

Promoting **Integrity**
in Jamaica's Financial Sector

2011-2012
Annual **REPORT**



VISION

To be a strong, credible, impartial and effective regulator

MISSION

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

CORE VALUES

Accountability

Service

Communication

Integrity

Confidentiality

Teamwork

Excellence

Transparency

STATUTORY DUTIES

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

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

July 31, 2012

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

Dear Minister:

In accordance with Section 13(1) of the Financial Services Commission Act, 2001, I have the honour to submit to you the Annual Report of the Financial Services Commission for the Financial Year 2011/2012 and a copy of the Commission's Accounts as at March 31, 2012, duly certified by its Auditors.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'Colin Bullock', is written over a horizontal line.

Colin Bullock
Chairman,
Financial Services Commission

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MESSAGE FROM THE CHAIRMAN

This Annual Report, which reviews the regulatory developments and financial performance of the Financial Services Commission in the 2011-2012 fiscal year, comes in the same calendar year that Jamaica will be celebrating its Golden Jubilee. Since its independence, Jamaica, like much of the world, has and will continue to confront tremendous adversities. Nevertheless, during its first fifty years, Jamaica has seen tremendous developments in many spheres. To name a few -- road infrastructure, water, electricity, communications, tourism, entertainment and sports. Equally important, there have been remarkable improvements in the regulation and supervision of financial services.

With regard to the regulation and supervision of non-banking financial services such as insurance, securities and pensions, Jamaicans can be proud that Jamaica is seen as a trailblazer in the Caribbean. More important than any accolade are the economic benefits and savings that are derived from financial regulation when financial crisis is prevented or effectively and timely contained. Recent examples of preventing and containing financial distress are as follows:

- While financial markets in the Caribbean were rocked by the collapse of Colonial Life Insurance Company Limited (CLICO) group, Jamaica has

not been affected as the strengthening of its regulatory framework for non-banking financial services has been credited with dissuading Colonial Life Insurance Company Limited (CLICO) from establishing a subsidiary in Jamaica;

- The Jamaican financial sector remained intact amid the international financial crisis even when the overseas parent companies of financial services entities licensed in Jamaica were significantly affected;
- With effective communication and collaboration among the Ministry of Finance and Planning (MOFP), Jamaica Deposit Insurance Corporation (JDIC), Bank of Jamaica (BOJ) and the Financial Services Commission (FSC), liquidity risk arising from margin calls, during the height of the global financial crisis, were controlled and eliminated; and
- Due to intervention of the FSC and other government agencies, the absolute economic and social dislocation caused by Ponzi schemes as seen in Albania and other countries never materialised in Jamaica.

Jamaica's Golden Jubilee is not only a celebration of our accomplishments through our hard work, talent and creativity; it is also a testimony of our

commitment to greater achievements over the next fifty years. The attractiveness of Jamaica as a place to live and do business is dependent on the stability of the financial system and the confidence with which entities with financial surpluses can repose in the financial system. Here at the FSC, we have developed corporate strategic objectives for the next three years which upon achievement will offer greater protection to customers.

In the 2012-2013 fiscal year, the FSC through the MOFP will continue to undertake the necessary steps to amend the Securities Act in order to meet the requirements to achieve Signatory "A" status to the International Organization of Securities Commissions (IOSCO) Memorandum of Understanding. Attaining this status will demonstrate Jamaica's commitment to the world to offer investor protection in accordance with global standards and will result in the added benefit of our financial market and the business environment being more attractive to global investors. Another legislative target which will assist in making the Jamaica the place of choice to do business is the development of a comprehensive framework for the regulation of Collective Investment Schemes (CIS). The aim of this framework is to not only focus on mutual funds, but to also enable the securities industry

to accommodate a wider range of pooled funds such as hedge funds and private equity funds for more sophisticated investors. The last, but certainly not least, is the FSC's public education campaign through a wide range of media initiatives aimed at empowering all our stakeholders. This is critical, as one of the best ways of protecting users of financial services is to empower them with education. The FSC's financial education programme complements Vision 2030's strategy of empowering Jamaicans to achieve their fullest potential.

I must express my sincere appreciation to the management and staff for their hard work and professionalism in a challenging year. In particular I would like to thank to Mr Rohan Barnett, former Executive Director, for his sterling contribution over the past three years. The Board of Commissioners is driven by a keen understanding of the fundamental social and economic importance of the Financial Services Commission and is committed to supporting its mission.

To our many licensees and registrants, to the customers of financial entities and other stakeholders within government and without, I express the FSC's appreciation for the feedback and other forms of interest shown in our regulatory activities. We look forward to working with you all for the benefit of Jamaica in the coming years.



Colin Bullock
Chairman,
Financial Services Commission

BOARD OF COMMISSIONERS



Chairman Colin Bullock

Colin Bullock attended the University of the West Indies from 1969 to 1974 earning BSc. and MSc. degrees in Economics. He has lectured in the Department of Economics from 1974 to 1986 and from 2008 to the present.

He joined the Bank of Jamaica in 1986 as Director. He served as Deputy Governor, Research and Economic Programming from 1996 to 2005 and concurrently as Deputy Governor with responsibility for Banking and Market Operations from 1998 to 2005.

He was seconded from Bank of Jamaica to Ministry of Finance to serve as Financial Secretary from 2005 to 2008. He also served as a member of the Government of Jamaica's team for external economic negotiations from 1986 to 2008 and on several occasions acted as team leader. His external interface included the IMF and other multilateral financial institutions, central banks, credit rating agencies and investment banks and brokerage houses.

Having served on boards including the Bank of Jamaica, the Planning Institute of Jamaica and the Statistical Institute of Jamaica, he

was appointed by the Minister of Finance as Chairman of the Board of Commissioners at the Financial Services Commission effective March 2012. He also serves as an economic advisor to the Minister of Finance.



Mr Winston Hayden

Winston Hayden is the Managing Director of Clarendon Alumina Production (CAP) and has been CAP's General Manager since October 2002.

Winston Hayden holds the Master of Business Administration (MBA) with distinction and the Bachelor of Science (Professional Management) degrees from Nova University, a Diploma in Computer Programming from the Career Training Institute (Boston, Massachusetts) and has had specialized training in Financial Analysis, Systems Design, Programming Management, Executive Solutions, Disaster Management and Planning, Commodity Risk Management and Life Office Management

He has been a corporate executive, financial manager, systems analyst and business consultant with more than thirty years experience in public

and private sector management, organization development, business analysis, design and structuring of organisations, investment management and project management.

He has chaired the Micro Investment Development Agency and served on the boards of several publicly and privately owned entities, including The Agricultural Credit Bank (now incorporated in The Development Bank of Jamaica), The Civil Aviation Authority of Jamaica, The Petroleum Corporation of Jamaica, Fiscal Services Limited, The Revenue Board, Container Services Ltd, Digital Computer Systems, The National Health Fund, Things Jamaican Limited, The Health Corporation Limited, The Southern Regional Health Authority, Clarendon Lime Company and The Betting Gaming and Lotteries Commission.



Justice Karl Harrison

Mr. Justice Karl Harrison CD graduated from the Norman Manley Law School in 1976 and joined the staff of the Attorney General's Department. He worked there for five years and left as Assistant Attorney-General to act

as a Resident Magistrate.

He was appointed as a Resident Magistrate in 1983, the first Norman Manley Law School graduate to be so appointed. In November 1987 he was named Acting Registrar of the Supreme Court and was subsequently appointed in the post. He was later appointed Master in Chambers

Justice Harrison gained the distinction in 1996 of being the first graduate of the Norman Manley Law School to be appointed to the Supreme Court bench. He has again gained distinction as the first Norman Manley Law School graduate to be appointed to act on the Court of Appeal bench.

He was appointed as a Judge of the Court of Appeal in 2005. He also served as acting judge of the Grand Court, Cayman Islands.

He is presently a consultant to Harrison & Harrison Attorney-at-law, a Commissioner of the Corruption Prevention Commission and the Chairman of the Criminal Records Board.

His publications include **Harrisons' Law Notes** (Caribbean Law Publishers), **Harrison on Personal Injury Claims** (1997), **Harrisons' Assessment of Damages - Personal and Fatal Accident Claims**, and **The Practitioner's Handbook on Fees and Costs**.



Mrs Diahann Gordon-Harrison

For the past eleven (11) years since graduating from the Norman Manley Law School and having been called to the Bar in Jamaica, Mrs Gordon-Harrison has practiced at the Public Bar. Her first experience was as a prosecutor in the Resident Magistrate's Court with specific assignment to the parish of Saint Ann. After completing her tenure of two and a half (2 ½) years in that position, she went on to the Office of the Director of Public Prosecutions where she assumed her entry level post as Acting Crown Counsel.

As Counsel for the Crown, Mrs Gordon-Harrison had the opportunity to prosecute all major offences in the several courts of Jamaica, both at the Magistracy and Supreme/High Court levels. In this capacity, she interfaced with many children who were either the victims of, or witnesses to serious crimes (ranging from sexual abuse and physical assault to murder).

At the Office of the Director of Public Prosecutions she assumed supervisory/managerial roles along with her prosecutorial duties.

In January 2012, Mrs Gordon-Harrison

was appointed Jamaica's second Children's Advocate, charged with the responsibility of safeguarding and advancing the best interests and the rights of the children, reviewing policies and laws that may impact upon children and making recommendations to Parliament as necessary on matters of this nature.



Mr Erwin Jones

Mr Erwin Jones is a graduate of the University of the West Indies who has over 36 years of experience as a civil engineer. He has supervised numerous major projects including the (i) construction of the Ocho Rios Cruise Ship Pier (ii) construction of the Oracabessa Sea Wall and Land Reclamation and (iii) Design and Construction of the Black River Upper Morass Drainage Project and Land Reclamation.

As a Director of Fastrak Construction Engineers Company Limited, he had responsibility for projects such as the Alpart Cable Belt Conveyor Installation and Mines Maintenance Complex, South Manchester and the Tropicana Ethanol Plant.

As the Operations Manager of Tropicana International Limited, he was responsible for the development of the first Caribbean Basin

Initiative (CBI) Ethanol Project. As Managing Director of Jamaica Ethanol Processing Ltd., successors of Tropicana International Ltd., he served for a combined twenty-five year engagement.

Mr Jones has served as Chairman of the Boards of Petrojam Limited, Hotel and Spa and Dunoon Technical High School and member on many boards including the National Investment Bank of Jamaica, Bath, Shortwood Teachers College, and the National Energy Council.



Mrs Donna Scott-Mottley

Mrs Scott-Mottley graduated from the Faculty of law at the University of West Indies, Cave Hall, Barbados. She also holds a Certificate of Legal Education from the Norman Manley Law School, University of the West Indies, Mona, Jamaica and a Diploma in Crisis Management from the U.S. State Department. She has been practicing law in Jamaica for more than twenty-four years.

Mrs. Scott-Mottley is highly skilled in litigation and conveyancing and is regarded as a leading expert on Caribbean Heritage and Cultural Legislation and has ably served as a consultant and advisor to the United Nations Educational Scientific and

Cultural Organization (UNESCO) and also to the Governments of Jamaica, Dominica, Grenada and Guyana.

In 2007 she was the recipient of the prestigious Musgrave Medal (Silver) for distinguished service to the development of culture through legal skills.

Until recently she was Chairman of the National Land Agency Advisory Board and President of the Southern Bar Association of Jamaica. Mrs. Scott-Mottley is also a member of the General Legal Council and a former member of the Board of Directors of the Jamaica Mortgage Bank and the Statistical Institute of Jamaica



Mr Michael Vaccianna

Mr Michael Vaccianna is a senior partner in the law firm Vaccianna & Whittingham. He has over thirty three (33) years standing at the Jamaican Bar and holds a LL.B. degree from the University of the West Indies and a Certificate in Legal Education from the Norman Manley Law School in Jamaica.

He has had extensive experience in corporate and commercial matters, primarily in project development and financing, mining and energy, mergers and acquisitions, banking and finance, and international trade. Mr. Vaccianna

is well known for his expertise in the energy and electricity sectors and has represented independent power producers and provided legal advice in the development of regulations for the electricity sector and the drafting of electricity licences. He has actively participated in the negotiation and structuring of large financing packages for infrastructure projects for the energy, sugar, hotel, transportation and alumina industries, including securitization transactions, on behalf of borrower and lender. He has also participated in the negotiation and preparation of bauxite, alumina and fuel supply agreements. He has collaborated extensively with a number of major foreign law firms by providing advice on Jamaican law in diverse corporate and commercial matters.

He is a member of the Jamaican Bar Association and Associate Member of the American Bar Association. He serves as the Chairman of the Hotel Four Seasons and the Board of Management of Kingston College.

EXECUTIVE MANAGEMENT



Left to Right: Janet Johnson-Haughton – Director, Compliance & Internal Control, Nicolette Jenez – Senior Director, Pensions, Shelia Martin – Senior Director, Corporate Services, Leon Anderson – Executive Director (Acting), Loretta Reid-Pitt – General Counsel, Angela Beckford – Chief Actuary, Sonia Nicholson – Senior Director Securities, Lorice Edwards-Brown – Director, Investigations & Enforcement,

CORPORATE GOVERNANCE

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

The fifth committee is the Finance and Audit Committee and its objective is to consider, recommend and report on all matters relating to the financial affairs of the FSC including the monthly and annual financial statements and the annual budget. This Committee also reviews and recommends the fee structure for the regulatory services provided by the FSC. The members of each committee and the number of meetings held are shown in Tables 1 & 2 respectively.^{1 2} Tables 45 and 46 on page 48 provide information on the remuneration paid to Commissioners and the Management Team.

Table 1: Composition of the Board Committees, 2012

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

Five committees of the Board have been established to ensure full coverage with the appropriate depth of review of all matters within its purview. Three of these five committees – namely the Securities, Insurance and Pensions Committees - provide oversight and guidance with respect to supervision and regulation of the respective industries. The Human Resources and Administration Committee has the responsibility to consider, recommend and report on all matters relating to staff, including salaries and benefits, personnel policies and procedures, management information systems, procurement, contracts, accommodation and other administrative issues.

Table 2: Number of Board and Committee Meetings Held in 2011/2012

Committee	Number of Meetings
Full Board	21
Securities	16
Insurance	10
Pension	16
Human Resources & Administration	9
Finance & Audit	7

- ¹ The Executive Director is a member of all of the Board Committees, save and except the Finance & Audit Committee, where he serves as an observer. The names in this table represent the current Board of Commissioners as the previous Board resigned in early 2012. The former Board of Commissioners comprised of Emil George (Chairman), Dayle Blair, Dennis Boothe, Roald Henriques, David Tennant, Shirley Williams and Peter Wilson.
- ² These meetings were held by the former Board of Commissioners before they resigned.

EXECUTIVE DIRECTOR'S MESSAGE



The 2011-2012 fiscal year was one of uncertainties and challenges emanating from a number of global and local factors including (i) the persistent euro-zone debt crisis, (ii) inflationary pressures from oil prices with on-going tensions in the Middle East and (iii) the impasse surrounding the medium term economic programme and the standby agreement with the International Monetary Fund (IMF). Despite these challenges, the Jamaican economy grew for four consecutive quarters of the 2011-2012 fiscal year and the non-banking financial industry continued to be profitable and sound.

During the year, the FSC maintained a singular focus to efficiently discharge our duties as mandated in Section 6 of the Financial Services Commission Act 2001. This was considered to be of utmost priority as we aimed to deliver a high level of financial supervision and regulation to protect users in the insurance, securities and private pension industries.

In supervising and regulating the three industries, amendments to legislations were proposed while bulletins and guidelines were issued. The FSC examined annual and interim financial statements of registrants and licensees, in addition to conducting onsite examinations. Where it was necessary, the FSC employed various enforcement tools against regulated entities that had violated the relevant Acts and Regulations.

In order to promote the adoption of procedures designed to control and manage risk, a number of initiatives were undertaken. In addition to the Minimum Capital Test (MCT) replacing the Minimum Assets Test, significant work was done in drafting stress-testing regulations for insurance

companies and designing measures to enhance the prudential regulation of the securities industry.

Public education has and will continue to be a critical component of any regulatory framework and so we engaged our stakeholders and the wider public in a broad range of public initiatives designed to promote (i) informed financial behaviour, (ii) confidence in the FSC-regulated financial service sector, and (iii) understanding in the operations of regulated entities.

During the past twelve months, the FSC devoted resources to (i) strengthen relationships with other regulators and international standard-setting institutions and (ii) train staff. This was consistent with the FSC's objectives of continuing to enhance its role in regulation in the context of the development and modernization of the local financial market in regard to products, competence, efficiency and competitiveness.

While I have briefly summarised the activities of the FSC in the past fiscal year, the rest of this report will provide more details. I wish to take this opportunity to thank Mr Rohan Barnett for the tremendous work done over the past three years. To the former Board, the management team and the staff I extend my sincere gratitude for their loyalty, dedication and hard work during the year. On behalf of the staff of the FSC, I welcome the new Board of Commissioners which is chaired by Colin Bullock. I look forward to their diligent oversight and unqualified support.

INSURANCE, SECURITIES & PENSIONS

This section of the Annual Report examines the financial condition and performance of the three regulated industries – insurance, securities and pensions during the calendar year 2011. With the Jamaican economy recording a 1.5 per cent growth, the 2011 calendar year represents the first year since 2007 that the Jamaican economy grew and also the first full twelve-month operating period since the Jamaica Debt Exchange (JDX)³ in 2010. Similar to other countries, the growth in the Gross Domestic Product can

earn real returns from money market instruments. The Jamaica Stock Exchange also provided the opportunity for income and wealth generation as both the Main index and Junior index climbed. There were four (4) Initial Public Offerings on the Junior Market and one (1) on the Main index. Investors who had US-dollar denominated assets should have seen an increase in the value of assets as the Jamaica dollar depreciated against the US currency albeit at slower pace than in 2010.

Table 3: Selected Key Macroeconomic Indicators for Jamaica, 2007-2011

Selected Macroeconomic Indicators	31-Dec-07	31-Dec-08	31-Dec-09	31-Dec-10	31-Dec-11
Inflation (per cent)	16.8	16.8	10.2	11.7	6.0
T-Bill Yield (6 mths, end of period) (per cent)	13.3	24.5	16.8	7.5	6.5
JSE Market Index (points)	107,968	80,152	83,322	85,221	92,597
JSE Junior Market Index (points)	0	0	150	379.9	748.9
Mean Unemployment Rate (per cent)	9.8	10.6	11.4	12.4	14.1
Exchange Rate (USD vs. JMD, monthly average)	71.2	76.6	89.6	85.9	86.75
Net Remittance (US\$'M) (end of period)	1,661.10	1,708.10	1,554.50	1,658.10	1,763.60
Net International Reserves (US\$'M) (end of period)	1,877.70	1,772.90	1,736.40	2,171.40	1,966.11

be classified as jobless recovery as the unemployment rate at the end of the year had increased to 14.1 per cent -- higher than the pre-crisis level. While the economy grew, employment in the Finance & Insurance Services Industry⁴ contracted all through the year and 900 jobs were lost. Table 3 depicts the trend in selected key macroeconomic indicators for Jamaica.

Since the JDX, interest rates continued their fall during the year. The benchmark 6-month Treasury Bill declined by one per cent as seen in Table 3. With inflation for the year at 6 per cent, there still existed possibilities for investors to

Aggregate total assets of the regulated Jamaican financial system, as seen in Table 4, continue to grow. The total assets of FSC-regulated institutions⁵ grew nominally by 4.5 per cent.

³ The Jamaica Debt Exchange saw the government gaining the agreement of over 99% of investors to exchange high interest bearing Government of Jamaica bonds for ones that bear lower interest rates and have longer maturities.

⁴ The Finance and Insurance Services Industry is the term used in the Jamaican System of National Accounts by Statistical Institute of Jamaica (STATIN) to identify the finance industry. The term therefore includes industries regulated by both Bank of Jamaica and the FSC.

⁵ In table 4, financial institutions are classified according to their regulatory reporting status as: (a) institutions regulated by the FSC, comprising entities offering services related to insurance, securities and pensions; and (b) deposit-taking institutions, which comprise commercial banks, building societies, merchant banks and credit unions. The data and analysis on FSC-regulated institutions provided in this report do not cover several types of entities that are regulated by the FSC. The entities that are not covered include: individuals licensed as securities dealers, insurance brokers (including, facultative and reinsurance brokers), insurance agents, insurance consultants, insurance loss adjusters, pension fund trustees and pension fund administrators. In table 4, the assets shown are balance sheet figures as reported at the end of the calendar year and do not include pension fund assets. Pension fund assets are part of the funds under management of licensed securities dealers shown in table 20. Securities licensees are characterized as "securities firms" and "non-securities firms". The former group is comprised of licensed securities dealers that engage in securities dealing as a principal activity while the latter group is made up of securities licensees that do not deal in securities as a principal activity, but who are, nevertheless, required to obtain a securities dealer's licence in order to conduct some aspects of their business. Securities firms are defined to include unit trust managers. Non-securities firms include several deposit-taking institutions and to avoid double counting non-securities firms are not shown in this table under "FSC-regulated" institutions. The total asset figures for credit unions are preliminary.

Table 4: Total Assets by Type of Financial Institution, December 2009 – 2011

Types of Financial Institution	Dec-09		Dec-10		Dec-11	
	Assets (\$ Billion)	Percentage of Total Financial System	Assets (\$ Billion)	Percentage of Total Financial System	Assets (\$ Billion)	Percentage of Total Financial System
FSC-Regulated Institutions						
Life Insurers	153.9	10.1	174.8	11.3	191.4	11.8
General Insurers	44.7	2.9	47.9	3.1	50.1	3.1
Securities Firms	512.2	33.7	489.4	31.5	502.7	31.1
Sub-Total	710.8	46.8	712.1	45.8	744.2	46.0
Deposit-Taking Institutions:						
Banks	583.1	38.4	589.7	38.0	601.0	37.2
Building Societies	135.8	8.9	167.8	10.8	185.4	11.5
Merchant Banks	31.8	2.1	23.0	1.5	20.0	1.2
Credit Unions	56.6	3.7	60.8	3.9	66.8	4.1
Sub-Total	807.3	53.2	841.3	54.2	873.1	54.0
TOTAL	1,518.1	100.0	1,553.4	100.0	1,617.3	100.0

Source: Data compiled by Bank of Jamaica, Jamaica Co-operative Credit Union League and the FSC

GENERAL INSURANCE COMPANIES

At the end of the 2011 calendar year, there were ten (10) active general insurance companies, the same number that operated in the previous year.⁶ In 2011, general insurers employed on a full time basis 1,185 persons (2010: 1,194) and had written 335,262 policies with an accumulated sum insured of \$2,131.3 billion. Table 5 shows the number of policies by class, while Table 6 shows the gross premium written⁷ ("GPW") by class of business and Table 7 displays the GPW by each company.

Table 5: Number of Policies by Class of Business

Class of Business	2009 ^A	2010 ^A	2011 ^A
	No. of Policies by Class		
Liability	7,412	6,634	6,977
Property	49,572	43,108	47,966
Motor	286,716	264,143	271,637
Pecuniary Loss	1,466	6,932	6,739
Marine Aviation & Transport	242	276	269
Accident	3,314	1,792	1,674
Total	349,640	322,885	335,262

Table 6: GPW by Class of Business, 2009-2011

Class of Business	2009 ^A	2010 ^A	2011 ^A
	\$' Millions		
Liability	935.4	971.5	1,114.9
Property	11,552.4	12,389.4	12,709.6
Motor	11,449.3	12,075.2	13,246.4
Pecuniary Loss	165.2	188.4	184.6
Marine Aviation & Transport	237.7	314.8	333.3
Accident	154.5	163.9	168.3
Total	24,494.5	26,103.2	27,757.0

⁶ From late 2009, Island Heritage Insurance Company ("IHIC") decided to enter into a run-off mode where it did not underwrite or assume any new risk and did not enter into any renewal contracts, but it continued to service its existing policyholders until the insurance policies expired and all claims have been settled. Having completed its run-off mode, it voluntarily cancelled its registration effective 2011, April 4.

⁷ Gross Premium Written ("GPW") is the sum of gross direct premiums written and reinsurance assumed.

**Table 7: Gross Premiums Written,
December 2009 - 2011**

Name of Insurance Company	Gross Premium Written (\$ ' M)		
	2009 ^A	2010 ^A	2011 ^A
Advantage General Insurance Company	4,609.6	4,940.9	4,762.5
American Home Assurance Company	1,223.9	1,318.5	1,410.8
British Caribbean Insurance Company	1,943.3	2,654.5	2,738.5
General Accident Insurance Company	1,683.9	2,203.1	3,626.4
Globe Insurance Company of the West Indies	2,412.2	2,555.0	2,448.5
The Insurance Company of the West Indies	2,119.8	2,110.5	2,541.7
Jamaica International Insurance Company	3,612.6	4,377.6	3,777.6
Key Insurance Company	598.0	575.1	673.2
NEM Insurance Company	3,137.2	2,946.1	2,763.9
Victoria Mutual Insurance Company	832.8	-	-
West Indies Alliance Insurance Company	2,321.1	2,421.7	3,101.8
Total	24,494.4	26,103.2	27,844.90

Notes: 1: Gross premium written is the total of gross direct premium written and reinsurance assumed. A: Audited data.

Table 8: Selected Key Indicators for General Insurance Companies, 2009 – 2011

Selected Indicators	2009 ^A	2010 ^A	2011 ^A
	\$' Billions		
Total Assets	44.9	47.9	50.1
Investment Assets	29.6	32.5	34.4
Insurance Liabilities	26	27.0	28.2
Total Liabilities	29	29.7	31.7
Capital Base ⁸	14.4	16.2	18.2

⁸ The capital base shown in this table includes capital, retained earnings, investment and capital reserves. The capital displayed in the above table is the statutory or regulatory capital. It excludes certain forms of capital. As a result, capital base plus total liabilities will not be equal to total assets.

Table 8 shows the trend in key balance-sheet indicators for these active companies. Table 9 shows the main categories of revenue and expense for the general insurance companies. All three main income categories – net premium income, net investment income and other income grew in 2011; consequently, aggregate total revenue increased by \$2.2 billion or 15.3 per cent to \$17.2 billion (2010: \$14.9 billion). The growth in total revenue was driven mainly by the increase in both net investment income and other income. Of the \$3.9 billion net investment income, \$1.4 billion came from one-off realised gains as two companies disposed of significant holdings in shares in related companies in order to be compliant with the Insurance Act 2001 and the attendant Regulations. For other income, the two main contributors were the disposal of assets and foreign exchange gains. The disposal of land, building and subsidiary contributed \$157 million while another \$71 million was due to gains on currency translation as the Jamaican currency depreciated against the US currency.

A welcome development and another significant contributor to the profitability of general insurance companies is the improvement in underwriting practices. Most of the companies have now moved away from the strategy of under-pricing in order to attain greater growth in gross premium written and market share. They have reassessed their underwriting practices and implemented strategies to focus on net income growth by, among other things, improving the profiling and pricing of risks to ensure that premiums adequately cover claims and operating expenses. Furthermore, some companies, in their underwriting assessment, have elected to specialise, limit or even cease their participation in certain insurance classes of business. The transformation in their strategies has reaped some benefits.

Table 9 also shows that companies are successfully managing their underwriting expenses and are now earning underwriting profits; that is, profits from their core business. Acquisition expenses for the industry decreased significantly as the industry continued to cede more insurance business to overseas reinsurers and hence commission received was greater than commission paid to local insurance agents and brokers.

Table 10 shows aggregate claims by class of business while Table 11 exhibits the claims ratios for the industry by the class of business. As seen in Table 11. The industry's claims ratios improved from 78.5 per cent in 2009 to 55.1 per cent in 2011.

Table 9: Combined Summary of Operations, 2009-2011

Main Income & Expense Categories	2009 ^A	2010 ^A	2011 ^A
	\$' Millions		
Underwriting Income (NPE)	12,150.2	12,220.0	12,982.5
Less Underwriting Expenses of which	14,622.0	12,920.8	12,207.2
Acquisition Expenses	52.6	(297.0)	(678.9)
Operating Expenses	4,984.4	5,134.7	5,749.5
Claims	9,535.9	8,169.9	7,146.5
Other	49.1	(86.8)	(9.9)
Underwriting Profit/(Loss)	(2,471.8)	(700.8)	775.3
Plus Net Investment Income	3,902.4	2,774.9	3,883.4
Plus Other Income	716.5	(22.8)	319.3
Profit before Taxes	2,147.1	2,051.3	4,978.0
Less Taxes	489.4	691.1	1,193.4
Net Profit after Taxes	1,657.7	1,360.2	3,784.6

Table 10: Aggregate Claims by Class of Business, 2009-2011

Class of Business	2009 ^A	2010 ^A	2011 ^A
	\$' Millions		
Liability	634.6	320.6	674.3
Property	283.9	149.5	173.6
Motor	8,589.7	7,656.4	6,235.3
Pecuniary Loss	11.4	21.1	35.6
Marine Aviation & Transport	7.2	12.6	8.3
Accident	9.0	9.6	19.4
Total	9,535.9	8,169.9	7,146.5

Table 11: Industry's Claims Ratios by Class of Business, 2009-2011

Class of Business	2009 ^A	2010 ^A	2011 ^A
	Percentage		
Liability	88.8	47.1	96.1
Property	51.5	19.3	44.3
Motor	80.6	72.4	54.2
Pecuniary Loss	16.6	22.8	40.4
Marine Aviation & Transport	10.0	13.5	8.2
Accident	10.1	-185.0	9.9
Industry's Claims Ratios	78.5	66.9	55.1

Capital

In 2010, a 100 per cent risk weighting was introduced for all GOJ instruments denominated in foreign currency; this translated to a risk factor of 10 per cent. This regime was implemented over eight quarters, commencing with a weighting of 12.5 per cent (risk factor of 1.25 per cent) in June 2010 and increasing by 12.5 per cent in each subsequent quarter until March 31, 2012. At the end of December 31, 2011, this risk-weighted adjustment resulted in 8.75 per cent of the total value of all GOJ securities denominated in foreign currency being held as capital. Despite dividend payments amounting to \$3.1 billion, the regulatory capital base of the general insurance companies grew by 12.2 per cent to \$18.2 billion.

The weighted average MCT ratio for these companies at the end of 2011 December was 313.18 per cent (2010 December: 273.74 per cent), which exceeded the prescribed capital required of 200 per cent and indicated that the companies on a whole have three times the amount of capital required based on an assessment of the level of risk embodied in the asset and liability profile of the companies.

LIFE INSURANCE COMPANIES

While JN Life was registered during 2011, there were still five (5) active life insurers at the end of the calendar year 2011, the same number as in 2010. At the end of the year, there were 1,406 full-time employees at the five active companies (2010: 1,414). Table 12 displays some key balance-sheet indicators. Table 13 shows the GPW by each company while Table 14 shows the GPW by class of business.

Table 12: Selected Key Indicators⁹ for the Life Insurance Companies, 2009 - 2011

Selected Indicators	2009 ^A	2010 ^A	2011 ^A
	\$' Billions		
Total Assets	153.3	175.8	191.4
Investment Assets	133.9	150.2	161.6
Insurance Liabilities	31.1	35.2	54.2
Total Liabilities	113.8	121.9	137.2
Capital Base ⁹	38.9	53.5	54.2

Table 13: GPW, 2009 – 2011

Name of Insurance Company	Gross Premium Written (\$ ' M)		
	2009 ^A	2010 ^A	2011 ^A
Cuna Mutual Insurance Society	971.9	1,140.2	1,241.9
Guardian Life Insurance Company	6,439.1	7,510.1	7,505.0
NCB Insurance Company	478.6	1,273.4	2,455.9
Sagicor Life Insurance Company	15,597.6	15,321.8	17,898.8
Scotia Life Insurance Company	769.6	1,060.5	1,361.5
Total GPW	24,256.8	26,306.0	30,463.1

Table 14: GPW by Class of Business, 2009-2011

Line of Business	2009 ^A	2010 ^A	2011 ^A
	\$' Billions		
Life Insurance	12.7	14.2	16.0
Annuity	3.9	3.3	5.5
Sickness & Health	7.7	8.7	9.0
Total	24.3	26.3	30.5

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

Profitability

Table 15 shows the main categories of revenue and expenses for the life insurance industry. Aggregate net income after tax in 2011 exceeded that of 2010 by 14 per cent. Collectively, the life insurance companies were able to generate 66 per cent growth in the annuities line of business; see Table 14. The industry continued to be negatively affected by the fall in market interest rates which saw the average yield on the 182-day Treasury Bill moving from 9.3 per cent in the comparative period to 6.6 per cent in the current period; combined net investment income fell by 5.7 per cent in 2011.

Table 15: Combined Summary of Operations, 2009-2011

Main Income & Expense Categories	2009 ^A	2010 ^A	2011 ^A
	\$' Millions		
Total Revenue	46,764.3	44,779.6	48,431.0
of which			
NPE	23,826.1	25,752.2	30,028.7
Net Investment Income	20,445.2	16,755.1	15,792.4
Other Income	2,493.0	2,272.3	2,609.9
Total Expenses	36,966.7	35,136.1	37,440.7
of which			
Taxes	964.0	743.3	621.3
Operating Expenses	23,921.9	21,722.6	22,745.4
Policy Benefits	12,080.8	12,670.2	14,074.0
After-tax Income	9,797.6	9,643.5	10,990.3

Table 16: Aggregate Policy Benefits, 2009-2011

Policy Benefits	2009 ^A	2010 ^A	2011 ^A
	\$ 'Millions		
Claims:	8,920.6	9,190.5	10,019.6
of Which:			
Sickness & Health	6,275.9	6,363.9	7,151.0
Death Claims	2,559.9	2,732.9	2,775.0
Accidental Death Claims	-	-	-
Disability Claims	23.6	19.1	16.6
Matured Endowments	61.2	74.7	76.9
Annuity Payments	1,797.0	1,990.3	2,462.2
Surrender Values	1,072.9	1,106.4	1,133.2
Other	290.3	383.0	459.0
Total Policy Benefits	12,080.8	12,670.2	14,074.0

Capital

In 2011, the aggregate capital base grew by only 1.1 per cent to \$54.1 billion; this slowdown in growth was due to a first-time extra-ordinary payment of dividend by one of the insurance companies. For the life insurance companies, regulatory capital adequacy is assessed using the Minimum Continuing Capital and Surplus Requirement ("MCCSR").¹⁰ At the end of 2011, the weighted average MCCSR for the life insurance sector stood at 470.58 per cent. This amount is less than the weighted average MCCSR of 909.4 per cent recorded in 2010 due to payments of dividends; however, the 470.58 per cent significantly exceeds the regulatory benchmark of 150 per cent. Therefore the industry's capital base is 4.7 times the amount of capital required based on the on an assessment of the level of risk embodied in the asset and liability profile of the companies.

THE SECURITIES INDUSTRY PERFORMANCE 2011

Overview

Despite turbulence which existed in global financial markets, with the uncertainty that prevailed in the United States as well as the Eurozone debt crisis, the year ended December 31, 2011 was relatively stable for the securities industry in Jamaica compared with the previous three years. The FSC continued to strengthen its prudential regulation of securities licensees, particularly where credit and market risk exposures were concerned. As a result, new capital requirements, which were aimed at creating a more resilient securities industry, were adopted.

The JDX adversely impacted firms' income statements as both interest income and interest expenses declined. Consequently, the JDX will also affect the future expected cash flows for all the firms. It is expected that firms within the securities industry will seek greater diversification of their investment portfolios as more investment opportunities arise in the market.

Structure of the Industry

As at 2011 December 31, forty-eight (48) firms were licensed under the Securities Act (2001) ("Securities Act") and Regulations. The intermediaries in the securities

¹⁰ In assessing the adequacy of capital in relation to liabilities, the FSC relies on the Minimum Continuing Capital and Surplus Requirement ("MCCSR"). The MCCSR is a risk-based solvency test which determines the capital required based on an assessment of the level of risk embodied in the asset and liability profile of a life insurance company.

industry are categorized into two main groups: securities firms and non-securities firms.¹¹ During the year, the Gleaner Company surrendered its dealer's licence, while CCU Investments Limited was granted a licence. The securities dealers' licences of Intertrade Finance Corporation Limited (Temporary Management) and UGI Finance & Investments Limited (In Liquidation) have been suspended. (Table 17)

Table 17: Number of Securities Dealers by Type of Licensee, 2009-2011

Institution Type	Number of Licensees		
	2009	2010 ^R	2011
Securities Dealers	29	30	31
Unit Trust Management Companies	4	3	3
Merchant Banks	1	1	1
Insurance Companies	3	3	3
Commercial Banks & Building Societies	2	2	2
Others	9	9	8
Total	48	48	48

R: Revised

Securities intermediaries are licensed to engage in securities activities which fall under the Securities Act's definition of a security. These activities include, but are not restricted to: stock brokering, investment advisory services as well as trading in equities, bonds and commercial paper. The major players in the market are engaged in high levels of balance sheet intermediation by way of offering "Repos"¹² to their clients. Repo liabilities account for 58 per cent of the total funds under management ("FUM"). Many firms have also acquired cambio licences from the BOJ and are involved in foreign exchange trading.

Securities firms represent 59 per cent of the total market based on total assets; nevertheless, they manage 78 per cent of FUM. The following review concentrates on this group.

¹¹ The securities firms as classified, include securities dealers which are those licensed dealers engaged in securities dealing as a principal activity; as well as Unit Trust Management Companies. The non-securities firms are those dealers that do not deal in securities as a principal activity, but who are required to obtain a securities dealer's licence in order to conduct some aspect of their business.

¹² "Repurchase agreement" or "Repo" means an agreement between a seller and a buyer whereby the seller agrees to repurchase and the buyer agrees to resell the securities sold, at an agreed upon price and at a stated date and shall include certificates of participation ("COP") where EITHER the contractual interest payment or principal repayment date or dates of the COP is or are not identical to the contractual interest payment and principal repayment date or dates, respectively, of the security being participated, OR any investor in the COP has been paid interest or repaid all or part of his or her principal investment on a date that is not a contractual interest payment or principal repayment date, respectively, of the security being participated.

Performance of Securities Firms, 2011

At the end of 2011 total assets stood at \$503 billion; this represents a 3 per cent increase over the year ended December 31, 2010. Securities firms have also recorded a similar rise in the total FUM during the review period. FUM increased by 3 per cent over December 2010 and stood at \$653 billion. Capital positions, which strengthened during the review period, grew by 11 per cent to \$69.3 billion (2010: \$62.5 billion). The margin calls experienced in 2008 served as a warning to many firms that a robust capital base remains critical for the maintenance of their going-concern status. Tables 18 - 20 provide information on the structure and performance of the securities industry in terms of assets, capital and FUM.

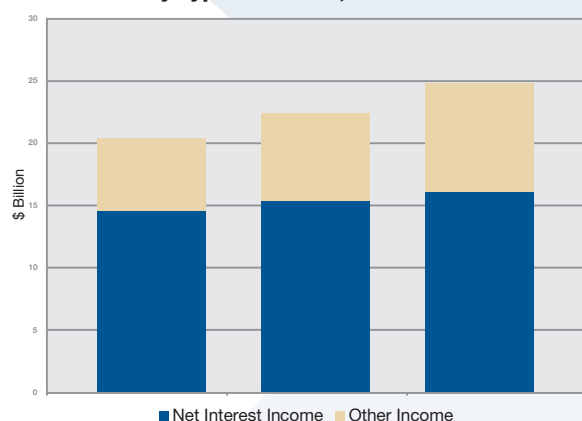
Profitability

The securities firms have recorded a nominal growth in net aggregate income before taxes of 15 per cent; aggregate net income stood at \$14.4 billion (2010: \$12.5 billion). This growth was buoyed by a 24 per cent increase in non-interest income which stood at approximately \$9 billion for the review period (2010: \$7 billion). Net interest income grew by 5 per cent to \$16 billion (2010: \$15 billion). The yield curve has continued to shift downwards as a result of the JDX and the GOJ's subsequent systematic lowering of rates on new issues. Average yields in 2011 stood at 6.6 per cent compared with 9.3 per cent in 2010¹³. This has resulted in lower interest receipts among industry players as gross aggregate interest income fell by 17 per cent to \$38.7 billion (2010: \$46.5 billion). However, interest payments declined by 27 per cent to \$22.6 billion (2010: \$31 billion) and so net interest earnings were not adversely

Table 18: Total Assets of the Securities Industry by Type of Securities Licensee, 2009-2011

Category of Securities Licensee	Total Assets					
	2009		2010 ^R		2011	
	\$ Billions	% of total	\$ Billions	% of total	\$ Billions	% of total
Securities Firms	512.2	62.0	489.4	60.3	502.7	59.2
Non-Securities Firms	313.3	38.0	322.1	39.7	346.0	40.8
of which:						
Commercial Banks	46.4	5.6	45.0	5.5	46.5	5.5
Merchant Banks	27.3	3.3	23.1	2.8	20.3	2.4
Building Society	86.2	10.4	89.9	11.1	94.8	11.2
Insurance Companies	119.4	14.5	134.9	16.6	157.4	18.5
Others	34.0	4.1	29.2	3.6	27.0	3.2
Total	825.5	100.0	811.5	100.0	848.7	100.0

Figure 1: Income of Securities Firms by Type of Income, 2009 - 2011



affected and net interest margins continued to grow. Firms continue to be heavily reliant on income generated by interest earned from their Repo business. Net interest income accounted for 65 per cent of the firms' total income stream, down from 69 per cent in 2010; see figure 1. This remains a concern as firms need to diversify their income mix to mitigate interest rate and credit risks.

Securities firms continue to rein in the growth in their operational expenses (5 per cent growth in 2011) by rationalizing their operations to cope with the economic reality. This has contributed positively to securities firms' bottom-lines during the review period. Table 21 illustrates the operating results of the

¹³ Yields are based on Average 180-day T-bill yield.

Table 19: Total Capital of the Securities Industry by Type of Securities Licensee, 2009-2011

Category of Securities Licensee	Total Capital					
	2009		2010 ^R		2011	
	\$ Billions	% of total	\$ Billions	% of total	\$ Billions	% of total
Securities Firms	51.4	44.8	62.5	48.3	69.3	48.4
Non-Securities Firms	63.4	55.2	66.9	51.7	74.0	51.6
of which:						
Commercial Banks	6.8	5.9	6.7	5.2	6.5	4.5
Merchant Banks	4.0	3.5	4.5	3.4	4.7	3.3
Building Society	13.6	11.9	14.3	11.0	15.8	11.0
Insurance Companies	27.7	24.2	35.4	27.4	43.0	30.0
Others	11.2	9.8	6.0	4.6	4.0	2.8
Total	114.8	100.0	129.4	100.0	143.2	100.0

Table 20: Total Funds Under Management of the Securities Industry by Type of Securities Licensee, 2009-2011

Category of Securities Licensee	Funds Under Management					
	2009		2010 ^R		2011	
	\$ Billions	% of total	\$ Billions	% of total	\$ Billions	% of total
Securities Firms	654.2	81.7	634.1	79.9	653.3	78.4
Non-Securities Firms	146.9	18.3	159.5	20.1	179.7	21.6
of which:						
Commercial Banks	0.0	0.0	0.0	0.0	0.0	0.0
Merchant Banks	13.3	1.7	10.1	1.3	8.9	1.1
Building Society	0.0	0.0	0.0	0.0	0.0	0.0
Insurance Companies	116.0	14.5	133.5	16.8	150.7	18.1
Others	17.6	2.2	15.9	2.0	20.1	2.4
Total	801.1	100.0	793.6	100.0	833.0	100.0

Table 21: Summary Operating Results, 2009 - 2011

	2009	2010 ^R	2011
	\$ Billions		
Net Interest Income	14.5	15.3	16.1
of which: Interest income	63.4	46.5	38.7
less: Interest expense	48.8	31.1	22.6
Other Income	5.8	7.0	8.7
Total Income (net of interest expense)	20.4	22.4	24.8
Operating & Other Expenses (taxes excluded)	9.2	9.9	10.4
Net income (before taxes)	11.2	12.5	14.4
Annual Change (%)			
Net Interest Income	58.8	5.6	4.8
of which: Interest income	34.7	(26.7)	(16.7)
less: Interest expense	28.9	(36.3)	(27.3)
Other Income	(39.3)	20.1	23.5
Total Income (net of interest expense)	8.5	9.8	10.7
Operating & Other Expenses (taxes excluded)	(2.2)	7.8	4.7
Net income (before taxes)	21.7	11.3	15.4

Prudential Indicators

The FSC monitors the adequacy of each firm's capital as well as the quality of the assets backing investor liabilities. The sector is adequately capitalized and has remained robust during the review period. While the capital to asset ratio of 13.8 per cent shows an improvement of 1 percentage point on 2010 results, the capital to risk weighted asset ratio of 30 per cent fell by approximately 17 percentage points. This is a direct result of the GOJ's standby agreement with the IMF which stipulates that a credit risk weighting of 100 per cent be applied to all GOJ foreign currency denominated bonds on the balance sheet of securities dealers. The risk weighting was to be applied at 12.5% per quarter and as at December 31, 2011 the risk weighting was 75% (2010: 37.5%). As a consequence the stock of low risk assets has gradually declined since implementation in June 2010. A corresponding rise in risk weighted assets on the balance sheets of securities licensees has also been experienced and has led to the erosion in the capital to risk weighted asset and the low-risk asset to repo liabilities ratios.

Investors should be heartened by the fact that for the industry as whole, there are adequate assets backing their investments, as the low-risk asset to repo liabilities ratio remains above the FSC's minimum benchmark despite the weakened position.

Securities firms' reliance on their repo business is evident in that, as a group, they are failing the FSC minimum requirement for the intermediation ratio, however marginally. There is an indication that securities dealers are signalling their commitment to move from the repo business as their predominant business model to other types of investment. Repo liabilities grew by approximately 3 per cent with a corresponding FUM increase of 3 per cent during the period. Table 22 summarizes selected prudential indicators for the securities firms for the review period.

Table 22: Selected Prudential Indicators, December 2009 – 2011

	2009	2010	2011	FSC Benchmark
	%			
Balance Sheet Growth (%)				
Capital Base	28.8	21.6	10.8	
Capital Adequacy				
Capital / Total Assets	10.0	12.8	13.8	≥ 6
Capital / Risk Weighted Assets	58.5	46.3	29.7	≥ 10
Asset Quality				
Low Credit Risk Assets / Repo Liabilities	138.5	115.0	113.1	≥ 100
Profitability				
Return on Average Assets	1.7	1.9	2.2	
Return on Average Equity	18.5	16.3	16.2	
Net Interest Margin	22.9	33.0	41.6	
Pre-Tax Profit Margin	16.2	23.3	30.4	
Liquidity & Solvency				
Current Ratio	110.1	114.1	115.4	
Capital / Total Liabilities	11.2	14.6	16.0	
Current Asset / Total Asset	98.1	98.1	98.4	
Management				
Intermediation Ratio	49.61	51.58	50.74	≤ 50

Performance of Unit Trusts and Mutual Funds

Unit Trusts

The Unit Trust subsector consists of nine (9) funds managed by four (4) fund managers, namely Barita Unit Trust Management Company, Scotia Asset Management (Jamaica) Limited, Pan Caribbean Asset Management, and Capital & Credit Fund Managers. Unit trusts portfolios are composed mainly of fixed income securities including GOJ debentures, Local Registered Stocks (LRS), Certificates of Deposit (CD), Treasury bills, equities and real estate investments.

As at December 31, 2011, total funds managed by unit trusts management companies stood at \$32.0 billion. This is an increase by 48.8 per cent over the previous year's \$21.5 billion. For the period under review, unit trusts recorded net inflow of 650.6 million units valued at \$7.6 billion. This net inflow of units was 197.9 per cent above the previous year's net inflow of 218.4 million units valued at \$5.1 billion. Outlined in Table 23 is a summary of activities for the three-year period of December 2009 to 2011.

Table 23: Summary of Unit Trusts Funds under Management

	Dec-09	Dec-10	Dec-11
Total FUM (\$ Billions)	14.3	21.5	32
Value of Units Sold (\$ Billions)	2.7	7.6	12.3
Total Units Sold	132.5	352.2	857.5
Value of Units Redeemed (\$ Billions)	2.2	2.5	4.7
Total Units Redeemed	151.0	133.8	206.9
Net inflow/outflow (Units)	-18.5	218.4	650.6
Net inflow/outflow (\$ Billions)	.3	5.1	7.6

Mutual Funds

The Mutual Fund subsector consists of seventeen (17) mutual funds available for sale in Jamaica. These mutual funds are managed by four (4) fund managers, namely: Manulife, CI Investments, Scotiabank and JMMB Securities. The mutual fund investment portfolios are comprised mainly of equities, fixed income securities and cash.

For the period ended December 31, 2011 the total funds managed by mutual fund companies totalled US\$10 billion. This represented an increase of US\$701 million or 8 per cent above December 31, 2010.

Total funds attributable to Jamaicans amounted to US\$165 million. Units sold to Jamaicans during the period amounted to US\$34 million, with a corresponding US\$21 million of units redeemed. As a result net flows stood at US\$13 million. (See Table 24)

Table 24: Summary of Mutual Funds under Management by Jamaicans

	2010	2011
Total FUM (US\$ millions)	151	165
Activity during the year		
Value of Units Sold (US\$ millions)	37	37
Value of Units Redeemed (US\$ millions)	14	21
Net Flows		
Value (US\$ millions)	23	13

Performance of the Equities and Private Debt Markets

The oversight of the private debt market began in 2006 with the "Private Placement" regime which enabled institutions to raise funds without making a public offering. Debt offerings made under this regime were limited to fifty (50) investors. This regime was replaced in 2008 by the "Exempt Distribution" regime which allows for a distribution of securities to be exempt from registration of a prospectus or offering document with the FSC.¹⁴ This initiative was intended to assist in reducing the costs of raising capital and to stimulate the development of the Jamaican capital market. Exemptions may be granted under the following categories:

1. Accredited Investor
2. Minimum Purchase Amount
3. Highly Rated Debt
4. Private Issuer

The private debt market is still comprised mainly of short and medium term notes; however, instruments with tenures of 5 years and more accounted for 27.5 per cent of total issues in 2011. Despite the fact that the economic environment remained challenging, there were 51 exempt distributions registered during 2011; a 132 per cent increase over the 22 recorded in 2010. However, the value of the transactions was 3.8 per cent less than that recorded in 2010; see Table 25.

The Accredited Investor Exemption was most utilized by issuers, accounting for 86 per cent of the distributions in 2011. There was one publicly traded debt instrument registered during 2011; the instrument is not listed on any exchange.

Table 25: Summary Private Placement & Exempt Distribution 2008 - 2011

Private Placements & Exempt Distributions 2008-2011	2008	2009	2010	2011
Number of Private Placements/ Exempt Distributions	61.0	23.0	22.0	51.0
Value (\$ Billions)	38.3	10.6	33.1	31.9

¹⁴ For more details, see "Guidelines for Exempt Distributions" (Guidelines SR-GUID-08/05-0016) at <http://www.fscjamaica.org/content.php?action=content&subid=70>

Public Offerings

During the calendar year 2011, five publicly traded equity securities were registered with the FSC, four of which were listed on the Jamaica Stock Exchange's (JSE) Junior Market and one on the Main Market. The combined value of these listings amounted to approximately \$1.97 billion, reflecting year-to-year increase of 105 per cent in the value of registered equity securities; Table 26 provides a summary of registered equity public offering from 2008 - 2011.

Table 26: Summary Public Offerings, the Years ended December 2008-2011

Public Offerings Registered for the Period 2008 - 2010	2008	2009	2010	2011
Number of Public Offerings	4.0	2.0	7.0	5.0
Value (\$ Billions)	3.8	1.2	0.9	1.97

The Junior Market saw its total listings increased to twelve (12) during the year 2011 with the addition of four new listings. As a result, the volumes traded in the Junior Market during 2011 were just over 300 million units compared with 46 million units in 2010. While the Junior Market was experiencing increases in volume of 564 per cent, the Main Market experienced a decline in volumes traded of 41 per cent. In many respects the Junior Market has outperformed the Main Market over the last year; offering a 562 per cent increase in total number of transactions year-over-year compared to a 27 per cent increase in the Main Market and a 549 per cent year-to-year increase in volumes compared to the Main Market's 4.3 per cent.

The stock market over the year has benefited from a low interest rate environment and positive economic indicators with average stock prices both in the Junior and Main Markets showing substantial appreciation. The average price appreciation in the Main Market was 26.1 per cent with 30 of 37 stocks appreciating in value, while the Junior Market showed average appreciation of 85.4 per cent with 11 of its 12 listings appreciating in value. *The Jamaica Gleaner* reported that the JSE's Junior Stock Market index offered the highest index gain in the world in 2011 while the JSE's Main Index offered the sixth-best performance in the world.

THE PENSIONS INDUSTRY

As at December 31, 2011 seven hundred and ninety-eight (798) pension plans fell within the regulatory oversight of the FSC. These plans had assets totalling \$283 billion. See Table 27.

Table 27: Number of Plans, Membership and Total Assets 2009-2011

	Dec-09	Dec-10	Dec-11
Number of Plans	787	793	798
Asset Values (\$'B)	228.6	259.1	283.0
Total Membership	77,285	77,935	86,309

Of the seven hundred and ninety-eight (798) plans, there were four hundred and sixty-three (463) active plans. Table 28 shows these active plans by the two types namely, Defined Benefit (DB) and Defined Contribution (DC).¹⁵ While Defined Benefit (DB) plans accounted for the larger share of the pension industry assets, their membership is less than that of Defined Contribution (DC) plans

Table 28: Number of Active DB and DC Pension Plans

	Dec-09	Dec-10	Dec-11
Number of Plans			
Defined Benefit	129	120	116
Defined Contribution	363	366	347
Total Active Plans	492	486	463
Membership			
Defined Benefit	29,772	28,518	28,677
Defined Contribution	45,586	46,155	54,464
Total Membership	75,358	74,673	83,141
Assets Values			
Defined Benefit (\$'B)	\$154.2	\$163.9	\$188.5
Defined Contribution (\$'B)	\$56.0	\$68.4	\$75.8
Total Asset Values (\$'B)	\$210.2	\$232.3	\$264.3

Table 29 displays the number of active superannuation funds and retirement schemes.

¹⁵ In the Pensions (Superannuation Funds & Retirement Schemes Act) 2004, a defined contribution ("DC") plan means "an arrangement whereby benefits for a member are determined solely as function of the amount that can be provided by (a) contributions made by the employer on behalf of the member, and (b) interest earned and other gains and losses allocated to the member's account in the fund." Therefore a member's pension benefit under a DC plan is based on the amount contributed, and investment returns. Meanwhile a defined benefit ("DB") plan means "an arrangement which is not a defined contribution plan". This means that benefits under a DB plan are typically defined independently of the contributions payable and are not directly related to the investments of the plan. The benefits are normally based on a formula that considers a member's salary and service.

Table 29: Number of Active Superannuation Funds and Retirement Schemes

	Number of Active Plans	Percentage of Plans	Number of Members	Percentage of Membership	Asset Value as at, 2011, December 31 (\$'B)	Percentage of Asset Value
Retirement Schemes	14	3%	16,021	19%	\$5	2%
Superannuation Funds	449	97%	67,120	81%	\$259	98%
Total	463	100%	83,141	100%	\$264	100%

Table 30 shows the number of corporate service providers by category inclusive of the pension assets under management which have grown by 9 per cent in 2011.

Table 30: Total Assets under Management by Corporate Service Providers

Service Providers	December 31, 2009		December 31, 2010		December 31, 2011	
	Number of Entities	Asset Values \$'B	Number of Entities	Asset Values \$'B	Number of Entities	Asset Values \$'B
Insurance Companies	4	97.0	4	114.4	4	141.0
Securities Dealers	12	94.1	12	101.6	15	102.2
Credit Unions/ Building Society	5	2.4	5	3.0	5	3.5
Other	7	35.0	7	40.0	6	36.3
Total	28	228.6	28	259.1	30	283.0

REGULATORY ACTIVITIES¹⁶

The FSC continued on its legislative reform programme aimed at amending relevant Acts - Insurance, Securities and Pensions and the attendant Regulations – to (i) rectify any conflicts, inconsistencies, errors and omissions embedded, and (ii) to update the relevant Acts in order to enable the modernization of the financial services legislation with the a view to creating the appropriate regulatory framework for new products and services as well as the adoption and maintenance of international standards of competence, efficiency and competitiveness.

INSURANCE ACT AMENDMENTS

In the 2010-2011 fiscal year, the FSC submitted a number of draft proposals to the MOFP and the Chief Parliamentary Counsel (“CPC”) for amendments to be made to the Insurance Act and Regulations and continue to formulate other proposals.¹⁷ Drafting instructions have also been submitted to the MOFP for amendments to the following sections of the Insurance Act:

- a. Section 2(2)(b) - Carrying on Insurance Business
- b. Sections 11(3)(a), 14(2)(a), 15(2)(a), 63((3), 66(1)(c), 75(2)(b), 76(1)(b) and 78 - Refusal or Suspension of Registration
- c. Section 73 - Conditions of Registration
- d. Section 23(1)(c) - Granting of Unsecured Credit Facilities
- e. Section 61 - Registration of an Association of Underwriters
- f. Section 110 - Notice in respect of Long Term Insurance Policies
- g. Section 115 - Unclaimed Monies
- h. Section 145 - Exemptions
- i. Section 149 - Amendment of Monetary Penalties by Order

During the same year, the FSC reviewed the draft provisions prepared by the CPC in respect of amendments to be made to the Regulations regarding the following:

- i. 2(1): inclusion of a definition of the word “Officer”;
- ii. 2(1): inclusion of a definition of the word “actuary”;
- iii. 29(80): removal of clerical errors and include clauses that were inadvertently omitted from the regulations;
- iv. 45: deletion of regulation 45 and substitution of the following:

“Insurer shall invest and keep invested, in investments eligible in accordance with Regulation 46 (public obligations), its assets aggregating in amounts - In the case of stock insurers, not less than 40 per cent of its minimum required capital or such other limit as may be prescribed by the Commission”. In the case of a mutual insurer, not less than 40 per cent of its required minimum surplus.
- v. 61(1): removal of clerical errors and inclusion of provisions that were inadvertently omitted from the regulations;
- vi. 73 and 75: redraft of the regulations to clearly set out the composition of the audit committee and the investment and loan committee pursuant to the aforesaid regulations;
- vii. 82(1) to 86: removal of clerical errors and insertion of provisions that were inadvertently omitted from the regulation;
- viii. 94 and 100: re-alignment of the regulations with the requirements of International Financial Reporting Standards;
- ix. 135 and 139: clarification of the deadline for payment of benefits and the penalties for late payment.
- x. 143: deletion of an inappropriate provision;
- xi. 156: clarification of provisions in the regulation ; and
- xii. 157: insertion of the prescribed notice which an insurance company is required to give to policyholders when policies lapse as a result of non-payment of premiums due and payable.

¹⁶ This and the following sections report on activities that occurred within the fiscal year April 1, 2011 – March 31, 2012.

¹⁷ A number of these proposals were outlined in the 2010-2011 Annual Report.

SECURITIES ACT AMENDMENTS

The FSC, in collaboration with technical experts from the International Monetary Fund (“IMF”), has developed proposals for amendments to be made to the Securities Act to modernize its provisions and to address the problem of the Unlawful Financial Organizations (“UFO’s”). Of note, is that the proposals seek to enhance the information-gathering and enforcement capabilities of the FSC. They will also recognize investment clubs and make provision for the supervision of a wide range of derivative products.

The amendments to the Securities Act are one of Jamaica’s deliverables under the Government of Jamaica’s (“GOJ”) standby arrangement with the IMF. In fulfilment of one of its targets under the IMF Schedule, the FSC has prepared and circulated a concept paper outlining the proposals to the Attorney General, the Director of Public Prosecutions, the Securities Industry and other key stakeholders, for their comments. It is envisaged that the proposed amendments will be completed during the 2012 calendar year

Another FSC deliverable under the IMF standby arrangement is the establishment of a comprehensive framework for the regulation of Collective Investment Schemes (CIS). This is necessary in order to facilitate the development and growth of the industry while still providing adequate protection to investors. In order to achieve this, the FSC engaged a consultant to identify alternatives to the existing regulatory framework and to recommend a suitable CIS regulatory regime for Jamaica.

Currently, CIS in Jamaica are regulated by the FSC under the Securities Act, the Unit Trusts Act, and the attendant Regulations. It is proposed that the most efficient approach would be to place the CIS regime within the Securities Act using Section 17A as the enabling section for the development of a comprehensive and unified set of CIS Regulations. In order to facilitate the CIS regulatory regime, the following legislative amendments would be required:

- Amend Section 17A of the Securities Act to incorporate the definition of collective investment schemes as recommended by the consultant and to provide the basis for a unified and comprehensive set of CIS Regulations;
- Amend Section 76 of the Securities Act to give the FSC power to create offences and prescribe penalties using Regulations;
- Amend Section 2 of the Securities Act to make it clear that an interest or participation in a CIS is a security;

- Repeal the Unit Trusts Act and the attendant Regulations;
- Repeal the Mutual Funds Regulations.
- The key aspects of the proposed regulatory framework are:
 - Comprehensive authority for the FSC to regulate all facets of the CIS industry in Jamaica, including full powers to authorize, examine, and investigate the funds and their service providers as well as the disclosures made by these funds;
 - A comprehensive definition of collective investment schemes that does not limit the legal form in which the fund is organized;
 - All collective investment schemes offered for sale in Jamaica must be either registered under the Securities Act and Regulations or expressly exempt from registration. The characteristics of legitimate informal arrangements, such as small investment clubs, will be defined. It is proposed that such arrangements will be exempt from most statutory requirements, while funds sold only to accredited investors will be exempt if certain additional conditions are met;
 - The service providers to the CIS e.g. custodian, operator/trustee and manager, should be independent of each other and the definition of what constitutes independence will be set out;
 - The fund’s portfolio of assets and cash must be held in a manner that makes it clear that the assets belong to the fund and its investors, not the entity acting as custodian (manager or operator). Assets must be segregated and the accounts clearly marked as belonging to the fund.
 - The fund’s disclosure documents – financial statements, annual reports and offering documents – must be up-to-date and contain all relevant information about the fund, its operators, managers and other key service providers. This information must be updated promptly if any material changes occur and otherwise on a regular cycle;
 - Minimum standards will be set for the frequency of valuation of the fund’s assets and the methods to be used to ensure that fair valuations take place. This will be accomplished by requiring all assets to be valued in accordance with International Accounting Standards or another internationally recognized accounting standard acceptable to the FSC. These valuations and the calculation of net

asset value of the fund must be verified at least annually by an independent auditor;

- There will also be requirements for clear disclosure in the offering documents of the process for redeeming an investment, the pricing process and the circumstances where redemptions may be halted;
- The rules governing conflict of interest will be supplemented to impose a general duty to identify, avoid, mitigate and manage conflicts of interest;
- As far as possible, the FSC will be given the latitude to set detailed requirements, by notice or guideline. This allows the requirements to be kept up to date and supplemented as the need arises without requiring legislative or governmental action.

PENSIONS ACT AMENDMENTS

While the FSC continued to wait for the draft provisions, from the CPC, that will address issues such as portability, vesting and locking-in under Phase II of the Pension Reform, the FSC reviewed and updated the drafting instructions that were sent to the CPC. Additionally in October 2011, the FSC received from the CPC a draft provision to amend the Pensions Act (Superannuation Funds & Retirement Schemes) Act and the Pensions Registration, Licensing and Reporting Regulations. This draft provision included (i) imposition of investment managers' fees and (ii) conditional approval for the registration of Superannuation Funds ("funds") and Retirement Schemes ("schemes"). These amendments when in effect will allow the FSC to approve a fund or scheme once specific requirements for approval have been met. The funds and schemes will then be given a time period within which to satisfy conditions stipulated at the time approval was granted. The granting of conditional approval by the FSC will bring the funds and schemes within the full regulatory remit of the FSC.

BULLETINS, GUIDELINES AND BROCHURES

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

Insurance

The following bulletins and guidelines related to the Insurance Industry were released during the review year:

- **Minimum Capital Test: Definition of Redeemable Preference Shares, AR-ADVI-II/06-0003:** The purpose of this bulletin is to specify, for the purpose of calculating the MCT, the criteria to be used by the general insurance companies to determine whether a class of preference shares should be included in Capital Available or considered to be "redeemable".
- **Regulation 45: Minimum Level of Public Obligations to be held by Stock Insurers, AR-ADVI-12/02-0004:** The purpose of this bulletin is to clarify the method to be used in determining the minimum level of public obligations that should be held by stock insurers.

Securities

Proposed Collective Investment Scheme Regulation 2012, SRCONSUL-12/03-0023: The aim of this discussion paper is to seek comments and feedback from the industry on the proposed CIS Regulations that will govern the operations of Collective Investment Schemes (CIS) in Jamaica.

Pensions

The following bulletin related to the Pensions Industry was released during the review year:

- **Bulletin: Registration of an Amendment, PR-CONSUL-11/04-0004:** This document sets out the legal and policy requirements of the FSC regarding amendments to be made to the constitutive documents of approved pension plans.
- **Bulletin: Designating an Administrator or Investment Manager, PR-CONSUL-11/04-0005:** This bulletin sets out the trustees' responsibility regarding the designation of administrators and investment managers.
- **Bulletin: Retention of Original Constitutive Documents by the FSC, PR-CONSUL-13/05-0006:** This bulletin outlines the basis on which the FSC will return to an applicant, the constitutive documents of a fund or scheme.
- **Bulletin: Treatment of Pension Plan Members, Eligible for Early Retirement on Winding-up of a Plan, PR-CONSUL-13/05-0007:** The aim of this bulletin is to inform members who have reached early retirement at the point when the

plan is being wound up that they have the option of either retiring early or being treated as an active member.

- **Bulletin: Requirement regarding Documents and Information to be Submitted by Pension Plans which Intend to Wind-up Voluntarily, PR-CONSUL-13/05-0008:** This bulletin provides details of the documents and information to be submitted by trustees along with the notice of their intention to voluntarily wind-up a pension plan.
- **Bulletin: Professional Indemnity and Fidelity Guarantee Insurance, PR-CONSUL-30/05-0009:** This document addresses the statutory requirements relating to the amount of insurance coverage which should be secured by administrators and investment managers.

PENDING BULLETINS AND GUIDELINES

Before the FSC issues a guideline or bulletin, the FSC prepares a draft and invites the relevant industry stakeholders to provide feedback. After the consultative process has concluded, the bulletin and/or guideline are then released to the industry. A number of these consultative papers have been posted on our website¹⁸ inviting comments and feedback from industry stakeholders. These are listed below:

Insurance:

- **Updated Guidelines on Stress Testing for Insurance Companies:** This guideline will discuss the importance of developing stress testing as a risk management tool.

Securities:

- **Measures to Enhance the Prudential Regulation of the Securities industry in Jamaica, SR-CONSUL-10/09-0021:** This paper sets out elements which the FSC considers should form the basis of an enhanced regime for licensing and capitalisation of securities dealers. Some elements, such as the operational risk and liquidity risk components build upon the GOJ's commitment in the 2010 IMF program to change these areas. Others, such as the leverage ratio proposal, clarify and reinforce current FSC guidelines.

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Pensions :

- **Guideline: Partial Winding-Up of an Approved Pension Plan, PR-GUID-11/10-0023:** This guideline outlines the documents and information required to be submitted by trustees to the FSC, upon the partial winding-up of an approved pension plan.

THE ANTI-MONEY LAUNDERING (AML / CFT) FRAMEWORK

The strengthening of the country's anti-money laundering framework augurs well for an efficient financial environment. With this in mind, the FSC increased its presence and active participation on the National Anti-Money Laundering Committee; attendance at plenary; and updating of the AML/CFT Guidelines.

With the expected introduction of the amended 40 Recommendations by the Financial Action Task Force ('FATF') in February 2012, the regulatory regime is expected to tighten. Since FATF is placing greater emphasis on the National Risk Assessment of the country's AML/CFT framework, greater collaboration is anticipated among the different stakeholders. As Jamaica celebrates its golden anniversary this year, special emphasis must be placed on preserving the financial systems and ensuring that our jurisdiction's framework is robust. The effectiveness of the framework is demonstrated in the National Risk Assessment undertaken by the stakeholders. With such introspection, what must follow is a glaring look at how to proactively evaluate and manage AML/CFT processes effectively, in fulfilment of our role as a competent authority.

The FSC has taken an honest approach to examining those factors that would best support a sustainable AML/CFT framework -- one which reconciles the objectives of the financial services sector in Jamaica and efficient and effective AML/CFT processes which comply with the FATF and the Caribbean Financial Action Task Force ('CFATF') Recommendations.

Continued Assessment of Licensees' and Registrants' AML Systems

A financial institution's reputation and integrity can be irrevocably harmed through involvement in laundering money or financing terrorism. This damage extends to the financial sector on a broader, country-wide scale. Adoption of sound policies and procedures, among them, customer due diligence ("CDD") rules, suspicious transaction

reporting (“STR”), and compliance testing, is a critical element in developing comprehensive AML/CFT regimes. The FSC vigilantly carried out on-site examinations during the period under review to gather information necessary to efficiently carry out our supervisory duties. The information gathered served as a prerequisite for the effective enforcement of the laws and regulations governing industry practices, for pre-empting violations and ensuring that breaches do not go unsanctioned.

Training for Licensees and Registrants

In performing these supervisory duties, the FSC was cognizant that the imposition of an AML/CFT infrastructure creates another layer of obligation to which licensees are subjected. Therefore efforts were made to sensitize licensees and registrants to the need to play their important role as the gatekeepers of the system and sanctions that can arise in instances of failure to comply with regulatory obligations.

Arising from the Conference hosted the previous year, the FSC took the decision to meet with the licensees during industry seminars or public outreach programme. One such training opportunity was that an AML/CFT component was included at the Intermediaries Seminar hosted by the Insurance Division of the FSC. The information conveyed to the intermediaries was also guided by feedback received from the Financial Investigations Division (“FID”) regarding STR and threshold transactions report (“TTR”) reporting by intermediaries. The FSC also provided our licensees with relevant articles, updates from plenary and updates on discussions conducted at the National Anti-Money Laundering Steering Committee meetings and Al Qaida notices. Through these media, the FSC’s licensees and registrants were exposed to the fact that money laundering and the financing of terrorism will thrive so long as there are areas of weakness in their systems or in institutions with which they have business relationships.

Revision of AML/CFT Guidelines

A successful AML/CFT regime will depend on the existence of comprehensive, meaningful and timely legislation and regulations to make the regime effective. These regulations must constantly be revised to reflect the findings of CFTAF’s mutual evaluations of Jamaica and other relevant regional and international commitments. The CFATF may impose various sanctions on countries that are deemed to be inadequately applying the FATF recommendations, and so the FSC must remain current in administering the AML/CFT framework within which our licensees and registrants operate. These AML/CFT guidelines are currently being

revised with a view to making them more up-to-date and enforceable.

Notices

The FSC is of the view that the approach to AML/CFT must be applied consistently by all institutions, public and private, thus ensuring that all stakeholders understand their role and that uniformity prevails in all business sectors. All stakeholders: licensees, registrants, applicants, and personnel in designated non-financial businesses and professions (“DNFBP”) need to be educated about money laundering and the financing of terrorism to facilitate greater compliance with AML/CFT policy.

To this end, the FSC continued to distribute notices to licensees and registrants regarding their role in AML/CFT policy. The FSC distributed the Consolidated List of Individuals and Entities Associated with Al-Qaida and the Taliban that are subject to sanction measures. Licensees and registrants are expected to refer to this document and comply with the sanction measures imposed by the Security Council Committee.

The FSC also assists members of the public to understand the potential abuse of the financial system by persons engaged in various forms of illicit activity. With particular reference to UFO’s, the FSC educated the public on how such schemes make it possible to conceal the unlawful origin of assets. UFO’s are not supervised by the FSC, and therefore large amounts of proceeds may be transferred without detection. This obstructs the FSC’s supervisory powers and places the financial services sector at risk. The FSC expends much effort in the detection and sanctioning of these UFO’s and the public is duly informed by way of a quarterly publication in the print media.

Staff Training

Numerous AML/CFT training opportunities are afforded to the FSC’s staff annually both locally and overseas. Some of this training is also offered in-house by way of webinars whenever financial resources do not permit travel for the benefit of training exercises. The emphasis on staff training is not by chance. The FSC recognizes that the various divisions that comprise the FSC must engage in information-sharing in order to identify and detect red flags. This coordinated, integrated approach often works best when teams are trained in this regard and also when the respective sector divisions train each other in AML/CFT matters specific to their sector.

International Legal Commitments

The global agenda to curb abuse of financial systems calls for a co-operative approach among many different international bodies and the importance of bilateral and multilateral mutual assistance agreements is imperative. Money laundering is an international phenomenon, often involving the cross-border transfer of funds. If these funds are to be tracked and intercepted, the authorities in different countries must cooperate. The FSC maintains close ties with its international counterparts by requesting and exchanging information on AML/CFT trends and global impact on a regular basis, even in the absence of formal requests for assistance.

AUTHORISATIONS

Under the relevant Acts and the attendant regulations, the FSC is mandated to regulate and supervise the insurance, securities, and private pensions industries. This includes the registration and licensing of different products, entities and individuals for each sector. This section will review the authorizations issued by the FSC for each industry.

Insurance Authorisations

Of the 441 authorisations for the insurance sector, 430 were for insurance sales representatives; meanwhile, 165 sales representatives voluntarily cancelled their registration resulting partially from movements out of the insurance industry. Consequently, there were 270 more insurance representatives in the industry. Table 31 shows the number of registrants in the insurance industry.

Securities Authorisations

Table 32 shows the number of additions and voluntary cancellations within the securities industry that occurred during the 2010-2011 fiscal year.

Pensions Authorisations

Registration and Licensing

During the 2011/2012 fiscal year, 174 applications for registration were received, bringing the total number of applications for licensing and registration of pension entities that have been received since September 29, 2006 ¹⁹ to 74 and 3,396, respectively. Table 33 shows the number of submissions received by categories of registrants and licensees.

Table 31: Number of Registrants in the Insurance Industry as at March 31, 2012

Type of Registrants	Registered at 31/3/11	Additions	Less Terminations/ Cancellations	Less Merged Entities	Registered at 31/3/12
Life Insurance Companies	5	1	0	0	6
General Insurance Companies	11	0	1	0	10
Association of Underwriters	1	0	0	0	1
Insurance Brokers	27	0	2	0	25
Facultative Placement Brokers	20	0	2	0	18
Overseas Reinsurance Brokers	2	0	0	0	2
Local Reinsurance Brokers	1	0	0	0	1
Insurance Agents	11	3	0	0	14
Insurance Sales Reps.	2,223	430	165	0	2,488
Loss Adjusters	21	3	0	0	24
Loss Adjusters - Employed Practitioners	1	0	0	0	1
Investigators	9	1	0	0	10
Claims Negotiators	3	2	0	0	5
Insurance Consultants	2	1	0	0	3
Total	2,337	441	170	0	2,608

¹⁹ Persons and entities wishing to be registered or licensed had to submit their applications to the FSC within 6 months of the passing of the regulations on March 29, 2006. Therefore the deadline for submission of applications for registration and licensing was September 29, 2006.

Table 32: Number of Licensees and Registrants in the Securities Industry as at March 31, 2012

	Licensed/ Registered at 31/3/11	Additions	Less Terminations/ Cancellations	Less Merged Entities	Licensed/ Registered at 31/3/12
Securities Dealers	54	1	1	0	54
Unit Trust Managers	4	0	0	0	4
Securities Dealers' Representatives	696	145	74	0	767
Investment Advisers	3	0	0	0	3
Investment Advisers' Representatives	0	0	0	0	0
Mutual Funds	18	0	0	1	17
Unit Trust Schemes	8	1	0	0	9
Total	783	147	75	1	854

The progress made by the FSC as at March 31, 2012 in the registration and licensing process of the above-mentioned categories of applicants is as follows:

Pensions Plans: Superannuation Funds and Retirement Schemes

For the review period, two (2) applications were submitted for registration of superannuation funds. A total of 561 pension plan applications were received up to the end of the 2011/12 financial year, of which 15 were for retirement schemes while the other 546 were for superannuation funds. Of the 561 pension plans for which applications were received, processing was discontinued for 74 plans due to mergers (5), withdrawal of application (1), and winding-up (68). Twenty-two (22) pension plans were also

wound up subsequent to being approved and registered by the FSC. Of the remaining 465 applications, only 417 (90 per cent) of the submissions received contained all the requisite documents necessary for processing.

Of the 417 pension plans containing all the requisite documents necessary for processing, 323 (309 superannuation funds and 14 retirement schemes) have been approved and registered; 12 additional superannuation funds were awaiting approval while 11 were given 90 days within which to satisfy the stipulated conditions outlined in the Pensions Act and Regulations. The remaining 71 are considered work-in-progress.

352 authorizations were given during the fiscal year 2011/2012. See Table 34.

Table 33: Number & Types of Applications by Categories of Registrants & Licensees 2006 - 2012

Number & Types of Applications by Categories of Registrants & Licensees 2006 - 2012							
	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012	Total
Superannuation Funds	514	11	9	5	5	2	546
Retirement Schemes	5	3	3	3	1		15
Trustees	1,580	333	311	210	136	167	2,737
Corporate Trustees	4	-	-	-	1		5
Responsible Officers	65	5	3	2	13	5	93
Administrators	31	2	1	2	1		37
Investment Managers	30	1	1	4	1		37
Total	2,229	355	328	226	158	174	3,470

Table 34: Number of Approved Licensees and Registrants in the Pensions Industry as at March 31, 2012

Number of Registrants Approved by Category						
	Superannuation Funds	Retirement Schemes	Individual Trustees	Corporate Trustees	Responsible Officers	Total
Registered as at 01/04/11	283	13	1,667	3	54	2,020
Additions	37	1	309		5	352
Less Terminations/Refusal	11		-29		-3	43
Less merged entities	0	0	-	-	-	0
Registered as at 31/03/12	309	14	1947	3	56	2,329

Table 35: Status of Applications for Administrators and Investment Managers as at March 31, 2012

	Received	Withdrawn or discontinued	Net Applications	Incomplete	Complete	Net Approved	Refused	Work In Progress
Administrators	37	7	30	1	29	29	-	-
Investment Managers	37	6	31	2	29	28	1	-
	74	13	61	3	58	57	1	-

Administrators and Investment Managers

At the end of the fiscal year 2011/2012, 58 licenses were granted out of a total of 61 as shown in the Table 35.

Responsible Officers

Each administrator, investment manager and corporate trustee is required to appoint a responsible officer. Ninety-three (93) applications for registration have been received to date for processing. Twenty-eight (28) of these applications have since been withdrawn or terminated. Of the 65 remaining applications, 56 have been approved, 1 refused registration, and 8 were being reviewed.

Winding-Up

The FSC has been receiving applications for the winding-up of pension plans, as mandated by Section 27 (4) of the Pensions Act. During the review year, 27 applications were received. Therefore a total of 206 applications have been received to date; 3 of which were outside the ambit of section 27(4) of the Pensions Act and 5 withdrawn, leaving a total of 198 applications for processing. Two (2) of the 198 were not approved by the FSC. During the period under review, 27 approvals were granted, bringing the total approvals granted to date to 148. Of the remaining 48 applications, 35 had outstanding documents to be submitted; 7 are work-in-progress; 4 are to be considered by the Board; and 2 were not yet reviewed.

The reasons given for the winding-up of the pension plans are shown in the Table 36, including the number of members and asset values involved.

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

Reasons Given	Number of plans	Members affected	Asset values (\$Billion)
Company actions/reduction of membership ²⁰	98	8,266	20.68
New defined contribution plans will be established	6	1,606	10.70
Economic hardship/members' requests	10	3,087	0.63
Perceived cost/legislative burden	50	994	0.79
Unknown (information not yet provided)	34	671	0.89
	198	14,624	33.69

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Company actions / reduction of membership	Number of plans	Members affected	Asset values (\$Billions)
Global financial crisis	12	4,174	0.90
Discontinuance of business operations	24	608	13.77
Consolidation of multiple plans	4	516	0.69
Divestment/mergers/insolvency	27	2,670	4.74
Reduction in membership	31	298	0.58
	98	8,266	20.68

Impact of Winding-Up

Approximately 33 per cent of plans which were estimated to be active as at March 2004 have been wound up, with asset values representing approximately 34.2 per cent of the total estimated pension portfolio as at the same date. Of these, 10 plans with \$11.4 billion of assets were associated with the consolidations or replacement of defined benefit plans with new defined contribution plans. Consequently, the net asset value of the terminated plans is approximately 19.8 per cent of the estimated portfolio as at March 31, 2004.

Pension coverage, in terms of the estimated number of persons covered by superannuation funds, would have been eroded by 22.8 per cent. However, it is expected that approximately 3.3 per cent represent members who are in consolidated plans or will be re-enrolled in new defined contribution pension plans which will be established. Additionally, six thousand, nine hundred and sixty two (6,962) persons have been enrolled in 27 new plans which have been established. Consequently the net erosion in pension coverage as a result of plans being wound up is estimated at 8.63 per cent based on available data.

Surplus Distribution

Trustees are required by Section 32(2) to obtain the Commission's approval of the Scheme of Distribution of Surplus. Of the 148 pension plans whose winding-up had been approved, 14 filed applications for approval of schemes of distribution of surplus during the year. Consequently, the total number of applications received to date is 95. Nine (9) of these applications were approved in the year. With total applications approved to date being 74, 21 applications were unapproved as at March 31, 2012.

Auditors and Actuaries

The FSC is required to determine the suitability of the actuary and auditor appointed to the pension plans which fall within the ambit of the Pensions Act. The appointments of two auditors were approved during the fiscal year.

INVESTIGATIONS & ENFORCEMENT

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

- Detecting and investigating potential violations of the relevant Acts and regulations administered by the FSC,
- Conducting fit and proper investigations,
- Advising and supervising licensees in their responsibilities under AML/CFT,
- Investigating consumer complaints, and
- Recommending and/or executing out enforcement actions

The FSC handles numerous investigations that vary in size, complexity and national impact. In executing these investigations, the FSC exercises a number of methods in obtaining information to advance the resolution of complaints and investigations. Complaints and tips from the users of financial services, beneficiaries, other regulatory bodies (local and overseas), and various interest groups are received by the FSC and each is carefully reviewed for potential breaches of the relevant Acts. The FSC maintains impartiality and handles all investigations with integrity.

Table 37 depicts the complaints processed over the 2011-2012 fiscal year. A total of 206 complaints were reviewed. Of these, 28 were brought forward from the previous period and 181 were received through-out the review period. As at March 31 2012, 31 complaints were unresolved. While FSC's service standards stipulate a 90-day turn-around period, the cases were opened for an average of 89 days. The FSC met the required 5-day deadline within which all complaints must be acknowledged.

Table 37: Analysis of Complaints, April 1, 2011 to March 31, 2012

	General Insurance	Life Insurance	Securities	Pensions	Total
Total complaints reviewed	97	26	51	32	206
Number of cases closed	80	22	48	25	175
Percentage closed	82%	85%	94%	78%	85%

For the general insurance industry, these complaints related to delays in claim settlement, claims not honoured by the

company and disputes regarding quantum settlement. The majority of complaints for the life insurance industry related to lapsed policies. Within the securities industry, most of the complaints were related to the delay in processing instructions for encashment and non-receipt of statements. Complaints regarding the pensions industry were dominated by those relating to the refund of pension contributions.

INVESTIGATIONS

The FSC conducts investigations into suspected breaches of the relevant Acts. Examples of these matters are (i) carrying on insurance business without registration with the FSC (ii) failure to make adequate disclosure to investors (inadequate information on contract notes), (iii) unsafe and unsound business practices, and (iv) unregistered financial operations. Depending on the outcome of the investigation, the FSC may employ one or all of the following enforcement activities:

- Issue directions,
- Issue cease and desist order,
- Take temporary management,
- Suspend the license,
- Offer fixed penalty remedies in lieu [of referral to the Director of Public Prosecution (“DPP”)], and
- Make referral to the DPP

During the period April 1, 2011 to March 31, 2012, 141 investigations were conducted. As depicted in Table 38 below, 86 per cent or 120 were closed within the period. Recommendations were made for enforcement action where the evidence proved that breaches occurred. The other 21 cases remained on-going at the end of the period and will be reported on in the next fiscal period.

The FSC conducts fit and proper assessments on the premise that the protection of investors can be significantly improved and risks minimized if an examination into the qualifications and reputations of those seeking positions that involve managing and protecting/safeguarding other people’s property or money is conducted. “Fitness” refers to a person’s qualifications, skills and experience to perform the duties of the position, whereas “Propriety” requires that a person is honest, ethical and demonstrates integrity. Not all applicants for a fit and proper assessment become the subject of an investigation. As seen in Table 37, thirty-four (34) fit and proper investigations were completed, while 14 remained on-going at the close of the period.

ENFORCEMENT ACTIONS

Unregistered Financial Operations (“UFO”)

The FSC continued to work diligently over the period to prevent further financial misconduct from unauthorized entities in the financial services sector. The FSC publishes a watch list of those entities found to be conducting unauthorized business. By building public awareness of these UFOs, the FSC keeps the public apprised of the various investment outfits these UFOs utilize and how to easily detect them. As at March 31, 2011, sixty-six (66) UFOs were on the FSC’s Published Watch List which was made available to the public through the print media.

During the period, I&E investigated 14 suspected UFOs and of these 2 were placed on the FSC’s Published Watch List. Those that were not placed on the Watch List continue to be monitored closely for any possible evidence of wrongdoing. Of the 66 UFOs, the Fraud Squad advised the FSC that (i) investigation regarding Worldwide is on-going and (ii) Carl Ranglin/Nipon Farm is before the Corporate Area R.M. Court for charges of operating as a securities dealer without a

Table 38: Number and Type of Investigations, April 1, 2011 to March 31, 2012

	Fit & Proper Investigations	Breach of Statutes/ Regulations	Total
Unresolved investigations brought forward from March 31, 2011	18	134	152
Total investigations opened in Fiscal Year ended March 31, 2012	30	7	37
Total investigations conducted during Fiscal Year ended March 31, 2012	48	141	189
Investigations resolved / closed in Fiscal Year ended March 31, 2012	34	120	154
Unresolved investigations carried forward as at March 31, 2012	14	21	35

license.

Intertrade Finance Corporation (“IFC”)

The Financial Services Commission (“FSC”) issued a **Cease and Desist Order** (“CDO”) on licensed securities dealer, Intertrade Finance Corporation (“IFC”) and its subsidiary Intertrade Investments Limited (“ILL”) on May 20, 2011. The FSC took enforcement actions against both entities after investigations revealed the following:

- i. IFC was misrepresenting to clients the nature of the securities in which their funds were invested,
- ii. IFC failed to pay over sums to some clients as they instructed,
- iii. IFC misrepresented to the FSC the total funds under management, as well as, the corresponding liabilities, and
- iv. ILL was only registered by the FSC to issue World DigiBeat bonds, it was not licensed to carry on securities business. However ILL conducted securities business by making representations to clients that their funds would be invested in Government of Jamaica (GOJ) bonds and promissory notes.

Subsequent to issuing the CDOs, the FSC suspended IFC’s license on June 21, 2011 and then assumed temporary management on August 3, 2011. During the period of temporary management, FSC examined IFC’s records to ascertain the true financial condition of the company. The process revealed that IFC was insolvent.

The FSC has since filed a petition in the Supreme Court of Jamaica for the wind-up of IFC and at the time of this report was awaiting the Court’s approval. The Constabulary Force Unit of the Financial Investigation Division continues to pursue the principals of this entity. While the whereabouts of Mrs Joan Powell are unknown, Mr Leroy Paul was arrested and charged in August 2011. He was charged for breaches of the Securities Act, the Larceny Act and for Fraudulent Conversion.

FIXED PENALTY PAYMENTS

Section 21 of the FSC’s Act, allows the FSC the discretion to make an offer to persons in breach of the relevant Acts an opportunity to treat with the matter outside of the court. The individual or entity, if they decide to accept the offer, would discharge their liability to conviction of that offence by the payment of a fixed penalty pursuant to the Fourth Schedule of the FSC’s Act. While the FSC administers the

penalty payments, the amounts are paid through the Tax Collectorate to the Consolidated Fund. During the period under review, payment for breaches discharged through the Fourth Schedule amounted to \$10.3 Million

LITIGATION

Previous enforcement actions have resulted in litigation in a number of cases, namely:

a. Claim No. HCV 0817/2006 - Olint Corporation and David Smith v. The Financial Services Commission

In this matter, Olint Corporation and David Smith (the Claimants) are claiming the sum of Five Million United States Dollars (USD 5,000,000) against the FSC for damages arising from a search and seizure exercise conducted by the FSC at premises occupied by the Claimants. The suit commenced in 2006, but has since been in abeyance. The Claimants are yet to set out the claim in detail. The suit is still pending; however the FSC will seek to strike out the claim.

b. Claim No. SCCA No. 6/2008 - Olint Corporation/ David Smith v. The Financial Services Commission

Olint Corporation and David Smith (the Applicants) filed an appeal before the Court of Appeal on January 23, 2008. The Notice of Appeal indicated that the Applicants were seeking to challenge the decision of the Supreme Court that was handed down on December 24, 2007 affirming a CDO issued to the Applicants by the FSC in March 2006. The appeal challenged the CDOs on both substantive and procedural grounds

During the period February 9, 2009 to February 12, 2009, the Court of Appeal heard the appeal. On December 13, 2010, the Court of Appeal handed down judgment in favour of the FSC. The Court of Appeal also awarded costs to the FSC. The FSC has recovered a portion of the costs.

c. Neil/Janice Lewis (t/a LewFam Investments) v. The Financial Services Commission

On January 31, 2008, Lewfam Investments filed an appeal against the decision of the Supreme Court that was handed down on December 24, 2007, affirming the CDOs issued to them by the FSC. The appeal was later withdrawn. The FSC subsequently took steps to recover from Lewfam the costs that were awarded to the FSC by the

Supreme Court. The Lewises are paying the costs in instalments.

d. Claim No. HCV 01975 OF 2009 - World Wise Partners Limited (“WWPL”) and Noel Strachan v. The Financial Services Commission

On April 14, 2009, WWPL and Noel Strachan filed a Notice of Appeal in the Supreme Court of Jamaica contesting the CDOs issued by the FSC to them on August 5, 2008 and subsequently varied on March 20, 2009. The challenges were made on both procedural and substantive grounds including allegations of breach of natural justice and procedural fairness by the FSC and assertions that WWPL was not acting in breach of the Securities Act.

The hearing of the Worldwide Partners Limited appeal of the cease-and-desist orders was held on March 14 – 16, 2011, May 30-31, 2011, June 2-3, 2011 and July 5-8, 2011. The judgment is awaited.

e. Claim No. 2010HCV3394 - Bradley Clacken v The Financial Services Commission

Mr Bradley Clacken was named on the FSC's Watch List of entities and/or persons affiliated with unregistered financial organizations (UFO's) which was published in the newspapers during 2009. On July 14, 2010, Mr Clacken filed a claim for damages for libel including compensatory, aggravated and exemplary damages, against the FSC in the Supreme Court. At the hearing of the application on October 26, 2011, the FSC was granted an extension of time to file its defence. The defence was filed within the extended time, and the matter was subsequently referred to mediation. Mediation is scheduled for May 4, 2012.

f. Claim No. 2010HCV05419 – Caribbean Real Estate Investment Fund (CAREIF)/Anthony Tharpe v The Financial Services Commission

Caribbean Real Estate Investment Fund (CAREIF)/Anthony Tharpe were named on the FSC's Watch List of entities and/or persons affiliated with unregistered financial organizations (UFO's) published in the newspapers during 2009. On November 11, 2010, CAREIF/Anthony Tharpe filed a claim for damages in the Supreme Court against the FSC and named Brian Wynter, George Roper and Jane and John Does as individual defendants.

Mr Tharpe and CAREIF claim damages of US\$10,000,000.00 for constitutional violations and US\$14.6 Billion for loss of future business prospects as well as special damages. The alleged damages resulted from statements made by the Defendants at forums held during 2009, radio broadcasts and publications in the print media which the claimants allege were defamatory. The hearing was held on July 15, 2011 and the court granted the application by the FSC to strike out the matter. CAREIF made an application to set aside the order and at the hearing on December 5, 2011, the court again struck out the matter. CAREIF's leave to appeal the decision was denied. CAREIF filed an appeal directly to the Court of Appeal. No date for the hearing on the appeal has yet been scheduled.

Besides these matters relating to UFOs, the FSC was also involved in other matters that resulted from enforcement actions. The details are provided below.

g. Dyoll Insurance Company

On September 8, 2006, charges were filed against Dyoll Insurance Company Limited (“Dyoll”) (a Company in Liquidation). The company was charged with violating section 147(1) of the Insurance Act for its failure to comply with directions of the FSC to provide proof of an injection of \$150 million in capital into the company. Similar charges were brought against four Directors and Officers of Dyoll.

Thereafter the Counsel for the Joint Liquidators of Dyoll made an application to the Supreme Court for an Order to stay the criminal proceedings against Dyoll (In Liquidation). The Hearing of the Application to stay the criminal proceedings against Dyoll was held on November 12, 2007. The court ruled in favour of the FSC.

During the 2007-2008 fiscal year, the four Directors/Officers of Dyoll against whom criminal charges were brought, made applications to the Constitutional Court to stay the criminal charges brought against them contending that the FSC had no power in relation to the insurance industry at the time the offences were committed. The hearing of the applications was held on November 26 – 28, 2007.

The judgment was handed down on December 18, 2008 in favour of the four Applicants stating that the charges against the Applicants under the

Insurance Act were null and void, as the FSC had no authority under the Insurance Act to perform any function in relation to the insurance industry, at the time the offences were alleged to have been committed.

The court further directed that on March 6, 2009, the scheduled return date to the criminal court, the DPP should apply the proper procedure and bring the criminal matter to an end. The criminal charges against the four defendants and the company (Dyoll) were mentioned in the Half Way Tree Resident Magistrate's Court on March 6, 2009. The matter was adjourned sine die.

During the period May 26-28, 2010, the appeal of the constitutional challenge in the criminal matter was heard during the period May 26-28, 2010, in the court of appeal. The judgment is awaited.

h. Lowell Lawrence v. The Financial Services Commission

On December 14, 2009, the Privy Council delivered its judgment in the appeal brought by Lowell Lawrence against the ruling of the lower courts that the fixed penalty notice issued to him by the FSC was valid. The Privy Council handed down judgment in favour of the FSC and awarded the FSC costs in the sum of 14,852.98 sterling pounds in the matter. The FSC is currently taking steps to recover the costs from Mr Lawrence.

i. Claim No. B 23/2010 - Financial Services Commission v Lorreston Bailey, licensed securities dealer – Bankruptcy Petition

In December, 2010, the FSC served a bankruptcy notice demanding payment of the sum of \$1,767,131.30 (One million, seven hundred and sixty-seven thousand, one hundred and thirty-one dollars and thirty cents) being expenses incurred by the FSC during its temporary management of Lorreston Bailey. Subsequently, on the 6th day of January 2011, the FSC filed a bankruptcy petition seeking an order that Lorreston Bailey be declared bankrupt for non-payment of the sum demanded. On the 7th day of February 2011, the Supreme Court granted a provisional order declaring Lorreston Bailey provisionally bankrupt. On 6th day of July 2011, the FSC was successful in its application to find the defendant Lorreston Bailey, adjudged bankrupt. The Supreme Court granted an order vesting the assets of Lorreston Bailey, Licensed Securities Dealer in the Office

of the Trustee of Bankruptcy, and that a general meeting of the creditors should be held on the 15th day of December 2011.

j. The Financial Services Commission v Lorreston Bailey

On 25th day of November 2010, the FSC referred the matter of Lorreston Bailey to the Director of Public Prosecutions, outlining the relevant offences which may have been committed by Lorreston Bailey and Deborah Bailey. The FSC is waiting for the DPP's response.

k. Intertrade Finance Corporation Limited v. The Financial Services Commission – Appeal filed with the FSC Appeal Tribunal

In May 2011, the FSC, following its investigation, issued CDOs to IFC and IIL. On the 8th day of June 2011, IFC and its affiliate IIL filed applications in the Supreme Court seeking a stay of the CDOs issued by the Financial Services Commission. Consequently, on the 21st day of June 2011, the Appeal Tribunal lifted the stay on the notice of suspension of the dealer's licence of IFC and the proceedings before the Tribunal were suspended pending the outcome of the Supreme Court hearing. IFC took no steps to complete its application and on 3rd day of August 2011, the FSC took temporary management of IFC following a forensic audit ordered by the FSC into the licensee's affairs.

In August 2011, the FSC filed a fixed date claim form in which the FSC sought a stay of all proceedings brought against IFC and an order preventing the filing of new claims against IFC. Subsequently, the FSC filed in September 2011, applications in the existing proceedings brought by the following claimants: Goddard Catering, Beriah Boothe, COK Sodality Co-operative Credit Union, George Brown, Paulette Morgan and Owen Morgan. The applications filed, sought a stay of proceedings and/or a stay of execution of judgement where the relevant claimant had obtained judgement against IFC. In November, Goddard discontinued its claim against IFC. The Court granted the orders sought by the FSC in respect of all of the claimants, with the exception of COK Sodality Co-operative Credit Union. That matter (COK v Intertrade Finance Corporation Limited (in temporary management)) was the subject of protracted court proceedings which centred on the FSC's jurisdiction to seek a stay

of proceedings and COK's beneficial ownership of certain assets which had been assigned to it by IFC prior to the temporary management. Judgement was reserved in November 2011. The FSC obtained an order in October 2011 confirming the vesting in the regulator of full powers of management and control of IFC effective 3rd day of August 2011. On 3rd day of October 2011, the FSC filed a petition seeking the winding-up of IFC. An amended petition was filed on the 12th day of October 2011 and the matter was first heard on the 8th day of March 2012. The matter is scheduled to continue on the 17th day of May 2012.

preventing them from issuing a revised circular.

Up to the end of March 2012, there were a series of sittings and preliminary applications by the parties in relation to the insider trading issue which was expected to be heard in May 2012. The issue of costs would be determined at that time, on completion of the matter.

l. Fraser Fontaine & Kong Brokers Limited ("FFK") v Financial Services Commission - Appeal to the FSC Appeal Tribunal

In August 2010 the FSC, pursuant to its powers under the FSC Act, offered FFK the option to discharge their liabilities for the contravention of the Insurance Act, by the payment of a fixed penalty of Eight Hundred Thousand Dollars (\$800,000.00), pursuant to the Fourth Schedule of the FSC Act, in lieu of prosecution. FFK objected to the offer of the fixed penalty payment and filed an appeal with the Appeal Tribunal.

The appeal was heard over the periods May 5 -6, 2011; September 5-6, 2011 and October 19-20, 2011 and written submissions by Counsel for FFK and the FSC were filed on December 7, 2011 and January 4, 2012, respectively. The decision of the Appeal Tribunal is awaited.

m. Lascelles deMercardo v FSC and Black Sands

Lascelles deMercardo (LdM) filed a claim against the FSC's decision that the takeover bid circular issued by Black Sand was complaint with the applicable regulations as well as the rules of the Jamaica Stock Exchange. The claim also challenged the course of action taken by the FSC in relation to alleged insider trading by Black Sand. The court deferred the insider trading issue until after the issues surrounding the circular were determined.

On November 30, 2011, the court ruled that the financial arrangements in the takeover bid circular were inadequate and that the Supplement was not a proper way to effect changes to the bid documents. LdM was however, denied an application for an injunction against Black Sand

SUPERVISION OF FINANCIAL INSTITUTIONS

Insurance Supervision

For the review period, there were 15 off-site examinations and 7 on-site examinations.²¹ A number of deficiencies were observed during the course of these examinations, some of which included breaches of relevant Acts and regulations, while others were not statutory violations, but were nevertheless of concern to the FSC as they represented departures from what would be considered “best practices.” The deficiencies that were not statutory contraventions related mainly to operational management and internal controls. The observed violations and deficiencies were communicated to the management of each company and efforts are being made to ensure that the matters are addressed within the time frames agreed with the companies.

Most of the observed statutory violations²² can be grouped into three areas, namely, corporate governance, investments and anti-money laundering. Table 39 provides further information on the breaches that were observed under the three headings. Other violations of the Insurance Act and Regulations include, but are not limited to the following;

- not notifying the FSC of changes in the particulars specified in the application of the company within thirty days of such change;
- not maintaining complete records of complaints received since the last examination;
- not displaying registration certificates; and
- unfair trade practises or weak market conduct.

Table 39: Violations of the Insurance Act & Regulations, 2010/11 & 2011/12

Type of Deficiencies	Description of Provisions	Number of Violations 2010/11	Number of Violations 2011/12
Corporate Governance:			
Regulations 73, 74, & 75	These regulations stipulate the formation of an Audit, Conduct Review, and Loan Committees and their functions.	3	1
Regulations 83, 84 & 85	These regulations (i) restrict certain related party transactions and (ii) outline the power of the Conduct Review Committee to approve or disapprove transactions.	4	2
Anti-Money Laundering:			
Regulations 5 & 6 of The Proceeds of Crime (Money Laundering Prevention) Regulations, 2007	These regulations specify the control mechanisms that should be implemented by an institution to prevent and detect money laundering. These mechanisms include, but are not limited to, procedure manuals, training of employees and proper record keeping.	5	6
Regulation 7 of The Proceeds of Crime (Money Laundering Prevention) Regulations, 2007	This regulation mandates the procedures to be maintained at each regulated institution for proper identification of customers and prohibits the institution from continuing the business relationship if a customer fails to provide proper identification.	5	6
Investment:			
Regulation 42	This regulation requires that a Company shall not invest more than 5 per cent of its total assets in a single counterparty.	1	0
Regulation 47	Outlines the conditions under which an insurer may invest in instruments issued by corporations.	1	0
Regulation 49	Stipulates that each insurer must have sufficient documentation to show that investments were made after thorough due diligence.	2	0
Regulation 60	Places a limitation on circumstances in which a life insurer can grant a policy loan.	1	0

all insurance companies and the off-site half-yearly examinations of brokers and agencies. The abovementioned 15 off-site examinations reflect assessment of annual filings. An off-site or desk-top examination involves a review of the financial statements and other selected documents submitted by the licensees and registrants to enable the FSC to monitor their financial health using early warning ratios and other risk indicators. An on-site examination typically involves a team from the FSC going to the company to perform a thorough inspection of the company's records that are deemed relevant to the examination. The decision on the areas targeted in an on-site examination is usually based on issues revealed from off-site examinations as well as other concerns.

²² In addition to the violations listed in Tables 39-41, the FSC has detected other violations through other methods.

Securities Supervision

A total of 10 on-site examinations were conducted.²³ Table 40 indicates the number and the nature of statutory violations that were observed. The observed violations and deficiencies were communicated to the management of each licensee and efforts are being made to ensure that the matters are addressed within the time frames agreed with the licensees.

Table 40: Violations of the Securities Act & Regulations, 2010/11 & 2011/12

Legal Provision Violated 1	Description of Provisions	Number of Violations 2010/11	Number of Violations 2011/12
Sec. 8	Several securities were over-allocated.	1	0
Sec. 9(3)(a)(ii)	Outlines the conditions which officers or members of a company must satisfy for a company to be granted a licence.	1	1
Sec. 10	Failure to return certificate of registration as required under Section 10(7) and failure to notify the FSC when an individual ceases to hold the position of a responsible officer as required by Section 10 (A) (4).	0	1
Sec. 36	Stipulates the conditions under which a securities dealer shall maintain a trust account.	1	0
Sec. 38	Section 38(3)(c), which mandates dealers, when dealing as principals in a transaction with a non-licensee, to disclose that they are so acting. Section 38(3)(f), which establishes that the contract note issued must contain the number, amount and a description of the securities that are subject to the transaction.	3	4
Sec. 40	Stipulates that a dealer, when dealing as principal in a transaction with a non-licensee, should disclose prior to effecting the transaction that it is dealing as a principal and not as an agent. This information should be reflected on the relevant contract note.	3	4
Sec. 59	Stipulates the formation of Audit and Conduct Review Committees	1	1
Sec. 63	Mandates that every dealer keeps accounting records in such a manner that will correctly record and explain the transactions and financial positions of the securities business carried on by the dealer.	0	1
COB Regulation 8	Several licensees used Request for Proposal forms which contravened regulation 8(2) (b),(c) and (d) of the COB by not stating clearly (i) the kind of authority given to the portfolio manager (i.e., full discretion, partial discretion or no discretion) and (ii) the risk appetite of the client (i.e., aggressive, medium or conservative).	2	5
COB Regulation 10	Stipulates that dealers must provide their clients with periodic statements of account every month when there is trading activity on the account or every three months, if there is no such activity on the account.	2	3
COB Regulation 12	Mandates that every licensee should maintain certain records, which include, inter alia, daily records of security sales and purchases, cash disbursements and receipts, security ledgers, and client ledgers.	2	1
COB Regulation 13	Late audited filings	1	0
COB Regulation 20	Requested documents not provided.	1	0
DOI Regulation 11	Non-filing of information memoranda with the Commission to effect commercial paper transactions.	1	0
POCA (MLP) 5, 7 -11	Requires that financial institutions establish and implement policies, procedures and controls to detect and prevent money laundering. These include a mechanism to evaluate personal employment and financial history of their employees. These mechanisms must also involve use of identification procedures that will enable businesses to know their customers.	3	1

Notes:

1: References are to the Securities Act and Regulations and the Proceeds of Crime Act ("POCA"). For example; section 38 of the Securities Act is referenced as "Sec. 38"; "COB" refers to the Conduct of Business Regulations; "DOI" indicates the Disclosure of Interest; and "POCA (MLP)" refers to the Proceeds of Crime (Money Laundering Prevention) Regulations.

²³ Securities firms are also subjected to routine off-site examination through the assessment of quarterly and annual filings, including financial statements. These routine assessments are used to monitor the financial health of securities firms on an on-going basis and to facilitate the computation of early warning indicators.

Pensions Supervision

The supervisory activities conducted by the FSC during the year under review are summarised below:

1. Winding-up Progress Reports

A total of 5 reports on the progress of the winding-up of pension plans whose applications were approved by the FSC were processed during the year.

2. Statement of Investment Policies and Principles (“SIPP”)

During the review year 81 SIPPs were received bringing the total for review to 159. Reviews of 128 SIPPs were completed, 8 were being processed, and the remaining 23 not yet reviewed as at 2012 March 31.

3. Examinations

- Desk-based risk assessments were completed for 28 investment managers, 35 administrators, and 1 corporate trustee while another 3 reviews were in progress as at the end of the review period.
- Off-site examinations of 426 pension plans were completed during the review period.
- On-site examinations of 1 administrator, 1 investment manager, and 7 pension plans also commenced during the period under review and are currently in progress.

Table 41: Violations of the Pensions Act & Regulations, 2010/11 & 2011/12

Pension Plans			
Legal Provision Violated	Description of Provisions	Number of Violations 2010/11	Number of Violations 2011/12
RLR 13 (1) (c)	Failure to submit Information Folder within 120 days after the scheme's year end.	11	10
RLR 13 (1) (d)	Failure to submit List of Persons who sell and distribute the scheme's contracts within 120 days after the scheme's year end.	11	10
RLR 13 (1) (a)	Failure to submit Certified Financial Return within 120 days after the fund's or scheme's year end.	423	368
RLR 13 (1) (b)	Failure to submit Audited Financial Statement within 120 days after the scheme's year end.	416	396
RLR 13 (2)	Failure to submit the Annual Report within 9 months after the fund's or scheme's year end.	223	252
INV 8 (1)	Failure to submit to the FSC within 60 days of the Plan's approval the Statement of Investment Policies and Principles (SIPP).	0	101
INV 37 (a)	Failure to submit to the FSC within ninety days of approval of the Pension Plan a Statement of Compliance certified by the Trustees.	0	66
Corporate Trustees			
Legal Provision Violated	Description of Provisions	Number of Violations 2010/11	Number of Violations 2011/12
RLR 14(a)	Failure to submit Annual Report containing financial statement within 120 days after the Corporate Trustees' year end.	2	1
RLR 14(b)	Failure to submit Certification of Tax Compliance covering the financial year within 120 days after the Corporate Trustees' year end.	2	1

Investment Managers			
Legal Provision Violated	Description of Provisions	Number of Violations 2010/11	Number of Violations 2010/11
RLR 15(1)a	Failure to submit Annual Report containing audited financial statement within 120 days of the financial year end.	19	20
RLR 15(1)b	Failure to submit Certification of Tax Compliance within 120 days of the financial year end.	13	14
RLR 15(1)c	Failure to submit evidence of Renewal of Professional Indemnity and Fidelity Guarantee Insurance within 120 days of the financial year end.	19	14
RLR 15(2)	Failure to submit Fund Status Report within 60 days of the end of the calendar quarter.	49	46
Administrators			
Legal Provision Violated	Description of Provisions	Number of Violations 2010/11	Number of Violations 2010/11
RLR 16(1)a	Failure to submit Annual Report containing audited financial statement within 120 days of the financial year end.	21	20
RLR 16(1)b	Failure to submit Administrator's Return within 120 days of the financial year end.	18	13
RLR 16(1)c	Failure to submit Certification of Tax Compliance within 120 days of the financial year end.	16	13
RLR 16(1)d	Failure to submit evidence of Renewal of Professional Indemnity Insurance within 120 days of the financial year end.	21	16

Notes:

1: References are to the Pensions Act and Regulations. For example; section 10 of the Pensions Act is referenced as "ACT 10"; "INV" refers to the Investment Regulations, and "GOV" refers to Governance Regulations.

PUBLIC EDUCATION

The thrust of FSC's public education campaign was largely proactive and responsive to the educational needs of the investing public. At the core of the campaign was a three-pronged approach; the elements of which were (i) to highlight emerging issues in the regulatory environment; (ii) to educate and empower investors and stakeholders in the pensions, securities and insurance industries to make prudent decisions and investments; and (iii) to enhance knowledge of the activities of the FSC as part of the highlights for the 10-year anniversary of the inception of the organization. A wide range of media channels were utilised and these include, but were not limited to the following:

- Public notices, articles and news releases;
- Interviews were conducted on request from journalists employed in electronic and print media;
- Three billboards at strategic locations around the island and one bus stop were sponsored; and

- Forty episodes of a weekly programme called the **FSC Minute** were produced and aired on local radio and television networks through the Jamaica Information Service (JIS).

Public Education Forums

The FSC continued its series of public education forums. In addition to understanding the topic under discussion, the aim of these events was to give investors and the wider public an opportunity to understand the role and functions of the FSC and to communicate directly with the FSC by either posing questions or making suggestions regarding the regulatory actions of the FSC. Three events were held during the reporting period:

- The first event was held at the Jamaica Pegasus Hotel in Kingston and focused on encouraging Jamaicans to plan for their retirement. The theme for this forum was '**Can You Afford to Retire**'. The presenters were: Rohan Barnett, former Executive Director of the FSC; St Elmo Whyte,

Consulting Actuary; and Rezworth Burchenson, General Manager, Prime Asset Ltd.

- The second was held in New York for the Jamaican Diaspora on the invitation of the Jamaican Consul General. The theme of the Briefing was **‘Investing in Jamaica’s Capital Market: An Understanding of the Jamaican Financial Environment’**. Mrs Marlene Street-Forrest of the Jamaica Stock Exchange (JSE); Ms Antoinette McKain of the Jamaica Deposit Insurance Corporation (JDIC); and former Executive Director of the FSC, Rohan Barnett delivered presentations to approximately fifty persons at this forum.
- The FSC also collaborated with the JDIC and the JSE to present a public meeting in Emancipation Park. This was held on September 23rd using the theme: ‘Protecting Your Money in Today’s Economy’.

Financial Education

The FSC remained committed to playing its role to improve the level of financial education in Jamaica. Therefore the FSC continued its financial education campaign in schools and the wider community.

Programme in Schools

For the second year, the FSC partnered with Junior Achievement Jamaica to deliver a programme of financial education in seven high schools across Jamaica. The participating schools were Glenmuir, William Knibb, Tacius Golding, St Jago, Norman Manley, Black River and Ardenne High Schools. At these schools, approximately 250 students were sensitized to budgeting, investing, making sound financial decisions and the operation of financial system in Jamaica. The programme included site visits by each school to the Jamaica Stock Exchange, the Bank of Jamaica Money Museum and the FSC.

The programme also incorporated an essay competition where Chadeaux Roberts, a student of St Jago High School, won first place ahead of one hundred and eighty two entrants. While second place was awarded to Michella Thompson of Tacius Golding High School, third place went to Tka McKenzie of Glenmuir High School. Minister of Education, Rev. the Honourable Ronald Thwaites delivered the main address and applauded the programme for its importance in helping students to understand how to manage their finances.



Essay Competition Winners: Tka McKenzie, Glenmuir High School, Michella Thompson of Tacius Golding High School and Chadeaux Roberts of St Jago High School stand next to Communications Manager, FSC, Nadene Newsome.

Public Education for Non-governmental and Governmental Organisations

Over the period, FSC staff members also visited several community organisations, schools and church groups speaking on topics such as the role of the FSC, retirement planning, as well as prudent investment and money management. The National Consumers’ League, Office of Disaster Preparedness and Emergency Management, Carlong Publishers, and the Broadcasting Commission are a few of the organisations that participated in this programme. Additionally 6th form students from Ardenne High School and teachers at the Norman Manley High School, among others, benefited from these presentations.

Exhibitions highlighting the role and responsibility of the FSC were also utilized by the FSC as a part of the public education strategy. The FSC displayed educational exhibits at the Jamaica Stock Exchange’s Investment and Capital Market Conference, and their annual Investor Education Week Expo held in Kingston and Montego Bay respectively.

Conferences, Seminars and Workshops

The FSC organised a number of conferences, seminars and workshops. A brief description is provided below:

- Three meetings with the Securities industry were organized for June 10 and July 6 & 7 2011 at the Terra Nova Hotel. The FSC sought feedback from Securities licensees on new prudential guidelines. These new guidelines resulted from a thorough review of existing prudential requirements. Several proposals aimed at strengthening capital adequacy requirements and encouraging even better risk management for securities dealers were presented.

- The FSC hosted the Caribbean Association of Pension Supervisors (“CAPS”) at their Inaugural Conference and Annual General Meeting on May 5 – 6, 2011 at the Jamaica Pegasus Hotel. The theme of the Conference was **“Pensions Regulation in the Caribbean: Addressing the On-going Challenges”**. The aim was to discuss and present issues which are of critical importance to regional bodies which are currently building the necessary legal and supervisory framework for the strengthening of pension regulations in the Caribbean. The focus was on pension legislation, organisational structures, and actuarial valuations and standards.
- Over sixty participants from Jamaica and the Caribbean Region attended and supported CAPS in its objective of fostering pension reform initiatives in the region. CAPS is a newly formed multi-jurisdictional association of pension supervisors. Its mission is to facilitate an efficient and effective pension supervisory and regulatory system in and between member jurisdictions.



Mr Gene Leon, IMF representative in Jamaica, delivering the Main Address at the Annual Caribbean Association of Pensions Supervisors Conference. Also in the photo are, (l-r) Mrs Nicolette Jenez, Senior Director, Pensions; Mr Leon Anderson, Senior Director, Insurance; and Mr Howard Edmonds, Chief Financial Advisor of CARTAC.

- The FSC held a Pension Seminar for trustees on February 16, at the Jamaica Conference Centre under the theme: **Bridging Gaps through Promoting and Understanding Pension Management**. The seminar was aimed at educating trustees on their role and responsibilities within the Pension Industry. Approximately 500 trustees were in attendance.



Professor Trevor Munroe, delivering the Opening Address at the FSC's Pension seminar for trustees. Also in photo are Executive Director, FSC, Mr Rohan Barnett and Mrs Nicolette Jenez, Senior Director, Pensions.

- On April 7, a workshop was organized by the FSC targeting insurance brokers and agents. The workshop addressed issues such as: (i) capital and filing requirements, (ii) registration of sales representatives, (iii) placing business with unregistered insurers, and (iv) anti-money laundering and counter financing of terrorism. The workshop was attended by approximately 70 individuals representing insurance brokers and agents.
- On December 6th, there was a workshop entitled **Review of the Solvency Framework for Life Insurance Companies in Jamaica**. Representatives from the Insurance Industry attended this presentation at the Terra Nova Hotel.
- The Financial Services Commission (“FSC”) hosted a seminar for representatives from the public and private sectors including its regulated entities on Thursday, March 15, 2012, at the Jamaica Pegasus Hotel. The workshop had as its theme, **Corporate Governance: The Foundation for Success**, and was opened with a keynote address by Mrs Annemarie Rhoden, Deputy Financial Secretary, Ministry of Finance and Planning, followed by a presentation by Mr Delano Franklyn from the Office of the Prime Minister, and the Honourable Douglas Orane. The workshop included discussions and presentations on issues relating to corporate governance in Jamaica, as well as the proposal of strategies for improvement.



Hon. Douglas Orane, Chairman, Grace Kennedy, addressing the audience at the Corporate Governance Seminar on the Grace Kennedy's experience with Corporate Governance. Also at the head table are Director of Compliance and Internal Control, Mrs Janet Johnson-Haughton, Mr Delano Franklin, of the Office of the Prime Minister and Mrs Loretta Reid Pitt, General Counsel, FSC.

- The FSC organised a Financial Planning Expo for two days on September 8 and 9, 2011 at the Jamaica Pegasus Hotel, commencing at 10 a.m. each day. This exposition focused on the theme **“Financial Success: Are you there?”** and exhibited products and services available in the financial market specifically for retirement planning, insurance and investing. The aim was for ordinary Jamaicans to map their successful paths to financial security. The opening ceremony included a presentation from the Honourable Audley Shaw, Minister of Finance and Planning and a keynote address delivered by the Hon Michael Lee-Chin, Chairman, Portland Holdings. Approximately 1,000 visitors came to the exposition on both days.



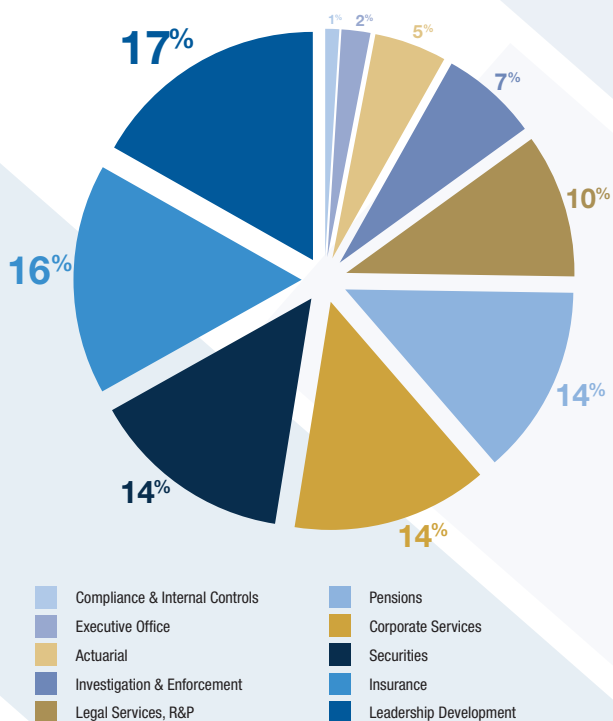
Financial Planning Expo: The Hon Michael Lee-Chin, Guest Speaker at the FSC's 3rd Annual Financial Planning Expo, addressing members of the audience at the Opening Ceremony. Also in photo, l-r, former Minister of Finance, Hon. Audley Shaw; Mr Rohan Barnett, former Executive Director, FSC; and Leon Anderson, Senior Director, Insurance.

CAPACITY BUILDING

The budget for training was \$15.8M (excluding amounts available under the Caribbean Regional Technical Assistance Centre (CARTAC), Inter-American Development Bank (IDB) and Caribbean Development Bank (CDB) Technical Assistance Programmes) amounting to a thirty-two per cent increase over the previous year's allocation, notwithstanding a decline in technical assistance funding.

During the period under review, eighty-one members of staff or approximately 67 per cent of the current staff complement participated in fifty-three (53) training courses, totalling approximately 2,634 contact hours. These courses included in-house, local and overseas training. The total expenditure for the period is approximately \$14.9M (excluding CDB/IDB funded programs). This represents an increase of approximately 8.2 per cent increase over the previous period. An analysis of the training expenditure shown below indicates that sixty-seven per cent (\$9.0M) of the funds was spent on regulatory capacity building. Eighteen per cent was spent on a leadership development programme which was conducted in partnership with the Mona School of Business. Fifteen per cent was utilized on training for staff in corporate support services such as MIS, HRM and Finance. Figure 2 shows percentage expenditure by divisions.

Figure 2: Training Expenditure by Divisions, 2011/2012



REVIEW OF FINANCIAL PERFORMANCE

The financial statements in this report present the financial position, operating results and cash flows of the FSC in accordance with International Financial Reporting Standards for the financial year ended March 31, 2012. The following comments provide an analysis of the performance during the year and should be read in conjunction with the financial statements.

Income and Expenditure

The Financial Services Commission ("FSC") achieved a net surplus of \$15.6 million compared with the \$73.1 million for the previous year. Highlights of the income and expenditure are presented below:

Income

The FSC is funded mainly through fees charged to the licensed financial institutions and private pension plans, which the FSC regulates and supervises. The amount charged to individual institutions is determined according to the fees formulae set out in regulations. In general, the system is designated to allocate the FSC's costs based on the time spent supervising and regulating each industry.

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

• Licensing/Registration fees	\$651.3 million
• Interest Income	\$20.3 million
• Fees from seminars/workshops	\$2.2 million
• Miscellaneous Income	<u>\$0.9 million</u>
Total	\$674.7 million

Licensing and Registration fees for the 2011/2012 financial year decreased by approximately 2 per cent when compared with the previous year. This decrease in fees was due to the following:

- A 1 per cent increase in fees from the insurance industry
- A 6 per cent decrease in fees from the pensions industry.

Tables 42-44 provide details of the sources of fee income from the securities, insurance and pensions industries for 2011/2012 and the comparative 2010/2011

Table 42: Revenue from the Securities Industry 2010/2011 and 2011/2012

Source	2010/2011		2011/2012	
	Revenue ('\$000)	Per cent of Total	Revenue ('\$000)	Per cent of Total
Annual Licensing/Registration Fees—Securities Dealers Mutual Funds	143,046	83	137,920	80
Stock Exchange & JCSD Fees	15,202	9	20,094	12
Application Fees	13,844	8	14,397	8
Commercial Paper	121	0	4	0
Totals	172,213	100	172,415	100

Table 43: Revenue from the Insurance Industry 2010/2011 and 2011/2012

Source	2010/2011		2011/2012	
	Revenue ('\$000)	Per cent of Total	Revenue ('\$000)	Per cent of Total
Annual Registration Fees- Life and General Companies	240,384	95	241,352	93
Annual Fees-Intermediaries	12,236	5	14,011	5
Application Fees	5,201	0	5,764	2
Totals	257,821	100	261,127	100

Table 44: Revenue from the Pensions Industry 2010/2011 and 2011/2012

Source	2010/2011		2011/2012	
	Revenue ('\$000)	Per cent of Total	Revenue ('\$000)	Per cent of Total
Annual Licensing Fees- Investment Managers	231,393	100	216,480	99
Application Fees	944	0	1,228	1
Totals	232,337	100	217,708	100

Interest Income

Interest Income for 2011/2012 was \$20.31 million which was almost similar when compared to the previous year. Although there was high available cash balances for the year the interest rates offered were lower than the previous year. Interest rates offered on short term deposits for 2011/2012 were between 5.75 per cent and 6 per cent per annum compared with 6 per cent and 7.5 per cent per annum for 2010/2011.

Expenses

Total expenses for the 2011/2012 financial year were \$695.07 million, approximately 7 per cent higher than the previous year. There were however, increase/reductions in some expenses, these included:

a. Appeal Tribunal

Expenses relating to the operation of the FSC Appeal Tribunal of \$4.6 million for 2011/2012 were 149.3 per cent higher than the previous year. The higher level of expenses is as a result of the increase in the number of cases in which the Tribunal had to preside over, which required the use of outside facilities (example Courtleigh Hotel for meeting room and refreshments) as well as the appointment of a fulltime secretary).

b. Bad Debt Expense

The Bad Debt expense of \$3,248,909 includes the following:

1. Write off of a portion of taxation recoverable of \$1,397,959
2. Write off of an amount in receivable re the case of Neil/Janice Lewis (t/a LewFam Investments) v. the FSC. An amount of \$1,850,950 was awarded to the FSC but the amount has been outstanding for more than a year and there has been no correspondence from the client.

c. Building Maintenance

Building Maintenance increased by 157.9 per cent or approximately \$9 million for 2011/2012 when compared with 2010/2011. This increase was due to the fact that in April 2011, during the upgrade of the UPS system, a fire occurred in the electrical room, located in the basement of the

FSC's building. This resulted in severe damage to the main electrical panel that supplies electricity to the building. The repair cost totalled \$6.7M and petrol used to operate the generator, during the period when the electricity was out, was \$2.2M.

d. Commissioners' Fees

Commissioners' fees of \$1.9 million was \$1.5 million lower than the previous year due to the fact that there were no Board meetings from November 2011 as the Board was not properly constituted following the resignation of one of the Commissioners in November 2011.

e. Data Security

Data security expense of approximately \$6.7 million refers to the rental of a hot site location for the FSC data system which became operational in April 2011.

In March 2011, the FSC entered into a co-location service agreement with Digicel (Jamaica) Limited for the lease of a specific space at the Digicel Caymanas Data Centre for the location of the FSC's equipment (computer, networking and data communications hardware and software owned and maintained by the FSC).

f. Professional fees

Professional fees of \$26.9 million were 96 per cent higher than the previous year. Included in the professional fees are legal fees, fees incurred for the audit of the FSC's Pension Fund, fees for temporary management and forensic audit of Intertrade Finance Corporation, an Information System Security Audit conducted by Deloitte & Touch, and consultant services provided by Focal Point (job evaluation project) and Mr. Al Kiel (project for early warning risk assessment for Pension funds).

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

Legal Fees	\$8.6
Consultants Services	\$3.2
Audit of Pension Fund	\$.8
Security Audit	\$2.2
Forensic Audit	\$1.0
Temporary Management	\$7.6
Other services	\$3.5
Total	\$26.9

g. Office Expenses

Office expenses for the year were \$17 million which was similar to that of the previous year.

h. Depreciation and Amortization

The depreciation costs of \$29.2 million were approximately 82 per cent higher than the previous year. The Commission purchased assets valued at \$18.9 million during the period which is a factor in the increase value of depreciation and amortization. In addition, the Commission implemented a comprehensive fixed asset system, which calculates the depreciation on an individual asset basis rather than the accumulated cost of total assets, which was the method used previously. The new system now reflects the correct depreciation charge for the year.

i. Motor Vehicle and Parking

Motor vehicle and parking expenses of \$8.1 million (approximately) was \$2.1 million lower than the previous year due to a reduction in the number of parking spaces and lower unit rates.

j. Public Education Expenses

Public education expenses of \$23.05 million was 26 per cent higher than the previous year due to increased steps in keeping the public informed of non-registered schemes and information on safe investing.

k. Salaries and Related Expenditure

Salaries and Related Expenditure was \$448.2 million for 2011/2012 or 1 per cent lower than the previous year even though the FSC implemented the 7 per cent wage adjustment. During the year, twelve (12) members of staff tendered their resignations.

l. Subscriptions

Subscription cost of \$9.1 million was 63 per cent or \$3.52 million higher than the previous year due to the following:

- The addition of 25 Microsoft licenses amounting to approximately \$787,000.
- New subscriptions, i.e. Financial Stability costing \$659,329; and LexisNexis for

Pensions costing \$368,855

- Increase in the subscription fee for IAIS and ISOCO for membership in the Insurance and Securities international regulatory bodies respectively as movement in exchange rates (Swiss francs and EU).

m. Rent

The Commission occupies a building owned by the Government of Jamaica (through the Ministry of Land, Water, Environment and Climate Change) at no cost and without a lease agreement. This Government grant represents the commercial value of annual rent which management estimates at \$36 million.

Balance Sheet

1. Liquidity

The FSC ended the year with cash and cash equivalents of \$20.62 million compared with the \$17.68 million at the end of the 2010/2011 financial year. Resale agreements (short term investments) were \$406.45 million which was \$53.45 million higher than the previous year. We continue in our efforts to ensure that all licensing/registration fees are received within the stipulated due date.

2. Accounts Receivable and Prepayments

Accounts Receivable and Prepayments at \$103.6 million was \$6.9 million higher than the previous year. This amount includes the following:

	2012	2011
Trade receivables	89.8	79.0
Prepayments and deposits	8.2	7.3
Other Receivables	2.8	5.7
Interest receivable	2.8	4.7
Total	103.6	96.7

The fee outstanding of \$89.84 million includes an amount of \$63 million which relates to insurance fees which are paid quarterly in arrears. Fees for the quarter ending March 31, 2012 would be due in April 2012.

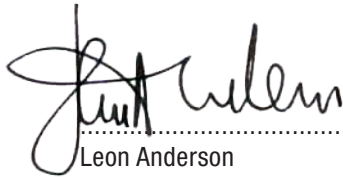
3. Property Plant and Equipment & Intangible Assets

Property, plant and equipment at the end of the

year was \$49.27 million (net of depreciation and amortization) or \$10.7 million lower than the previous year due to the fact that some assets are now fully depreciated.

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

Motor Vehicles	20 per cent
Leasehold improvement, office furniture and equipment	10 per cent & 25 per cent
Computer equipment and software	25 per cent



Leon Anderson
Executive Director (Acting)

4. Accounts payable

	2012	2011
Trade and other payables	\$28.0	\$24.0
Employee benefits (accrued leave, gratuity, 7per cent MOU adjustment)	\$73.1	\$69.2
	\$101.1	\$93.2

Included in the payables is a provision of \$38.66 million which was provided for in the previous year, for the 7 per cent MOU adjustment for 2009/2010 and 2010/2011. This will be paid in five equal instalments from May 2012 to May 2014.

Executive Compensation

Table 45: Compensation of Commissioners 2011/2012 (\$'000)

Name of Commissioner	Fees	Motor Vehicle Upkeep/ Travelling or Value of Assignment of Motor Vehicle	Honoraria	All other Compensation including Non-cash Benefits as applicable	Total
(\$' 000)					
Emil George- Chairman	0.0		1,125.00		1,125.00
Dayle Blair	0.0	89.60	129.34		218.94
Roald Henriques	0.0		129.37		129.37
Peter Wilson	0.0		99.00		99.00
Shirley Williams	0.0		113.62		113.62
David Tennant	0.0		71.25		71.25
Dennis Boothe	0.0		145.12		145.12
Total	0.0	89.60	1,812.70		1,902.30

Table 46: Compensation of Executive Management 2011/2012

Basic Salary Range of Executive Management	
Director	\$4,105,151 – 5,131,439
Senior Director and General Counsel	\$5,437,020 – 6,763,123
Chief Actuary	\$5,991,172 – 8,237,861
Deputy Executive Director	\$7,799,754 – 8,131,659
Executive Director	\$14,750,000 per annum
Allowances	
Motor Vehicle	
Executive Director	Fully maintained motor vehicle
Other Executive Management	\$796,500 per annum
Housing	
Executive Director	\$4,334,400 per annum
Gratuity in Lieu of Pension	
	25% per annum basic salary

Note: Executive Management includes the Executive Director, Deputy Executive Director, Senior Directors (4), Chief Actuary, Directors (2) and General Counsel. Each member of the Executive Management Team is on contract and is therefore not on the Commission's pension plan. The members are however, eligible for health insurance coverage on the Commission's group health plan. The Commission also reimburses the Executive Director for the cost of all utilities associated with such housing. For the year 2011/2012 this amounted to \$1,133,601.35

FSC STATUTES & REGULATIONS

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

The Financial Services (FSC Act) – enacted in 2001 and amended in 2004; it provides for the basic functions and responsibilities of the FSC.

The Financial Services (Overseas Regulatory Authority) (Disclosure) Regulations – promulgated in 2005. The regulations give the FSC the authority to provide information and documents, as the FSC deems appropriate, in response to a request made by an overseas regulatory authority.

The Insurance Act – enacted in 2001; it provides for the regulation of insurance business in Jamaica.

The Insurance Regulations – promulgated in 2001 and last amended in 2004; they provide detailed rules and regulations governing individuals and companies operating in the insurance industry.

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

The Insurance (Actuaries) (General Insurance Companies) Regulations – promulgated in 2002; these regulations set out the rules governing the preparation of actuarial reports and the business conduct of actuaries for general insurance companies.

The Insurance (Prescribed Sum) Regulations – promulgated in 2004; these regulations prescribe the amount payable by an insurer to an individual who satisfies the insurer that he is entitled to obtain probate of the will of the deceased person or to take out letters of administration.

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

The Securities (Licensing and Registration) Regulations – promulgated in 1996 and amended in 2003 and 2008; these regulations provide for the licensing and registration of dealers, investment advisers, their representatives and responsible officers.

The Securities (Conduct of Business) Regulations – promulgated in 1999 and last amended in 2003; these regulations deal with the dealer/client relationship and guidelines for filing of financial information by licensed dealers.

The Securities (Disclosure of Interest) Regulations – promulgated in 1999; these provide for the disclosure of information relating to public companies as well as issuers of commercial paper.

The Securities (Mutual Funds) Regulations – promulgated in 1999; these regulations stipulate the rules for the business operation and supervision of mutual funds. The regulations also contain specific provisions concerning the protection of investors.

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

The Securities (Central Securities Depository) Regulations – promulgated in 2000 and amended in 2002; these regulations deal with the operational procedures of a central securities depository.

The Unit Trusts Act – enacted in 1971 and last amended in 2001; the Act governs the operation of unit trusts.

The Unit Trusts (Nominees) Regulations – promulgated in 2009; these regulations set out the criteria for a prospective nominee to be approved by the FSC.

The Unit Trusts (Registration of Schemes) Regulations – promulgated in 1971 and amended in 2009; these regulations govern the process of registration for unit trusts.

The Unit Trusts (Books and Document) Regulations – promulgated in 1973 and amended in 2009; these regulations deal with the books and records which should be maintained by unit trusts.

The Unit Trusts (Amendment of Schedule to Principal Act) Regulations – promulgated in 2009; these regulations outline obligations that any unit trust must satisfy.

The Pensions (Superannuation Funds and Retirement Schemes) Act – enacted in September 2004 and amended in March 2005 and March 2006; the Act provided for the licensing, operation and supervision of entities in the

pensions industry.

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

The Pensions (Superannuation Funds and Retirement Schemes) (Registration, Licensing and Reporting) Regulations, 2006 – promulgated on March 29, 2006; these regulations describe the conditions for the licensing and registration of schemes, funds, investment managers, administrators and other key persons.

The Pensions (Superannuation Funds and Retirement Schemes) (Governance) Regulations, 2006 – promulgated on March 29, 2006; these regulations outline the operational procedures for those who preside over pensions funds and retirement schemes.

The Pensions (Superannuation Funds and Retirement Schemes) (Investment) Regulations, 2006 – promulgated on March 29, 2006; these regulations provide detailed rules and guidelines for trustees and investment managers to prudently invest and manage the assets that fall under their responsibility.

List of Registered & Licensed Entities/ Individuals as at March 31, 2012

List of Licensed Securities Entities / Individuals as at March 31, 2012 ²⁴			
Dealers (Companies)		Dealers (Individuals)	
1	Alliance Investment Management Limited	1	Bailey, Lorreston ^β
2	Barita Investments Limited	2	Berry, Christopher *
3	Barita Unit Trusts Management Company Limited	3	Berry, Konrod *
4	BPM Financial Limited	4	Campbell, Ryland *
5	Capital & Credit Fund Managers Limited	5	Issa, Christopher
6	Capital & Credit Merchant Bank Limited		
7	Capital & Credit Securities Limited		
8	Capital Solutions Limited		
9	CCU Investments Limited		
10	Churches Co-operative Credit Union Limited		
11	Citifinance Limited		
12	City of Kingston Co-operative Credit Union Limited		
13	Credit Union Fund Management Company Limited		
14	CWJ Employees Co-operative Credit Union Limited		
15	E. W. Lewis Investments & Finance Limited		
16	FirstCaribbean International Bank (Jamaica) Limited		
17	FirstCaribbean International Securities Limited		
18	First Global Financial Services Limited		
19	Guardian Life Limited		
20	Heritage Education Funds International (Jamaica) Limited		
21	Ideal Finance Corporation Limited		
22	Ideal Portfolio Services Limited		
23	Intertrade Finance Corporation Limited ^β		
24	Jamaica Co-operative Credit Union Limited		
25	Jamaica Money Market Brokers Limited		
26	Jamaica National Building Society		
27	JMMB Securities Limited		
28	JN Fund Managers Limited		
29	MF&G Asset Management Limited		
30	M/VL Stockbrokers Limited		
31	Mayberry Investments Limited		
32	MoneyMasters Limited		
33	NCB Capital Markets Limited		
34	NCB Insurance Company Limited		
35	Pan Caribbean Financial Services Limited		
36	Prime Asset Management Limited		
37	Proven Management Limited		
38	Proven Wealth Limited (formerly Guardian asset Management Limited)		
39	RBTT Securities Limited		

²⁴ The asterisks indicate individual dealers who are associated with a company that is also licensed as dealer, while the Greek letter beta "β" indicates a registrant, licensee or individual dealers that have been suspended.

List of Licensed Securities Entities / Individuals as at March 31, 2012²⁴

Dealers (Companies)		Dealers (Individuals)	
40	Sagicor Life Jamaica Limited		
41	Scotia Asset Management (Jamaica) Limited		
42	Scotia Investments Jamaica Limited		
43	Scotia Jamaica Life Insurance Company Limited		
44	Sterling Asset Management Limited		
45	Stocks and Securities Limited		
46	UGI Finance & Investments Limited ^B		
47	Victoria Mutual Wealth Management Limited		
48	West Indies Trust Company Limited		
49	West Indies Union Investment Management Limited		

List of Registered Securities Entities as at March 31, 2012

Mutual Funds		Unit Trusts	
		> Management Companies	
1	Manulife Opportunity Funds	1	Barita Unit Trusts Management Company Limited
2	Manulife Focused Funds	2	Capital & Credit Fund Managers Limited
3	Manulife Value Funds	3	Pan Caribbean Financial Services Limited
4	Manulife Specialty Funds	4	Scotia Asset Management (Jamaica) Limited
5	Manulife Income Funds	> Schemes	
6	CI Sector Balanced Funds	1	Barita Unit Trusts Money Market Fund
7	CI Sector Diversified Equity Funds	2	Barita Unit Trusts Capital Growth Fund
8	CI Sector Fixed Income Funds	3	Capital & Credit Income & Growth Fund
9	CI Sector Focused Equity Funds	4	Capital & Credit Giltedge Fund
10	Jamaica Select Index fund	5	Capital & Credit Optimum Capital Fund
11	Scotia US Growth Mutual fund	6	Scotia Premium Fixed Income Fund
12	Scotiabank Canadian Growth Fund	7	Scotia Premium Growth Fund
13	Scotia Caribbean Income Fund Inc.	8	Scotia Investment Fund
14	Scotiabank Global Growth Fund	9	The Sigma Fund
15	Scotiabank Money Market Fund	> Investment Advisers	
16	Scotiabank US Dollar Bond Fund	1	Allistair Macbeath
17	Trinidad Select Index Fund Limited	2	Wayne Wray
		3	Williams & Associates Investments Limited

List of Registered Insurance Entities as at March 31, 2012

Life Insurance Companies		General Insurance Companies	
1	CUNA Mutual Insurance Society	1	Advantage General Insurance Company Limited
2	JN Life Insurance Company Limited	2	American Home Assurance Company
3	Guardian Life Limited	3	British Caribbean Insurance Company Limited
4	NCB Insurance Company Limited	4	General Accident Insurance Jamaica Company Limited
5	Sagicor Life Jamaica Limited	5	Globe Insurance Company of Jamaica Limited
6	Scotia Jamaica Life Insurance Company Limited	6	Jamaica International Insurance Company Limited
		7	Key Insurance Company Limited
		8	NEM Insurance Company (Jamaica) Limited
		9	The Insurance Company of West Indies Limited
		10	West Indies Alliance Insurance Company Limited
Insurance Agents		Association of Underwriters	
1	Associated Owners Insurance (Agents) Limited	1	Lloyds
2	Chancellor Insurance Agency Limited		
3	Crichton Insurance Agency Limited	Overseas Reinsurance Brokers	
4	Dionne Audrey Webb T/A Destiny Insurance Agent	1	Aeon Limited (formerly Benfield Limited)
5	Doran Ferguson T/A Apex Insurance Agents	2	J.B. Boda
6	George Henderson Williams T/A Quality Insurance Agent		
7	Gersham McLaughlin T/A Global Risk Management Insurance Agents	Insurance Consultants	
8	Herman Gary Norton T/A Impact Insurance Agents	1	Nicholas James Wood
9	Jamaica Co-operatives Insurance Agency Ltd. (formerly NUCS Co-operative Insurance Services Limited)	2	Eberle Alric Robert Dawes T/A Flavoured Consultants In Insurance
10	Mutual Enterprises (Insurance) Agents Limited	3	Action & Advice Claims Consultants Limited
11	Nationwide Insurance Agents and Consultants Limited		
12	Paul Anthony Simpson, General Insurance Agent	Local Reinsurance Broker	
13	Riviera Insurance Agency Limited	1	CGM Gallagher Insurance Brokers Jamaica Limited
14	Sagicor International Administrators Limited		
Insurance Brokers		Insurance Loss Adjusters	
1	Allied Insurance Brokers Limited	1	Advanced Insurance Adjusters Limited
2	Assurance Brokers of Jamaica Limited	2	Alert Motor Loss Adjusters & Valuers Limited
3	Billy Craig Insurance Brokers Limited	3	Auto Assessors and Associates Limited
4	Caribbean Assurance Brokers Limited	4	Auto Electrical Specialist Limited
5	CGM Gallagher Insurance Brokers Jamaica Limited	5	Axis (Jamaica) Limited
6	Covenant Insurance Brokers Limited	6	Caribbean Loss Adjusters Limited
7	Desmond Mair Insurance Brokers Limited	7	Evan Evans T/A Evans Insurance Consultants Limited
8	Excel Insurance Brokers	8	Innovative Consulting Services Limited T/A International Claims Services
9	Firm Insurance Brokers Limited	9	Jamaica Motor Assessment Limited
10	Fraser Fontaine & Kong Limited Insurance Brokers	10	John Grewcock T/A Talisman Adjusters

List of Registered Insurance Entities as at March 31, 2012

11	GEM Insurance Brokers Limited ^β	11	Karen Alethea Scarlett T/A KAS Loss Adjusters and Valuers
12	Genesis Insurance Brokers Limited	12	Lloyd Williams T/A Lloyd's Motor Insurance Adjusters
13	Jamaica Citadel Insurance Brokers Limited	13	Mathew John O'Donoghue T/A JMO Adjusters
14	JMMB Insurance Brokers Limited	14	Maxine Margaret Segree T/A Claims Recovery & Insurance Bureau (CRIB)
15	Lawe Insurance Brokers Limited	15	Mendez Livingstone Incorporated Limited
16	Marathon Insurance Brokers Limited	16	Michael Earl Xavier McKenzie T/A Red Line Collision Appraisal Specialist
17	Maritime General Insurance Brokers Limited	17	MSC McKay (Jamaica) Limited
18	Mutual Security Insurance Brokers Limited	18	Norman Washington Charoo T/A Prominent Loss Adjusters
19	National Property & General Insurance Brokers Limited	19	Pan Caribbean Consultants Limited
20	Orion Insurance Brokers Limited	20	Percival George Stewart T/A Kaution Jamaica
21	Progressive Insurance Brokers Limited	21	Vincent Lloyd McLaughlin T/A Larmax Loss Adjusters
22	Sagikor Insurance Brokers Limited	22	Vision Adjusters Limited
23	Solid Life and General Insurance Brokers Limited	23	Toplis & Harding (Jamaica) Limited
24	Spectrum Insurance Brokers Limited	24	Trans Jam Loss Adjusters Limited
25	Thwaites Finson Sharp Insurance Brokers Limited		
Facultative Placement Brokers		Insurance Investigators	
1	Allied Insurance Brokers Limited	1	AB Investigation Services Limited T/A AB Investigation
2	Assurance Brokers of Jamaica Limited	2	Delroy Anthony Lawson T/A DL Express Investigation & Process Service
3	Billy Craig Insurance Brokers Limited	3	Charles Oliver Rodriguez T/A Charles Rodriguez Investigations
4	Caribbean Assurance Brokers Limited	4	Conrad Vaughn Myrie T/A C.I.S. Claims Investigation
5	CGM Gallagher Insurance Brokers Jamaica Limited	5	Errol Orlando Rattray T/A Quality Adjusters
6	Desmond Mair Insurance Brokers Limited	6	Focus Investigations Limited
7	Excel Insurance Brokers	7	Jones Solomon Jaisingh T/A Network Coordinate
8	Firm Insurance Brokers Limited	8	Joseph Clement Messam T/A PROCUR (Professional Procurers)
9	Fraser Fontaine & Kong Limited Insurance Brokers	9	Latoure DeAvergne Duhaney T/A Genesis Protective Services
10	JMMB Insurance Brokers Limited	10	Vinel Central Investigation & Security Consultancy Limited
11	Lawe Insurance Brokers Limited		
12	Marathon Insurance Brokers Limited	Claim Negotiators	
13	Maritime General Insurance Brokers Limited	1	Collin Michael Harley T/A Insight Insurance Services
14	Mutual Security Insurance Brokers Limited	2	Claims Administrators Limited
15	National Property & General Insurance Brokers Limited	3	Fidelity Insurance Claims Consultants Limited
16	Sagikor Insurance Brokers Limited	4	Karen Patricia Murphy T/A Image Claims Negotiating Services
17	Spectrum Insurance Brokers Limited	5	Natalie Kerr T/A Direct Claims Services
18	Thwaites Finson Sharp Insurance Brokers Limited		

The Greek letter beta "β" indicates individual dealers that have been suspended

List of Licensed Pensions Entities as at March 31, 2012

Pensions Administrators		Pensions Investment Managers	
1	ATL Group Pension Fund Trustees Nominee Limited	1	ATL Group Pension Fund Trustees Nominee Limited
2	Bank of Jamaica	2	Bank of Jamaica
3	Bank of Nova Scotia	3	Barita Investments Limited
4	Barita Investments Limited	4	BPM Financials Limited
5	BPM Financials Limited	5	Capital & Credit Securities Limited
6	Capital & Credit Securities Limited	6	Churches Co-operative Credit Union Limited
7	Churches Co-operative Credit Union Limited	7	City of Kingston Co-operative Credit Union Limited
8	Credit Union Fund Management Company Limited	8	Credit Union Fund Management Company Limited
9	Development Bank of Jamaica Limited	9	Development Bank of Jamaica Limited
10	Employee Benefits Administrator Limited	10	FirstCaribbean International Securities Limited
11	FirstCaribbean International Bank (Jamaica) Limited	11	First Global Financial Services Limited
12	FirstCaribbean International Securities Limited	12	Guardian Asset Management Limited
13	First Global Financial Services Limited	13	Guardian Life Limited
14	Guardian Life Limited	14	Investment Nominees Limited
15	Guardian Pension Funds Limited	15	Jamaica Co-operative Credit Union League Limited
16	IBM	16	Jamaica Money Market Brokers Limited
17	Investment Nominees Limited	17	Jamaica National Building Society
18	Jamaica Co-operative Credit Union League Limited	18	JN Fund Managers Limited
19	Jamaica Money Market Brokers Limited	19	Mayberry Investments Limited
20	JN Fund Managers Limited	20	MF&G Asset Management Limited
21	Mayberry Investments Limited	21	NCB Insurance Company Limited
22	MF&G Asset Management Limited	22	Prime Asset Management Limited
23	NCB Insurance Company Limited	23	RBTT Securities Limited
24	Nestle Jamaica Limited	24	Sagicor Life Jamaica Limited
25	Prime Asset Management Limited	25	Scotia DBG Investments Limited
26	Scotia DBG Investments Limited	26	Veritat Nominees Limited
27	Scotia Jamaica Life Insurance Company Limited	27	West Indies Union Investment Management Limited
28	Veritat Nominees Limited		
29	West Indies Union Investment Management Limited		





Financial Statements

March 31, 2012



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

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

INDEPENDENT AUDITORS' REPORT

To the Members of
FINANCIAL SERVICES COMMISSION

Report on the Financial Statements

We have audited the financial statements of Financial Services Commission ("the Commission"), set out on pages 61 to 80 which comprise the statement of financial position as at March 31, 2012, the statements of comprehensive income, changes in reserves and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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



To the Members of
FINANCIAL SERVICES COMMISSION

Opinion

In our opinion, proper accounting records have been maintained and the financial statements, which are in agreement therewith, give a true and fair view of the financial position of the Commission as at March 31, 2012, and of its financial performance, changes in reserves and cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink, appearing to read 'CWMG'.


Chartered Accountants
Kingston, Jamaica

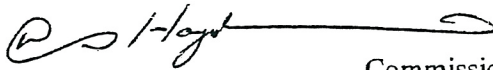
July 5, 2012

FINANCIAL SERVICES COMMISSIONStatement of Financial Position
March 31, 2012

	<u>Notes</u>	<u>2012</u>	<u>2011</u>
CURRENT ASSETS			
Cash and cash equivalents	3	20,619,802	17,681,957
Resale agreements	4	406,451,259	353,000,984
Accounts receivable and prepayments	5	103,634,984	96,681,167
Taxation recoverable	6	<u>9,667,973</u>	<u>11,062,688</u>
		<u>540,374,018</u>	<u>478,426,796</u>
CURRENT LIABILITIES			
Accounts payable	7	101,084,942	93,225,415
Deferred fees		<u>226,013,123</u>	<u>198,210,910</u>
		<u>327,098,065</u>	<u>291,436,325</u>
NET CURRENT ASSETS		213,275,953	186,990,471
NON-CURRENT ASSETS			
Intangible assets	8	2,198,334	9,496,756
Property, plant & equipment	9	<u>47,067,033</u>	<u>50,464,841</u>
		<u>\$262,541,320</u>	<u>246,952,068</u>
Financed by:			
RESERVES	10	<u>\$262,541,320</u>	<u>246,952,068</u>

The financial statements on pages 61 to 80 were approved by the Board of Commissioners on July 5, 2012, and signed on its behalf by:

 Chairman
Colin Bullock

 Commissioner
Winston Hayden

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

FINANCIAL SERVICES COMMISSIONStatement of Comprehensive Income
Year ended March 31, 2012

	<u>Notes</u>	<u>2012</u>	<u>2011</u>
INCOME			
Fees		651,250,964	662,371,994
Interest income		20,311,402	20,769,386
Other		<u>3,096,122</u>	<u>5,916,964</u>
		<u>674,658,488</u>	<u>689,058,344</u>
EXPENSES			
Advertising		2,405,713	1,517,415
Appeal Tribunal		4,575,553	1,835,256
Audit		1,770,952	2,282,283
Bad debt expense		3,248,909	4,151,710
Bank charges		852,646	806,954
Building maintenance		14,770,945	5,726,502
Commissioners' fees		1,902,315	3,433,878
Data security		6,736,718	-
Depreciation and amortisation		29,182,350	15,984,197
Motor vehicle and parking expenses		8,135,835	10,282,236
Office expenses		17,038,401	17,677,427
Printing and stationery		3,816,217	3,116,569
Professional fees		26,944,023	13,773,489
Project expenses		-	377,000
Public education		23,054,900	18,333,938
Rent	11(ii)	36,000,000	35,000,000
Staff costs		448,199,831	454,421,458
Subscriptions		9,088,655	5,568,981
Training and conferences		35,702,798	35,294,094
Utilities		<u>21,642,475</u>	<u>21,373,946</u>
		<u>695,069,236</u>	<u>650,957,333</u>
(Deficit)/surplus for the year		(20,410,748)	38,101,011
OTHER COMPREHENSIVE INCOME			
Grant	11(ii)	<u>36,000,000</u>	<u>35,000,000</u>
Total comprehensive income for the year		<u>\$ 15,589,252</u>	<u>73,101,011</u>

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

FINANCIAL SERVICES COMMISSIONStatement of Changes in Reserves
Year ended March 31, 2012

	<u>General</u>	<u>Capital Reserve (Note 10)</u>	<u>Total</u>
Balances at March 31, 2010	<u>172,772,493</u>	<u>1,078,564</u>	<u>173,851,057</u>
Total comprehensive income for the year			
Surplus for the year	38,101,011		38,101,011
Other comprehensive income - Grant	<u>35,000,000</u>	<u>-</u>	<u>35,000,000</u>
Total comprehensive income for the year	<u>73,101,011</u>	<u>-</u>	<u>73,101,011</u>
Balances at March 31, 2011	245,873,504	1,078,564	246,952,068
Total comprehensive income for the year			
Deficit for the year	(20,410,748)	-	(20,410,748)
Other comprehensive income - Grant	<u>36,000,000</u>	<u>-</u>	<u>36,000,000</u>
Total comprehensive income for the year	<u>15,589,252</u>	<u>-</u>	<u>15,589,252</u>
Balances at March 31, 2012	<u>\$261,462,756</u>	<u>1,078,564</u>	<u>262,541,320</u>

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

FINANCIAL SERVICES COMMISSIONStatement of Cash Flows
Year ended March 31, 2012

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
(Deficit)/surplus for the year	(20,410,748)	38,101,011
Adjustments for:		
Depreciation and amortisation	29,182,350	15,984,197
Gain on disposal of property, plant & equipment	(18,242)	(9,000)
Interest income	<u>(20,311,402)</u>	<u>(20,769,386)</u>
	(11,558,042)	33,306,822
(Increase)/decrease in current assets:		
Resale agreements	(53,450,275)	(110,697,713)
Accounts receivable and prepayments	(8,846,858)	(17,813,476)
Taxation recoverable	1,394,715	3,940,728
Increase in current liabilities:		
Accounts payable	7,859,527	45,800,894
Deferred fees	<u>27,802,213</u>	<u>5,344,495</u>
Net cash used by operating activities	<u>(36,798,720)</u>	<u>(40,118,250)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant & equipment	(18,881,372)	(10,298,255)
Additions to intangible assets	-	(1,300,106)
Proceeds from disposal of property, plant & equipment	413,494	9,000
Interest received	<u>22,204,443</u>	<u>16,646,134</u>
Net cash provided by investing activities	<u>3,736,565</u>	<u>5,056,773</u>
CASH FLOWS FROM FINANCING ACTIVITY		
Grants, being		
net cash provided by financing activities	<u>36,000,000</u>	<u>35,000,000</u>
Net increase/(decrease) in cash and cash equivalents	2,937,845	(61,477)
Cash and cash equivalents at beginning of the year	<u>17,681,957</u>	<u>17,743,434</u>
Cash and cash equivalents at end of the year	<u>\$20,619,802</u>	<u>17,681,957</u>

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

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements March 31, 2012

1. The Commission

The 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.

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).

During previous years, the Government of Jamaica (GOJ) through its agencies, the Superintendent of Insurance and the Financial Sector Adjustment Company, donated certain property, plant and equipment to the Commission. These assets were brought in at valuation which was subsequently deemed to be cost on first-time adoption of IFRS in year ended March 31, 2004.

At March 31, 2012, the Commission had in its employment 120 (2011:115) employees, out of a Board approved establishment of 125 (2011:125) employees.

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

(a) Statement of compliance:

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

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

Certain new, revised and amended standards and interpretations came into effect during the current financial year. Based on the Commission's current operations, none of them had any significant effect on the amounts and disclosures in the financial statements, except that the amendments to IFRS 7, *Financial Instruments: Disclosures*, led to some changes in the qualitative and quantitative disclosures relating to credit risk. In particular, disclosure of the amount of the Commission's 'maximum exposure to credit risk without considering any collateral held' is now made only if the carrying amount of the financial asset does not already reflect such exposure.

FINANCIAL SERVICES COMMISSIONNotes to the Financial Statements (Continued)
March 31, 20122. Statement of compliance, basis of preparation and accounting policies (cont'd)

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

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

At the date of approval of the financial statements, certain new, revised and amended standards and interpretations were in issue but had not yet come into effect for the year ended March 31, 2012. They were not adopted early and, therefore, have not been taken into account in preparing the financial statements. The following are considered relevant to the Commission's financial statements:

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

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

(b) Basis of preparation:

The financial statements are prepared on the historical cost basis and are presented in Jamaica dollars (J\$), which is the functional currency of the Commission.

FINANCIAL SERVICES COMMISSIONNotes to the Financial Statements (Continued)
March 31, 20122. Statement of compliance, basis of preparation and accounting policies (cont'd)

(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 significant effect on the financial statements and estimates with a significant risk of material adjustment in the next financial year are discussed below:

(i) Allowance for impairment losses on receivables:

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

(ii) Contingencies:

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

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

(d) Grants:

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

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

(i) Owned assets:

Items of property, plant & equipment and intangible assets are stated at cost, less accumulated depreciation and impairment losses [note 2(n)].

Intangible assets include computer software and security system software.

FINANCIAL SERVICES COMMISSIONNotes to the Financial Statements (Continued)
March 31, 20122. Statement of compliance, basis of preparation and accounting policies (cont'd)

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

(ii) Subsequent costs:

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

(f) Depreciation and amortisation:

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

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

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

(g) Capital expenditure:

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

(h) Cash and cash equivalents:

Cash and cash equivalents comprise cash and bank balances.

(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.

FINANCIAL SERVICES COMMISSIONNotes to the Financial Statements (Continued)
March 31, 20122. Statement of compliance, basis of preparation and accounting policies (cont'd)

(j) Accounts receivable:

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

(k) Accounts payable:

Accounts payable are stated at amortised cost.

(l) Provisions:

A provision is recognised in the statement of financial position when the Commission has a legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(m) Fees:

i. Securities

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

FINANCIAL SERVICES COMMISSIONNotes to the Financial Statements (Continued)
March 31, 20122. Statement of compliance, basis of preparation and accounting policies (cont'd)

(m) Fees (cont'd):

i. Securities (cont'd)

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

ii. Insurance

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

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

Renewal Fees – Insurance Companies

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

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

(2) Jamaican and CARICOM General Insurance Companies

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

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

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

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

FINANCIAL SERVICES COMMISSIONNotes to the Financial Statements (Continued)
March 31, 20122. Statement of compliance, basis of preparation and accounting policies (cont'd)

(m) Fees (cont'd):

iii. Pension

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

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

(n) Impairment:

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

(i) Calculation of recoverable amount:

The recoverable amount of the Commission's assets is the greater of their fair value, less cost to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment:

An impairment loss in respect of receivables carried at amortised cost is reversed, if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. For all other assets, an impairment loss is reversed, if there has been a change in the estimate used to determine the recoverable amount.

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

(o) Foreign currencies:

Foreign currency balances outstanding at the reporting date are translated at the rates of exchange ruling on that date. Transactions in foreign currencies are converted at the rates of exchange ruling at the dates of those transactions. Gains and losses arising from fluctuations in exchange rates are included in profit or loss.

FINANCIAL SERVICES COMMISSIONNotes to the Financial Statements (Continued)
March 31, 20122. Statement of compliance, basis of preparation and accounting policies (cont'd)

(p) Financial instruments:

A financial instrument is any contract that gives rise to a financial asset of one enterprise and a financial liability or equity instrument of another enterprise. For the purpose of the financial statements, financial assets have been determined to include cash and cash equivalents, resale agreements and accounts receivable. Similarly, financial liabilities include accounts payable and deferred fees.

(q) Related party:

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

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

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

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

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

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

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements (Continued)

March 31, 20122. Statement of compliance, basis of preparation and accounting policies (cont'd)(r) Determination of fair value:

Fair value amounts represent estimates of the arm's length consideration that would be currently agreed upon between knowledgeable, willing parties who are under no compulsion to act and is best evidenced by a quoted market price, if one exists. Where quoted market prices are not available, the fair values of financial instruments have been determined, where practicable, using a generally accepted alternative method.

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

3. Cash and cash equivalents

Cash and cash equivalents comprise bank and petty cash balances.

4. Resale agreements

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

The interest rates on resale agreements were 6 % and 7.5% (2010: 9% and 9.5%) as at the year-end. The market value of the underlying securities as at March 31, 2012 was approximately \$406,451,259 (2011: J\$353,000,984).

The Commission's exposure to credit and currency risks relating to resale agreements are disclosed in note 15.

5. Accounts receivable and prepayments

	<u>2012</u>	<u>2011</u>
Trade receivables, net [note 15(b)(i)]	89,837,225	78,950,496
Prepayments and deposits	8,204,280	7,270,602
Other receivables	2,786,564	5,760,114
Interest receivable	<u>2,806,915</u>	<u>4,699,955</u>
	<u>\$103,634,984</u>	<u>96,681,167</u>

Trade receivables are shown net of an allowance for impairment losses of \$Nil (2011: \$Nil).

Included in trade receivables is \$25.7 million, relating to annual licence fees in respect of pension funds and schemes which were wound-up before March 31, 2012. The licensees are disputing the fees, however, the Commission received advice from the Attorney General's Chambers ("AG") that it has been collecting fees from Investment Managers on initial grant of the licence in circumstances where it is not clear in the legislation that the Commission has the power to assess fees. Based on advice from the AG the Commission sought and received approval from Cabinet for legislation to be drafted which would validate all of the fees that the Commission has collected from Investment Managers. The Bill will also amend the Pensions (Superannuation Funds and Retirement Schemes) Act ("the Act") to make it explicit that Investment Managers are required to pay all assessed fees including on the initial grant of the licence.

FINANCIAL SERVICES COMMISSIONNotes to the Financial Statements (Continued)
March 31, 20125. Accounts receivable and prepayment (cont'd)

The Commission has submitted its comments on the latest version of the Bill to the Ministry of Finance and Planning. The Commission anticipates that the legislation will be enacted in the legislative year ending March 2013 and, accordingly, the amounts are considered collectable.

The Commission's exposure to credit and currency risks and impairment losses relating to trade and other receivables are disclosed in note 15.

6. Taxation recoverable

Taxation recoverable represents tax withheld by financial institutions on interest income earned on balances held with those institutions. Taxation recoverable is shown net of a write-off of \$1,397,959 (2011: \$2,637,624).

7. Accounts payable

	<u>2012</u>	<u>2011</u>
Trade and other payables	28,030,361	24,029,262
Employee benefits –accrued vacation, gratuities and salary	<u>73,054,581</u>	<u>69,196,153</u>
	<u>\$101,084,942</u>	<u>93,225,415</u>

The Commission's exposure to liquidity and currency risks relating to trade and other payables are disclosed in note 15. Included in the payables is a provision of \$38,655,456 (2011: \$38,655,456) which represents the 7% MOU salary adjustment for 2009/10 and 2010/11.

8. Intangible assets

These represent software cost capitalized as follows:

	<u>2012</u>	<u>2011</u>
Cost:		
At beginning of year	35,127,462	33,827,356
Reclassification	3,627,142	-
Additions	<u>-</u>	<u>1,300,106</u>
At end of year	<u>38,754,604</u>	<u>35,127,462</u>
Amortisation:		
At beginning of year	25,630,705	22,579,894
Reclassification	9,548,273	-
Charge for the year	<u>1,377,291</u>	<u>3,050,812</u>
At end of year	<u>36,556,269</u>	<u>25,630,706</u>
Net book value	<u>\$ 2,198,334</u>	<u>9,496,756</u>

FINANCIAL SERVICES COMMISSIONNotes to the Financial Statements (Continued)
March 31, 20129. Property, plant & equipment

	<u>Motor vehicles</u>	<u>Office furniture, equipment and leasehold improvements</u>	<u>Computer equipment</u>	<u>Total</u>
At cost:				
March 31, 2010	5,410,584	99,892,542	52,489,486	157,792,612
Additions	-	8,821,377	1,476,878	10,298,255
Disposals	-	(1,589,186)	(6,750,960)	(8,340,146)
March 31, 2011	5,410,584	107,124,733	47,215,404	159,750,721
Additions	-	7,409,921	11,471,451	18,881,372
Disposals	-	(486,464)	-	(486,464)
Reclassifications	-	847,498	(4,474,640)	(3,627,142)
March 31, 2012	<u>5,410,584</u>	<u>114,895,688</u>	<u>54,212,215</u>	<u>174,518,487</u>
Depreciation:				
March 31, 2010	3,682,899	52,901,004	48,108,738	104,692,641
Charge for year	345,537	11,406,891	1,180,957	12,933,385
Eliminated on disposals	-	(1,589,186)	(6,750,960)	(8,340,146)
March 31, 2011	4,028,436	62,718,709	42,538,735	109,286,880
Charge for year	753,317	18,454,852	8,596,890	27,805,059
Eliminated on disposals	-	(91,212)	-	(91,212)
Reclassification	290,171	265,803	(10,104,247)	(9,548,273)
March 31, 2012	<u>5,071,924</u>	<u>81,348,774</u>	<u>41,031,378</u>	<u>127,452,454</u>
Net book values:				
March 31, 2012	<u>\$ 338,660</u>	<u>33,547,536</u>	<u>13,180,837</u>	<u>47,067,033</u>
March 31, 2011	<u>\$1,382,148</u>	<u>44,404,374</u>	<u>4,676,669</u>	<u>50,464,841</u>
March 31, 2010	<u>\$1,727,685</u>	<u>46,991,538</u>	<u>4,380,748</u>	<u>53,099,971</u>

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>2012</u>	<u>2011</u>
General reserve	261,462,756	245,873,504
Capital reserve	<u>1,078,564</u>	<u>1,078,564</u>
	<u>\$262,541,320</u>	<u>246,952,068</u>

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

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements (Continued) March 31, 2012

11. Grant

	<u>2012</u>	<u>2011</u>
GOJ grant	\$36,000,000	35,000,000

- (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 [note 16(g)].
- (ii) The Commission has estimated the commercial value of the annual rental to be \$36,000,000 (2011: \$35,000,000) which has been recognised as a grant.

12. Taxation

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

13. Pension scheme

Effective June 1, 1996, the Securities Commission commenced operations of a contributory pension scheme for employees who are eligible in accordance with the rules of the Plan. On August 2, 2001, the Commission assumed responsibility for the Plan (see note 1). The administration and management of the Plan was transferred from Sagcor Life to Prime Asset Management Limited as at November 30, 2009.

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

Contributions by the Commission for the year amounted to \$10,746,529 (2011: \$9,811,509).

The scheme is subject to periodic actuarial reviews at intervals of not more than three years. The last actuarial review at May 31, 2011, disclosed Total Assets of \$176.5 million and past service liabilities of \$165.4 million resulting in a surplus of \$11 million.

14. Insurance Licence Deposits

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

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

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

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

The securities pledged as at March 31, 2012 were valued at approximately \$1,057 million (2011: \$1,056 million).

FINANCIAL SERVICES COMMISSIONNotes to the Financial Statements (Continued)
March 31, 201215. 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.

The aging of trade receivables at reporting date was:

	<u>2012</u>	<u>2011</u>
	\$	\$
Past due 0-30 days	52,565,494	57,858,461
Past due 30-60 days	1,052,102	228,800
Past due 60-90 days	665,904	519,676
Past due over 90 days	<u>35,553,725</u>	<u>20,343,559</u>
	89,837,225	78,950,496
Allowance for impairment losses	<u>-</u>	<u>-</u>
Trade receivables, net (note 5)	<u>\$89,837,225</u>	<u>78,950,496</u>

FINANCIAL SERVICES COMMISSIONNotes to the Financial Statements (Continued)
March 31, 201215. Financial instruments (cont'd)

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

(ii) Liquidity risk:

Liquidity risk also referred to as funding risk, is the risk that the Commission will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at, or close to, its fair value. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities. The Commission manages this risk by maintaining a substantial portion of its financial assets in liquid form and is not authorised to borrow.

(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 or equity price risk.

- Interest rate risk:

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

The Commission invests mainly in fixed interest rate bearing instruments (see note 4) and does not have any borrowings.

Fair value sensitivity analysis for fixed rate instruments

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

- Foreign currency risk:

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Commission incurs foreign currency risk primarily on amounts held in United States dollars (US\$). At March 31, 2012, foreign currency assets, net, amounted to US\$7,329 (2011: US\$2,664).

The exchange rate for US\$1, in terms of Jamaica dollars, at the reporting date, was \$87.25 (2011: \$85.40).

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.

FINANCIAL SERVICES COMMISSIONNotes to the Financial Statements (Continued)
March 31, 201215. Financial instruments (cont'd)

(c) Capital management:

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

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

16. Contingent liabilities

As at March 31, 2012, the Commission is contingently liable in respect of the following lawsuits filed against the Commission:

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

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

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

At the hearing of the application on October 26, 2011, the Commission was granted an extension of time to file its defence. The defence was filed within the extended time and the matter was subsequently referred to mediation. The Commission is of the view that any liability will be restricted to the legal fees incurred in the matter.

- (c) The Claimants are claiming damages in the amount of US\$10 million for alleged defamation by the Commission. The Claim Form was procedurally defective and, further, the allegations in the Claim Form were considered frivolous. A hearing was held on July 15, 2011 and the court granted the application by the Commission to strike out the matter. The Claimants made an application to set aside the order and at the hearing on December 5, 2011, the court again struck out the matter. The Claimants filed an appeal directly to the Court of Appeal and no date for the hearing has yet been determined. The Commission is of the view that the liability will be the legal fees incurred by the Commission in the matter. The amounts involved are yet to be quantified.

FINANCIAL SERVICES COMMISSIONNotes to the Financial Statements (Continued)
March 31, 201216. Contingent liabilities (cont'd)

- (d) A claim was filed against the Commission for certain declarations in a take-over bid. On November 30, 2011, the court ruled in favour of the complainant and the Commission is liable to pay cost in respect of this judgment. Up to the end of March 31, 2012, there were a series of hearings and preliminary applications by the parties which was expected to be heard in May 2012. The Commission is of the view that the liability will include the complainant's legal fees. The amounts involved are yet to be quantified and will be offset by the Commission's legal fees with respect to the denial of the complainant's application for an injunction which was specified against the Claimant.
- (e) On August 3, 2011, the Commission took temporary management of a Licensee and filed a fixed date claim form in which the Commission sought a stay of all proceedings brought against the Licensee and an order preventing the filing of new claims against the Licensee. Subsequently, the Commission filed in September 2011, applications in the existing proceedings brought by six claimants. In November 2011, the court granted the orders sought by the Commission in respect of all claimants, with the exception of one. That single matter was the subject of protracted court proceedings and as at March 31, 2012 judgment had not been issued. The Commission is of the view that the liability will be the legal fees incurred by the Commission in the appeal of the adverse judgment. The amounts involved are yet to be quantified.
- (f) On April 14, 2009, a Licensee filed a Notice of Appeal contesting the Cease and Desist Order issued by the Commission to them on August 5, 2008 and subsequently varied on March 20, 2009. The hearing of the Claimant's appeal was heard on various dates between March 2011 and July 2011. The judgment is awaited. The Commission is of the view that the liability will be the legal fees incurred by the Commission in the matter. The amounts involved are yet to be quantified.
- (g) The terms of occupancy of the building currently occupied by the Commission [note 11(ii)] are under negotiations which may affect past years. The amounts involved are yet to be quantified.

The eventual outcome of these matters cannot be reliably determined at this time and, except for a total of \$4.7 million in relation to (b) and (d) above, no provision has been made in the financial statements in these regards, as the Commission anticipates that any eventual liabilities will not have a significant impact on the financial statements.

17. Key management personnel

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

Transaction with related parties during the year in the ordinary course of business are as follows:

	<u>2012</u> \$	<u>2011</u> \$
Key Management Personnel compensation:		
Commissioners fees	1,902,315	3,433,878
Salaries	77,951,940	64,858,325
Gratuity	13,324,504	18,287,252
Pension Contribution	<u>618,687</u>	<u>105,928</u>



39-43 Barbados Ave, Kingston 5 | Tel: (876)906-3010 | Fax: (876)906-3018
Email: publications@fscjamaica.org | www.fscjamaica.org