capital reserve to the general fund.



NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2017

Notes to the Financial Statements (Continued) Year ended March 31, 2017

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

(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.

(j) Accounts receivable:

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

(k) Accounts payable:

Accounts payable are measured at amortised cost.

(1) 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.



NOTES TO <u>FINANCIAL STATEME</u>NTS

FOR THE YEAR ENDED MARCH 31, 2017

Notes to the Financial Statements (Continued) Year ended March 31, 2017

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



Notes to the Financial Statements (Continued) Year ended March 31, 2017

- 2. Statement of compliance, basis of preparation and accounting policies (cont'd)
 - (m) Fees: (cont'd)
 - ii. Insurance (cont'd)

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.

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.

FOR THE YEAR ENDED MARCH 31, 2017

Notes to the Financial Statements (Continued) Year ended March 31, 2017

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

(n) Impairment:

The carrying amounts of the Commission's assets are reviewed at each 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.

(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.



FOR THE YEAR ENDED MARCH 31, 2017

Notes to the Financial Statements (Continued) Year ended March 31, 2017

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

(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).
 - viii) The entity, or any member of a group of which it is apart, provides key management services to the Commission.

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FOR THE YEAR ENDED MARCH 31, 2017

Notes to the Financial Statements (Continued) Year ended March 31, 2017

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

(q) Related party (cont'd):

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".

(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>2017</u>	<u>2016</u>
Current and saving accounts Petty cash	207,844,801 5,955	37,732,884 5,955
	\$ <u>207,850,756</u>	37,738,839

Notes to the Financial Statements (Continued) Year ended March 31, 2017

4. <u>Resale agreements</u>

Resale agreements represent purchases of Government of Jamaica Local Registered Stocks by the Commission from a broker under agreement to resell them on specified dates (within a year), at specified amounts.

The interest rates on resale agreements ranged between 5.30% and 6.20% (2016: 5.35% and 6.20%) as at the year-end. The market value of the underlying securities as at March 31, 2017 was approximately J\$1,135,263,276 (2016: J\$1,074,850,400).

The Commission's exposure to credit and currency risks relating to resale agreements are disclosed in note 17.

5. Accounts receivable

	<u>2017</u>	<u>2016</u>
Trade receivables (a)	115,543,280	140,727,701
Less: Allowance for impairment losses (b)	(11,945,555)	(_13,215,545)
	103,597,725	127,512,156
Prepayments and deposits (c)	70,860,141	21,766,753
Other receivables	1,810,242	2,182,878
Interest receivable	7,611,816	7,253,414
	\$ <u>183,879,924</u>	<u>158,715,201</u>

(a) The aging of trade receivables at the reporting date was:

	20	2017		2016
	<u>Gross</u>	<u>Impairment</u>	<u>Gross</u>	<u>Impairment</u>
Past due 30 days	74,286,514	-	108,782,558	-
Past due 60 days	3,036,156	-	2,771,918	-
Past due 90 days	862,512	-	676,966	-
Over 90 days	37,358,098	11,945,555	28,496,259	13,215,545
	\$ <u>115,543,280</u>	11,945,555	140,727,701	13,215,545

(b) The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	<u>2017</u>	<u>2016</u>
Balance at April 1 Impairment (recovered)/recognised	13,215,545 (1,269,990)	3,048,352 10,167,193
impairment (recovered)/recognised	(_1,209,990)	10,107,193
Balance at March 31	\$ 11 945 555	13 215 545



FOR THE YEAR ENDED MARCH 31, 2017

Notes to the Financial Statements (Continued) Year ended March 31, 2017

5. Accounts receivable (cont'd)

(b) (Cont'd)

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 \$Nil (2015: \$3,084,352), were written-off during the year.

(c) Prepayments and deposits comprise the following:

	<u>2017</u>	<u>2016</u>
IOSCO 2017 *	61,972,750	8,431,735
International Member ship fees	5,467,278	5,280,534
IT software maintenance	1,051,786	1,099,198
Other	2,368,327	6,955,286
	\$ <u>70,860,141</u>	21,766,753

* In May 2017, the Commission host the 42nd Annual Conference of the International Organization of Securities Commissions (IOSCO). The amount of \$61.972 million represents net of payments made to suppliers and monies received from participants for early registration.

The Commission's exposure to credit and currency risks and impairment losses relating to trade and other receivables are disclosed in note 17.

6. Taxation recoverable

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

7. Accounts payable

	<u>2017</u>	<u>2016</u>
Trade and other payables	38,270,054	25,794,866
Employee benefits –accrued vacation, gratuities and salary	51,024,197	54,837,253
	\$89,294,251	80,632,119

The Commission's exposure to liquidity and currency risks relating to trade and other payables are disclosed in note 17.

Included in the employee benefits is a provision of \$19,637,467 (2016: \$17,626,566) which represents the 5% performance incentive relating to performance for the year ended March 31, 2017. Preliminary analysis indicates that this will be paid in 2017/18.



Notes to the Financial Statements (Continued) Year ended March 31, 2017

8. <u>Intangible assets</u>

These represent software cost capitalized as follows:

	<u>2017</u>	<u>2016</u>
Cost: At beginning of year Additions	76,913,055 <u>722,395</u>	45,391,978 31,521,077
At end of year	77,635,450	<u>76,913,055</u>
Amortisation: At beginning of year Charge for the year	48,959,329 <u>9,476,395</u>	40,770,625 <u>8,188,704</u>
At end of year	<u>58,435,724</u>	48,959,329
Net book value	\$ <u>19,199,726</u>	27,953,726

9. Property, plant and equipment

At cost:	Motor vehicles	Office furniture, equipment and leasehold improvements	Computer equipment	<u>Total</u>
March 31, 2015 Additions Disposals	7,841,426 (<u>403,434</u>)	122,916,335 10,316,356 (<u>816,364</u>)	65,871,267 2,105,802	196,629,028 12,422,158 (<u>1,219,798</u>)
March 31, 2016 Additions Disposals	7,437,992	132,416,327 8,657,215 (<u>406,724</u>)	67,977,069 2,665,017	207,831,388 11,322,232 (<u>406,724</u>)
March 31, 2017	7,437,992	140,666,818	70,642,086	<u>218,746,896</u>
Depreciation: March 31, 2015 Charge for year Eliminated on disposals	3,280,768 1,185,694 (<u>215,164</u>)	108,836,270 6,659,132 (<u>707,015</u>)	58,366,675 3,765,594	170,483,713 11,610,420 (<u>922,179</u>)
March 31, 2016 Charge for year Eliminated on disposals	4,251,298 1,158,798	114,788,387 6,987,680 (<u>353,069</u>)	62,132,269 3,159,866	181,171,954 11,306,344 (<u>353,069</u>)
March 31, 2017	<u>5,410,096</u>	121,422,998	65,292,135	192,125,229
Net book values: March 31, 2017	\$2,027,89 <u>6</u>	19,243,820	5,349,951	26,621,667
March 31, 2016	\$ <u>3,186,694</u>	17,627,940	5,844,800	26,659,434

FOR THE YEAR ENDED MARCH 31, 2017

Notes to the Financial Statements (Continued) Year ended March 31, 2017

9. Property, plant and 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>2017</u>	<u>2016</u>
General Fund	1,116,465,873	916,714,289
Capital reserve (i)	1,078,564	1,078,564
	\$ <u>1,117,544,437</u>	917,792,853

(i) 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. Other income

Other income during the year mainly represents seminar registration fees and reversal of payable balances from previous years.

12. Grant

GOJ grant \$\frac{2017}{36,000,000} \frac{36,000,000}{36,000,000}

- (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.
- (ii) The Commission has estimated the commercial value of the annual rental to be \$36,000,000 (2016: \$36,000,000) which has been recognised as a grant.

13. Staff costs

	<u>2017</u>	<u>2016</u>
Salaries, wages and related costs	491,262,858	482,608,408
Payroll statutory costs	29,425,613	28,658,513
Gratuity	12,883,936	20,442,555
Pension (note 15)	12,674,219	11,646,259
Motor vehicle loan subsidy (i)	1,599,278	1,852,948
	\$ <u>547,845,904</u>	545,208,683



Notes to the Financial Statements (Continued) Year ended March 31, 2017

13. Staff costs (cont'd)

(i) 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% (2016: 3%) per annum and the Commission will provide a subsidy of the difference between the 3% (2016: 3%) 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 \$6.55 million (2016: \$3.08 million) which will be recognised in profit or loss as they fall due.

14. Taxation

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

15. 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, past service liabilities of \$165.4 million and a surplus of \$11 million.

Contributions by the Commission for the year amounted to \$12,674,219 (2016: \$11,646,259).

16. 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:

Notes to the Financial Statements (Continued) Year ended March 31, 2017

FOR THE YEAR ENDED MARCH 31, 2017

16. Insurance licence deposits (cont'd)

- (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); and
- (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, 2017 were valued at approximately \$1.372 billion (2016: \$1.240 billion).

17. 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.

(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.



Notes to the Financial Statements (Continued) Year ended March 31, 2017

17. Financial instruments (cont'd)

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

(i) Credit risk (cont'd):

The allowance account in respect of trade receivables is used to record impairment losses unless the Commission is satisfied that no recovery of the amount owing is possible, at which point the amount considered irrecoverable is written off against the receivable balance directly.

(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.

(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\$).

FOR THE YEAR ENDED MARCH 31, 2017

Notes to the Financial Statements (Continued) Year ended March 31, 2017

17. Financial instruments (cont'd)

- (b) Financial risk management (cont'd):
 - (iii) Market risk (cont'd):
 - Foreign currency risk (cont'd):

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

2017 US\$ 2016 US\$

Foreign currency assets:

Cash and cash-equivalents $\underline{315,600}$ $\underline{4,027}$

The exchange rate for US\$1, in terms of Jamaica dollars, at the reporting date, was \$127.77 (2016: \$121.97).

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.

(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.

18. Contingent liabilities

As at March 31, 2017, the Commission is contingently liable in respect of the following lawsuits filed against the Commission:

(a) An action commenced on July 18, 2013 in the Supreme Court against the Commission and former employees. The Claimants sought general damages and aggravated damages against the Commission for libel, slander, fraudulent and illegal misrepresentation and unlawful interference with business.

An application to strike out the claim was filed by the Defendants and the application first came up for hearing in Chambers on October 27, 2015 when it was adjourned to May 31, 2016. When the matter was subsequently heard in Chambers on May 31, 2016 and November 18, 2016, the court granted several orders. Chief among them was an award for costs in the Commission's favour in the amount of 30% of the costs regarding its application for court order. These costs are limited to those regarding one counsel and are to be agreed by the parties. If not agreed, the costs will be subject to assessment by the court. The estimated amount of the award to the Commission is one million five hundred thousand dollars (JMD\$1,500,000). This amount has not yet been paid to the Commission. It is expected that full legal cost will be five million dollars (JMD\$5,000,000). A provision of three million five hundred dollars (JMD\$3,500,000) has been made for legal costs.



Notes to the Financial Statements (Continued) Year ended March 31, 2017

18. Contingent liabilities (cont'd)

(b) The Commission was joined as a defendant in a suit brought against the Claimant's insurer and insurance broker for liquidated damages, interest and damages for breach of contract, breach of statutory duty and negligence.

The matter has not been pursued by the Claimant since 2012 and will soon become statute barred. However, if the matter were to proceed, the Commission believes that the Claimant will not be successful in his claim. Nevertheless, in the event that the Claimant is successful, the Commission is of the view that it will be liable to pay costs of approximately one million five hundred thousand dollars (JMD\$1,500,000).

(c) The Claimants filed a Notice of Appeal in the Supreme Court of Jamaica contesting Cease and Desist Orders issued by the Commission. The challenges were premised on both procedural and substantive grounds. The appeal was heard in June 2011 and the Commission awaits the judgment of the Court.

A provision of two million five hundred thousand dollars (JMD\$2,500,000) has been made. However, this is an estimate, as the Commission is unable to project the value of a possible award of damages or costs at this stage of the matter.

(d) A matter went before the Privy Council from a judgment of the Court of Appeal made in the Commission's favour.

The Privy Council made an award of costs in the Commission's favour. Of the amount awarded three million five hundred and fifty seven thousand and five dollars and forty-eight cents (JMD\$3,557,005.48) remains outstanding and payable to the Commission.

(e) During the temporary management of a Securities Dealer, a number of creditors filed claims against that Dealer for damages for breach of contract. The Commission, as Temporary Manager, obtained an Order staying those claims.

A creditor of the Dealer successfully applied to the Court to lift the stay on the basis that monies paid to the Dealer were held on trust for it. The Supreme Court found in the creditor's favour.

The Commission filed an appeal against this decision. The appeal was subsequently withdrawn with costs to be taxed if not agreed.

The creditor has not pursued costs in this matter, which will shortly become statute-barred. In the event that the creditor pursues recovery of costs, the Commission estimates that it will be in the sum of nine hundred thousand dollars (JMD\$900,000).

FOR THE YEAR ENDED MARCH 31, 2017

Notes to the Financial Statements (Continued) Year ended March 31, 2017

18. Contingent liabilities (cont'd)

- (f) Another matter was filed, which concerns an application to the court for rectification of the constitutive documents of a pension plan. The matter was heard on October 20, 2016. The finding was not adverse to the Commission. There was no order for costs against the Commission. The Commission was represented by in-house counsel and did not therefore have to pay external counsel fees.
- (g) The Commission was joined in another matter as an interested party. The matter concerns the application of surplus and was heard in Quarter 3 and Quarter 4 of the 2016/2017 Financial Year. As the Commission is not a direct party to this matter, its costs will be limited to those for the engagement of external counsel. This is estimated as one million dollars (JMD\$1,000,000).
- (h) An appeal was filed against the decision of the Commission issued under the Securities Act. It is estimated that the fees will not exceed two million dollars (JMD\$2,000,000).

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.

19. Related party balances and transactions

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

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

	2017 \$	<u>2016</u> \$
Accounts payable: Trade and other payables - Commissioners	388,500	204,750
Employee benefits – other key management	18,580,120	19,562,464



FOR THE YEAR ENDED MARCH 31, 2017

Notes to the Financial Statements (Continued) Year ended March 31, 2017

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

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

parties, incurred in the ordinary course of business.	<u>2017</u> \$	<u>2016</u> \$
Key Management Personnel compensation:		
Commissioners' fees	2,116,245	2,689,518
Salaries	88,964,696	87,711,228
Gratuity	12,630,893	19,315,241
Pension contributions	197,201	187,296

20. Allocation to the Government of Jamaica Consolidated Fund

Self- financing Public Bodies are required to provide for the payment of financial distribution based on the criteria outlined in Regulations 2-18 of the Public Bodies Regulations 2015. Public Bodies are therefore expected to provide distributions of 5-10% of surplus to be transferred to the Consolidation Fund

As at the reporting date, the Commission upon request from the Ministry of Finance and Planning remitted \$Nil (2016: \$15,600,000) to the Accountant General's Department. However a provision of \$4.31 million was accounted for in the financial statements, which represents the distribution approved by the Board of Commissioners in the budget for the financial year 2016/17. This amount will be remitted in September 2017 as requested by the Accountant Generals Department.







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