



**FINANCIAL SERVICES
COMMISSION**

Annual Report 2016-2017

LETTER OF TRANSMITTAL

August 23, 2017

The Hon. Christopher Sinckler, M.P.
Minister of Finance and Economic Affairs
Ministry of Finance and Economic Affairs
Government Headquarters
Bay Street
St. Michael

Dear Sir,

I have the honour of submitting for your consideration, the Annual Report of the Financial Services Commission for the year ending March 31, 2017, in accordance with the provisions of Sections 50 of *The Financial Services Commission Act*.

Yours faithfully,

FINANCIAL SERVICES COMMISSION

Sir Frank Alleyne K.A, Ph.D
Chairman

Table of Contents

Vision Statement	1
Mission Statement.....	1
Corporate Values.....	1
About Us	2
Message from Chairman of the Board	3
Chief Executive Officer’s Report.....	6
FSC Management Team.....	9
Corporate Governance	10
Board Commissioners	11
FSC Board Committees	13
Internal Auditor’s Brief.....	15
Regulatory Developments.....	16
Legislative Developments and Policy Initiatives.....	16
Participation in International, Regional and Domestic Meetings	17
Anti-Money Laundering & Counter-Financing of Terrorism (AML/CFT).....	19
Supervision and Licensing.....	20
Risk Assessment/Early Warning Indicators (EWIs).....	21
Stress Testing	22
Barbados Stock Exchange (BSE)/Capital Market Developments	24
Private Placement Regime	24
Examinations.....	25
Supporting Effective Regulation.....	26
Research and Policy	26
Legal.....	26
Human Resources.....	28
Communications	31
Information Technology.....	33
Finance and Planning	33
Statistical Highlights	34
Insurance	34
Credit Unions	42
Securities.....	46
Pensions	50
Strategic Focus for 2017/2018.....	55
Audited Financial Statements 2016-2017	56

Vision Statement

To be recognised as a financial services regulator that is committed to integrity, excellence and the development of Barbados as a sound and competitive financial services centre.

Mission Statement

To promote soundness, stability and transparency within Barbados' non-bank financial sector, using professional staff to provide effective and efficient supervision and regulation in line with acceptable global best practices.

Corporate Values

- *Excellence*
- *Integrity*
- *Public Accountability*
- *Transparency*

About Us

The Financial Services Commission (FSC) is an integrated regulatory body, established on April 1, 2011 by virtue of the Financial Services Commission Act, 2010. It represents a consolidation of the regulatory and supervisory functions conducted previously by the Supervisor of Insurance and Pensions, the Securities Commission and the Co-operatives Department, insofar as it relates to credit unions. FSC is, therefore, responsible for supervising and regulating entities in the insurance, occupational pensions, credit unions and securities sectors, which are licensed or registered under the following Acts of Parliament:

- *Exempt Insurance Act, Cap. 308A*
- *Insurance Act, Cap. 310*
- *Occupational Pension Benefits Act, Cap. 350B*
- *Securities Act, Cap. 318A*
- *Mutual Funds Act, Cap. 320B*
- *Co-operative Societies Act, Cap. 378A (as it relates to the supervision and regulation of credit unions)*

FSC issues guidelines, establishes standards for institutional strengthening and seeks to enhance the competitiveness of the financial services sector. In addition, FSC endeavours to promote stability, public awareness and instill public confidence in the operations of non-bank financial institutions.

Message from Chairman of the Board



Sir Frank Alleyne K.A., Ph. D

The first five years of the Commission's existence were directed towards building the relevant infrastructure that would facilitate the development of an operational and governance framework, thus allowing for sustained supervision of the non-bank financial sector. During the year in review the FSC intensified its focus on such goals as building a robust regulatory framework inspired by principle and risk based supervisory methodologies; improving the IT system to support this framework; achieving various targets outlined in the corporate strategic plan; deepening the thrust of public awareness and stakeholder engagement; as well as improving staff engagement and promoting their development. We are satisfied that the energy invested in crafting a five-year strategic plan which supports these focus areas, has paid significant dividends and we are thus encouraged by the substantial achievements recorded. The plan has served to keep the Commission on track and provided for periodic monitoring and evaluation. Though there is much work still to be done, we are encouraged by the progress achieved.

The Commission is confident that the standard of the governance structure implemented is high and that the internal operational activities are structured with a view to maintaining appropriate oversight of all entities registered within our remit in a timely and consistent manner. We continue to believe that the strategic plan will support the ongoing development of the Commission as an institution, while promoting financial stability in Barbados. There will be continuous review of our strategies to respond to the internal and external developments as necessary and every effort will be made to strive consistently for excellence with respect to the oversight of the non-bank financial sector and the Commission's

transformation to a highly efficient, effective and respected financial regulator locally, regionally and internationally.

The Commission's risk based process has received strong endorsement and we have been asked to play our part in leading the rollout of similar risk based systems of our regional regulatory counterparts. There will be continuous assessment of the model to improve where needed, and the Commission is now pushing to strengthen its oversight structure for market conduct and to increase its public information channels. Our framework is being seen as the model for other countries to follow as evidenced by the fact that our work on supervisory colleges to support cross-border regulation, and the reports on assessing the financial stability indicators used by the insurance division, as well as the stress testing model used for the credit union sector, are being recognised and requested.

There were some changes in the leadership of the Commission; however, due to the implementation of a succession plan, its work has continued apace and the Commission continues to discharge its responsibilities efficiently. The executive management, working in harmony with the Board of Commissioners, has recorded a solid performance and this augurs well for the development of the Commission. On behalf of my colleague commissioners, I commend the management and staff for their sustained effort and commitment to the corporate agenda. This quality of commitment certainly signals that the future of financial regulation in Barbados is in good hands, and it ensures that we are able to maintain quality output in the short and medium-term.

The Board of Commissioners and its respective sub-committees have recorded another productive year. The policies and strategies implemented have conducted to the enhancement of governance, creation of a higher level of operational efficiency and improvement in the financial management of the organisation. Based on the progress made during the past six years, we are confident that the Commission is on the right development path and that it has the necessary technical capacity and vision to become a financial services regulator that is globally recognised for its excellent standards.

The Commission, however, has no intention of resting on its laurels. We recognise that the business of regulation is a highly dynamic area of development and we endeavour to remain on the frontier of developments in this area. We are satisfied that the plan we have in place will continue to promote

stability in the Barbados non-bank financial system. The implementation of a major project, e-filing, which will contribute to the institutional strengthening of the Commission, is at an advanced stage and will serve to improve the Commission's operational efficiency as it relates to data and document management.

The Commission is appreciative of the effective partnership it shares with the Central Bank of Barbados and the Ministry of Finance and Economic Affairs in the pursuit of its remit. We express our gratitude to the management and staff of the Caribbean Regional Technical Assistance Centre (CARTAC) for their unwavering support and technical assistance in enhancing our regulatory capacity. We look forward to the continued partnership.

The FSC is pleased to have collaborated with our various strategic partners, including the Financial Intelligence Unit, the International Business Unit, the Corporate Affairs and Intellectual Property Office and the Barbados Revenue Authority. We worked together to prepare for various international reviews, to enhance the integrity of Barbados' financial system, and in support of the international business sector as it continued to seek areas of growth.

On behalf of my colleague commissioners, management and staff of the Commission, I once again convey our gratitude to the Minister of Finance and Economic Affairs – the Honourable Christopher Sinckler, M.P. who has been steadfast in his support. He has ensured at all times that the Commission is guaranteed the independence to discharge its remit.

Chief Executive Officer's Report



Mr Kester S. Guy

During the year under review FSC continued its aggressive pursuit of achieving the strategic objectives set out in its five-year plan. We have made significant strides in enhancing our regulatory framework through legislative review and modifications where necessary and have grown our capacity as a regulatory body through relevant exposures, access to training for staff, and collaboration with various strategic partners on matters of national importance such as the Caribbean Financial Action Task Force (CFATF) mutual evaluation report and the Organisation for Economic Cooperation and Development (OECD) Base Erosion Profit Sharing (BEPS) framework. At the same time, we have made every effort to maintain a high standard of service to all our stakeholders, including moving to an advanced stage in developing our e-filing platform that will redound to greater efficiencies within the organisation. Overall, FSC has had a very productive year and while we celebrate these gains, our focus is fixed on continuous improvements as we strive to promote soundness, stability and transparency within Barbados' non-bank financial sector.

Transitioning from compliance to a risk based supervisory process has not been an easy task. It remains a high priority area and some significant strides have been made. The current process requires greater integration, such that the output from one level is critical to other aspects of our work. Enhancing this level of coordination is critical to arriving at a holistic view of the risks that confront the entities we regulate. In large measure, the key metrics for assessment have been built and are being utilised in the current analytical framework. Notwithstanding, we are reviewing categories of data collection and data

quality to establish the platform for further developing our analytical models. Furthermore, we are fine-tuning the procedural manuals that guide these processes. Going forward, FSC will engage all stakeholders with aspects of the enhanced supervisory framework to maintain the high level of partnership that has been established over the last six years.

I join with the Chairman in expressing sincerest gratitude to CARTAC for its continuous support, facilitation and technical guidance over the years. FSC has benefited tremendously from its expertise and we look forward to even greater strengthening of that strategic partnership. CARTAC has also been a regional sponsor of many workshops and training initiatives in which FSC staffers have participated and has been pivotal in supporting collaboration among regional regulators on various aspects of the non-bank financial sector. Indeed, FSC's membership and participation in these activities have resulted in its election to serve as Vice President of two regional regulatory associations – Caribbean Association of Insurance Regulators (CAIR) and Caribbean Association of Pensions Supervisors (CAPS).

We have also had the honour of contributing to the development and regulation of the regional credit union sector. FSC representatives have shared with other regional regulators, various elements of our regulatory framework governing this sector, including the early warning indicators and the risk analytical tool kit. On the immediate horizon, we are looking forward to partnering with CARTAC in hosting the Caribbean Association of Credit Union Supervisors (CACUS) conference and workshop in September of this year.

Initial work has commenced on deepening our thrust of public awareness and stakeholder engagement. FSC hosted a two-day workshop in conjunction with Morneau Shepell out of Canada, directed towards pension plan administrators. In addition, we created a channel for the public to file complaints with us and dedicated resources towards interacting with complainants and coordinating the process. We continued our outreach to market participants as new policies emerged or reporting standards changed; or where there were areas for legislative amendments and any other matters that may have affected their operations. Earlier this year we rolled out an enhanced framework for fitness and propriety for key operatives within a company. These points of engagement are very important to FSC, as well as to the market participants and their interest groups. Through this medium we are able to convey our

expectations as a regulator, provide clarity on various matters, and hear from our stakeholders on issues that affect them.

Our journey has not been without critical challenges. We encountered setbacks as we made adjustments to our leadership structure. In addition, the elusive goal of financial independence constrained our ability to discharge some of the responsibilities that are high on our agenda. Despite this, our staff continues to step up and deliver on every demand that has been placed on them. For this I am very grateful and would like to say thank you to all our members of staff.

On behalf of the management team, I express deep gratitude to the Board of Commissioners. The level of insight, guidance and accountability they consistently demonstrate helps to ensure that FSC maintains a high standard of good governance, high quality output and corporate development. I certainly look forward to the future with excitement as we continue to pursue a mandate that ensures the stability of the non-bank financial sector is maintained.

FSC Management Team

Chief Executive Officer

Mr Kester Guy

General Counsel

Mrs Cyralene Benskin-Murray

Manager – Credit Unions

Mr Curtis Lowe

Manager – Securities

Ms Rosina Knight

Manager – Insurance

Mrs Leticia Alleyne

Manager – Pensions

Mrs Tanya Bretney

Manager – Examinations

Mr Mark Brathwaite

Manager – Research & Policy

Ms Kerry-Ann Alleyne

Manager – Information Technology

Mr Emmerson Cadogan

Manager – Human Resources

Ms Joanne Mapp

Manager – Finance & Planning

Ms J. Waveney Forde

Corporate Governance

FSC is an integrated financial services regulatory agency governed by a Board of Commissioners appointed by the Minister of Finance and Economic Affairs. The Commissioners hold office for a period of three years, with each member being eligible for reappointment. The Board sets policy and within a framework of effective controls, has ultimate responsibility for providing leadership and oversight to FSC's operations. The Board and FSC's executive management team are committed to conducting the organisation's affairs according to the highest standards of corporate governance and integrity applicable to statutory bodies, particularly to regulatory agencies.



Board of Commissioners

(Sitting L-R) *Debbie Fraser (Dep. Chair), Sir Frank Alleyne (Chairman), Dr. Luis Woodroffe.*

(Standing L-R) *Basil Murray, Jefferson Cumberbatch, Lawson Yearwood, Felton Burton*

Board Commissioners

Sir Frank Alleyne (Chairman) is a retired University of the West Indies Professor of Economics. He has extensive management experience having served as University and Campus Dean, Head of Department and has sat on several high-level University of the West Indies committees. During the past four decades, Sir Frank has served in leadership positions on several local and regional non-governmental organisations and statutory corporations including the Central Bank of Barbados, National Insurance Board of Barbados, EU-ACP follow-up Committee and the Securities Commission of Barbados.

Ms. Debbie Fraser (Deputy Chairperson) is an Attorney-at-Law qualified to practice in Barbados and Jamaica and has been in practice since 1992. She is a graduate of the University of the West Indies and the Norman Manley Law School in Jamaica, where she received the Legal Education Certificate of Merit. Ms. Fraser joined the law firm of Clarke Gittens Farmer in November 2003 as an associate and became partner in May 2005. She is currently the partner responsible for the firm's commercial department, specialising in mergers and acquisitions, takeovers, energy law, securities law, project finance and both international and domestic capital markets for debt financings.

Mr. Basil Murray graduated in 1980 from the University of the West Indies, Cave Hill with a B.Sc. (Hons.) degree in Public Administration. He served in the civil service of Barbados for over forty-one years before retirement in 2003. Seventeen of those years were spent in the Ministry of Finance, including nine in the Office of the Supervisor of Insurance and ten years in the Co-operatives Department of the Ministry of Commerce as Deputy Registrar and later as Registrar of Co-operatives and Friendly Societies.

Mr. Felton Burton is a Chartered Accountant by profession, having qualified as a Certified Management Accountant with the Society of Management Accountants of Canada. He is also a Chartered Secretary having gained the designation from the Institute of Chartered Secretaries Association of Canada. Mr. Burton spent many years in accounting and management with a number of local companies in the manufacturing, retail, wholesale and security sectors. He served as a Director of a local insurance company for thirteen years, a Director in the local credit union movement both at the primary level as well as in the League, and spent over ten years in the international business community.

Mr. Jefferson Cumberbatch teaches Contracts, Torts and Employment Law at the University of the West Indies and has research interests in Consumer Protection, Freedom of Association, Dismissal Law and Media Law. He is co-author of the text *West Indian Law of Contract* and has published extensively in some of the leading international legal journals. Mr. Cumberbatch drafted the Consumer Guarantees Act 2002 of Barbados and has undertaken several legal consultancies for various foreign, regional and local institutions. From 2009-2012, he served as a member of the Regional Judicial and Legal Services Commission. Locally, he is Chairman of the NIS (Benefits) Appeals Tribunal, the Consumer Claims Tribunal, the Fair Trading Commission, and the Anti-Money Laundering Authority. He has previously acted as a Justice of Appeal of the Eastern Caribbean Court of Appeal and writes a weekly column in the *Barbados Advocate*.

Mr. Lawson Yearwood is a member and Deputy Chairman of the Anti-Money Laundering Authority, as well as a member and Deputy Chairman of the Barbados Revenue Authority. He brings over twenty-seven years of commercial banking experience to the FSC Board, having worked at Barclays Bank Plc and Barbados National Bank. He oversaw the establishment of the Wildey branch of the National Bank in 1981 and served as its first manager until 1984. He also worked at the Barbados Development Bank as Manager of Internal Audit. Mr. Yearwood has an innate interest in education and served as a member of the Board of Management of the Princess Margaret Secondary School from 1983-2003. He also has a keen interest in agriculture and served as a member and Deputy Chairman of the Barbados Agricultural and Development Corporation – now the Barbados Agricultural Development and Marketing Corporation – from 1986-1994.

Dr. Louis Woodroffe has been employed with the Government of Barbados for over thirty years. He is currently the Director of Finance and Economic Affairs in the Ministry of Finance and Economic Affairs. He has been Permanent Secretary in the Ministry of Foreign Affairs and Foreign Trade; the Ministry of Industry and International Business; the Ministry of Commerce and Trade; and the Division of Economic Affairs. Dr. Woodroffe holds a BSc (Economics), University of the West Indies; MSc (Economics and Finance), Loughborough University, UK; LLM (International Trade Law), University of Northumbria, UK; MA (Public Policy Management), York University, UK; and PhD (Economics) from the University of Nottingham, UK.

FSC Board Committees

Corporate Governance Committee

The Corporate Governance Committee directs the implementation of sound corporate governance principles at FSC. Its principal objectives are to provide the Board with recommendations relating to the composition of the other committees and the establishment and implementation of an efficient system of corporate governance, in an effort to ensure that transparency and accountability are promoted.

Committee members are:

- *Sir Frank Alleyne K.A – Chairperson*
- *Debbie Fraser – Deputy Chairperson*
- *Lawson Yearwood – Commissioner*
- *Chief Executive Officer – FSC*
- *Human Resources Manager – FSC*

Policy and Legislative Committee

The Policy and Legislative Committee reviews legislation and related issues requiring legislative resolution and provides an overall position to the Board on proposed policy, legislation and regulations. The main aim of the Committee is to develop appropriate solutions and make recommendations on the adoption of appropriate legislative priorities.

Committee members are:

- *Jefferson Cumberbatch – Chairperson*
- *Debbie Fraser – Deputy Chairperson*
- *Dr. Louis Woodroffe – Commissioner*
- *Chief Executive Officer – FSC*
- *General Counsel – FSC*

Finance, Tenders and Audit Committee

The Finance, Tenders and Audit Committee assists the Board in ensuring that the integrity of the financing and financial reporting process is maintained. This is achieved by reviewing the financial reporting process; the systems of internal control and management of financial risk; and the audit,

tendering and financing processes. The Committee also ensures that the FSC's process for monitoring compliance with laws and regulations and its own code of business conduct is sufficiently robust.

Committee members are:

- *Dr. Louis Woodroffe – Chairperson*
- *Felton Burton – Commissioner*
- *Basil Murray – Commissioner*
- *Chief Executive Officer – FSC*
- *General Counsel – FSC*
- *Manager, Finance and Planning – FSC*

Authorisation and Licensing Committee

The Authorisation and Licensing Committee considers and determines matters concerning applications made by individuals and financial institutions. It provides recommendations to the Board for authorisations, licensing and registration in accordance with the relevant legislation. The Committee ensures that all directors of regulated entities satisfy “fit and proper” criteria for the conduct of financial services business.

Committee members are:

- *Sir Frank Alleyne K.A – Chairperson*
- *Debbie Fraser – Deputy Chairperson (Alternate member)*
- *Basil Murray – Commissioner*
- *Chief Executive Officer – FSC*

Human Resources Committee

The Human Resources Committee formulates and ensures the implementation of plans, policies and procedures relating to employee recruitment, assessment and development. It also reviews organisational design and development, along with other related administrative functions.

Committee members are:

- *Debbie Fraser – Chairperson*
- *Sir Frank Alleyne K.A – Chairman*
- *Felton Burton – Commissioner*
- *Chief Executive Officer – FSC*

- *Human Resources Manager/Officer – FSC*

Enforcement Committee

The purpose of the Enforcement Committee of the Board of FSC is to review and address proposed enforcement actions. It also ensures that appropriate action with respect to all compliance and enforcement matters relating to financial institutions and entities regulated by FSC, is implemented in a timely and proficient manner.

Committee members are:

- *Basil Murray – Chairperson*
- *Jefferson Cumberbatch – Commissioner*
- *Lawson Yearwood – Commissioner*

Internal Auditor's Brief

During the fiscal year 2016/2017, the Internal Auditor continued oversight of the performance of risk assessments to assist in the development of the annual audit plan and the execution of internal audits.

In support of the mandate, the following procedures were undertaken during the fiscal year:

- ***Audit of the Credit Unions Division*** – involved understanding the division's processes and the risks; assessing whether internal controls are adequate to mitigate the risks identified; selecting audit samples for testing; communicating audit findings to the Division's Manager; compiling and submitting a draft audit report to the Division's Manager for review and comment; and submitting a final audit report to the CEO and Board of Commissioners.
- ***Divisional Risk Assessment*** – involved assessing the risks which may have an impact on FSC achieving its objectives; these assessments included the submission of questionnaires to management, interviews, evaluating the impact and likelihood of the risks identified and walkthrough of the processes.

- **Audit plan** – the audit plan identified the various divisions within the organisation in which an audit will be conducted in the fiscal year 2017-2018; the plan has been presented and approved by the Board of Commissioners.

Regulatory Developments

Legislative Developments and Policy Initiatives

During the 2016/2017 financial year, FSC continued to enhance its regulatory framework for the securities and funds sectors via the following:

- **Auditor approval exemption for external companies**

The Board approved a recommendation to address an issue which hampered the ability of registrants categorised as “external companies” in accordance with the Companies Act, Cap. 308, to comply with the requirement for auditor approval. The resolution alleviates the issue by permitting such entities to be exempted from the requirement for approval of their auditors under specified circumstances and conditions, while ensuring that regulatory oversight is maintained. A circular was released to the industry via FSC’s website, which outlines the details of the regime.

- **Industry circulars – Reporting specified changes**

FSC issued a circular to assist financial institutions with their reporting of specified changes, including those related to registration and director information. The circular and accompanying reporting templates were placed on FSC’s website.

- **Consultation – Regulatory treatment of foreign broker-dealers and investment advisers**

FSC consulted with members of the industry on a proposal to establish a regime to exempt foreign broker-dealers and investment advisers who provide services to certain classes of persons in Barbados. The exemption regime details the parameters under which they are permitted to engage with their

clients without the need for registration and compliance with the full range of regulatory requirements. Constructive and generally positive feedback on the proposal was received during the consultation period and the regime is in the process of being finalised.

- ***Consultation - Proposal for new securities legislation and revisions to the mutual funds legislation***

Since the last annual report, where FSC identified enhancements to the securities and funds legislation as its primary strategic focus, it engaged in preliminary consultation with an industry focus group regarding a proposal for amendments to the Mutual Funds Act and a full revision to the Securities Act. Participants expressed general support for the updates to the legislation and the feedback received has been considered as final recommendations are being prepared.

Insurance

For the reporting period, the Insurance Division issued eight Guidelines covering anti-money laundering; asset valuation; corporate governance; internal control and risk management; market conduct; as well as related party and statutory reporting. Additionally, a “Fit and Proper” questionnaire was issued to be used as part of enhancing the due diligence exercise in respect of all registrants.

Participation in International, Regional and Domestic Meetings

FSC remained active in the regional and international arena during the reporting period with participation in a number of regulatory meetings:

Securities

- ***International Organisation of Securities Commissions (IOSCO) annual meeting and conference***
- ***IOSCO sub-groups Inter-American Regional Committee/Counsel of the Securities Regulators of the Americas***

- **Caribbean Group of Securities Regulators (CGSR) annual meeting and conference** – information was shared on topics that included Financial Technology/Fintech; Crowdfunding; IOSCO’s initiatives related to training; IOSCO’s proposal for an Enhanced Multilateral Memorandum of Understanding for Exchange of Information and Cooperation among member jurisdictions

Credit Unions

- **Caribbean Association of Credit Union Supervisors’ (CACS) annual conference and workshop** – FSC made a presentation on its regulatory framework for credit unions
- **Annual conference and workshop hosted by the International Credit Union Regulators' Network (ICURN)**

Pensions

- **Caribbean Association of Pension Supervisors (CAPS) conference and workshop** – themed “Strengthening Pension Supervision and Regulation to Support Financial Stability”, the conference looked at developing appropriate financial stability indicators for the pension industry in the Caribbean; risk based supervision for the pension industry; the investment and supervision of pension assets and key challenges facing the industry in the Caribbean
- **International Organisation of Pension Supervisors (IOPS) workshop and conference** – covered lessons learnt from risk based pension supervision and the progress, prospects and challenges of the pension landscape

Insurance

- **Annual Caribbean Association of Insurance Regulator’s Conference and AGM** – FSC was elected to serve as Vice President on the Executive Committee
- **Annual General Meeting for the Group of International Insurance Centre Supervisors (GIICS)**
- **FSC also participated in three insurance supervisory colleges** (two domestic insurance companies and one international insurance company) – supervisory colleges are opportunities for regulators across the world to discuss regulatory oversight of one specific insurance group

FSC continues to work closely with Invest Barbados and again joined its delegation to the Risk and Insurance Management Society, Inc. (RIMS) conference in the USA and the Canadian Risk and Insurance Management Society, Inc. (CRIMS).

Anti-Money Laundering & Counter-Financing of Terrorism (AML/CFT)

As the competent authority for the non-bank financial sector, FSC continued to strengthen its AML/CFT compliance framework. Specific activities included focused AML/CFT examinations; educating the sector of its responsibilities in relation to money laundering (ML) and terrorist financing (TF) risks; reviewing the AML/CFT Guidelines that have been released to the industry with a view to enhancing them; and implementing an in-depth fit and proper regime for all FSC registrants. The overall enhancement was also supported by training and exposure of relevant staff members to critical areas of the AML/CFT toolkit.

During the period December 5-16, 2016, Caribbean Financial Action Task Force (CFATF) conducted a fourth round mutual evaluation (ME) on Barbados. This review assessed the effectiveness and robustness of Barbados' AML/CFT framework and procedures against the Financial Action Task Force (FATF) Recommendations (2012), and the Methodology for Assessing Compliance with the FATF Recommendations and the Effectiveness of Anti-Money Laundering and Combatting Financing of Terrorism (AML/CFT) Systems (2013).

FATF conducts mutual evaluations of its members to ensure compliance with its recommendations and to review the effectiveness of anti-money laundering & combatting financing of terrorism (AML/CFT) systems on an ongoing basis. MEs are peer review exercises where a country is evaluated by experts from other member countries. To date, the first and second draft reports have been received and a thorough review was conducted by the relevant authorities; a coordinated response was submitted to CFATF. As Barbados awaits the third draft of the report, FSC continues to focus on its contribution in the completion of the national risk assessment (NRA). This assessment takes a global look at the ML/TF risks of Barbados and derives an appropriate measurement of those risks.

Supervision and Licensing

Licences Issued

The following licences were issued for the respective sectors during the period under review:

Licences Issued	2016-2017	2015-2016
New Licences – Insurance Division		
• Exempt Insurance Companies	12	9
• Qualifying Insurance Companies	4	1
• Insurance Management Companies	0	4
• Insurance Brokers	2	2
• Insurance Agents	1	4
• Insurance Salesmen	30	39
New Licences – Securities Division	16	43
Registration of Occupational Pension Plans	50	33
Adjudication of Matters of Share Transfer	52	73

Insurance ... five existing exempt insurance companies were granted approval for new lines of business, one less approval than in the comparable period of the prior year; additionally, three existing qualifying insurance companies were granted approval for new lines of business.

Pensions ... eight pension plans registered for wind-up during the reporting period.

Securities ... 16 new licences were prepared and issued to securities registrants compared to 43 for the same period last year; 22 mutual funds (including seven sub-funds) and 10 mutual fund general administrators were registered.

Risk Assessment/Early Warning Indicators (EWIs)

Securities

FSC continued to strengthen its risk assessment framework for the securities sector. More specifically, updated templates were issued for the Compliance and Risk Assessment Questionnaire and Mutual Fund Activity Report during the year. The revised questionnaire allowed FSC to better monitor market intermediaries' business activities, risk management and practices. The updated mutual fund activity report provided further information with respect to subscriptions, redemptions and related party investments. This additional information has enhanced FSC's monitoring of the liquidity of mutual funds and their ability to fund redemptions, as well as the transactions involving related parties to the funds.

Credit Unions

For the credit union sector, FSC enhanced its EWIs by refining its existing PEARLS based framework along the lines of a CAMELS based framework. This revision, which is currently in the testing phase, will allow FSC to more effectively identify signs or emerging and actual risks and make early interventions as necessary. A full implementation of the new framework is expected to occur during the first quarter of the next financial year.

Insurance

Three domestic insurance companies continued to engage FSC's scrutiny through the application of the EWI system. The Insurance Division sent reports on these entities to the internal Risk Management Committee for review and has embarked on ensuring that they engage in measures which will allow for the continued protection of policy holder interests.

Stress Testing

FSC continued building capacity following CARTAC-sponsored stress testing workshops which took place during the 2015/2016 financial year. As part of the regulatory framework for its Insurance and Credit Unions divisions, FSC improved on the implemented stress testing template during the year.

Insurance

Using information collected from the annual statutory returns, the stress testing tool (and framework) employed a combination of sensitivity and scenario testing on both the company level and the aggregate industry level. There were no major revisions to previously developed methodology. The statutory returns and the company business models were examined to determine the largest and most risky asset categories on each company's financial statements. Sensitivity tests were then carried out in the following areas:

- sovereign bond haircuts
- increase in claims
- technical provision revaluation
- reinsurance default

The following scenario tests were also conducted:

- recession (*for both life and general companies*)
- banking and sovereign crisis (*for both life and general companies*)
- pandemic (*for life companies only*)
- natural catastrophe, specifically hurricane damage (*for general companies only*)

For the general insurance industry, stress tests were only conducted for the seven largest companies. These companies accounted for over 70% of total industry premiums. The tests results were presented in FSC's contribution to the Central Bank of Barbados' biannual Financial Stability Report (FSR) for December 2016.

Credit Unions

The second stress testing workshop conducted during the year and hosted by CARTAC, focused on the credit union sector. As a result, FSC was able to conduct sensitivity testing on some of the 34 credit unions under its purview. Shocks were applied in the following risk areas:

- credit risk
 - *generalised Non-performing Loans (NPLs) increase*
 - *underprovisioning correction*
- sectoral shocks
 - *consumer loan NPLs*
 - *mortgages NPLs*
- interest rate risk
- concentration/large exposure credit risk
- depositor withdrawal (liquidity test)

The results from these tests were presented both as ratios and in terms of capital lost from the respective institutions. The results were also submitted for inclusion in the FSR.

It is hoped that the credit union stress test model may be extended and improved going forward. Stress testing for this particular sector is done twice per year (March and September) with the provision for ad hoc testing to be carried out as necessary. Currently, the seven largest credit unions are tested in the model. While most of the institutions managed to survive beyond acceptable levels of stress, some credit unions are more vulnerable to specific sectoral risk, for example, changes in NPLs for mortgages. These institutions have been ranked and identified for FSC's Credit Unions division for referral to the internal Risk Management Committee, as well as for general risk analysis.

Barbados Stock Exchange (BSE)/Capital Market Developments

During the 2016/2017 fiscal year, the International Securities Market (ISM) was officially launched and two entities were registered with BSE as Listing Sponsors. Entities registered as Listing Sponsors are authorised to engage International Business Companies (IBCs) domiciled in Barbados or companies abroad, which may be seeking a primary or secondary listing of securities. Additionally, BSE also conducted an inspection of one of its trading participants to ensure compliance with BSE's domestic rules.

Although there was one new listing during 2016, the number of securities listed decreased once again this year from 24 to 19 as a result of voluntary de-listing of a number of securities. The number of listed companies also decreased from 20 to 17. Transactions related to the takeover of Banks Holdings Limited, as well as transactions related to the repurchase of shares in Emera (Caribbean) Incorporated, continued to be the major trading events for BSE during the financial year. Information on the activities of Barbados' sole stock exchange is included under the statistical section.

Private Placement Regime

FSC received notification of three private placements issued in accordance with its Private Placement Regime during the financial year. An alteration to the private placement regime such that securities companies and dealers may use it in issuing their own securities, was finalised. The amendment to the regime permits such companies to use it in issuing securities on an on-going basis without the need to comply with the entire assortment of regulatory requirements associated with public issuers and, consequently, facilitates their deeper involvement in the corporate debt market.

Examinations

The Examinations Department has continued to focus on those entities ranked medium to high risk based on the EWIs, which are monitored on an on-going basis by FSC's various regulatory divisions. Its focus has also been on Systemically Important Financial Institutions (SIFIs), so identified because of their critical importance to the stability of the financial system. The department, working in collaboration with the other regulatory divisions, was able to complete a number of examinations across regulated entities. See table below:

Sector	Total Cumulative Position as at March 31 2016	Total for FY 2017 and in Progress	Total Cumulative as at March 31 2017
Life Insurance	3		3
Non-Life Insurance	5		5
Composite Insurer	1		1
Insurance Broker	11	3	14
Credit Unions	12	4	16
Self-regulatory organisation	2		2
Domestic registered Mutual Funds (sub funds)	15		15
Mutual Fund Administrator (MFA) for domestic funds	3		3
International Mutual Funds	2		2
International Mutual Fund Administrators	1	2	3
Securities Broker	5		5
Total	57	9	66
Total per examination plan in financial year	61		

Supporting Effective Regulation

Research and Policy

The Research and Policy Department continued to carry out its mandate for the development and co-ordination of all policy and research within FSC and to this end has provided technical support to all regulatory divisions. With FSC having just concluded its sixth year of operation, the department continued to provide invaluable assistance in the form of policy making analysis and technical support to FSC's internal and external stakeholders, as well as provide assistance to the internal regulatory divisions on a number of different topics.

The department also has responsibility for responding to data requests from external stakeholders and for the period under review, would have responded to such requests from the Central Bank of Barbados; the Barbados Statistical Service; the Barbados Financial Intelligence Unit; various Government ministries; Invest Barbados; regulated entities and affiliated bodies; as well as from some regional and international organisations.

There was continued collaboration with the Central Bank of Barbados and the Division of Economic Affairs towards the publication of the Financial Stability Report and the Barbados Economic and Social Report, respectively. Additionally, the department produced a number of documents including articles for publication, as well as speeches and presentations which were delivered at various local, regional and international meetings and conferences.

Legal

- *Legislative Developments*

FSC was closely involved throughout the 2016/2017 fiscal year in discussions with both the government and the industry pertaining to policies and proposals for new and amended legislation, as well as ensuring that there is adherence to the process for consultation with the industry. Progress with updating and enhancing the *Financial Services Commission Act 2010-21*, the overarching governing

legislation, meant that considerable resources continued to be devoted to this task. The Financial Services Commission Bill 2017, which focuses on enhancement of the existing legislation and addresses certain identified lacunas, was drafted during the year under review. The specific aim of the required amendments is to strengthen FSC's regulatory framework taking into consideration international obligations relating to *inter alia* disclosure and information sharing.

Consultation meetings were also hosted with a securities focus group, aimed at reviewing and providing comments on the proposed securities framework and amendments to the mutual funds legislation. The focus group reviewed the framework, which highlighted an overview of the legislative proposals together with related policy issues. The proposals are aimed at reducing inefficiencies and generally promoting business facilitation through a more robust legislative framework.

- *Industry Developments*

In the last quarter of 2016, FSC issued a sector specific circular relating to an auditor exemption regime which would enable qualifying registrants to seek an exemption from Section 11 of the *Financial Services Commission Act, 2010-21*, regarding (i) appointment of an auditor and (ii) the requirement for approval of an auditor. The regime is applicable to qualifying registrants under the *Securities Act CAP 318A* who are registered pursuant to the *Companies Act CAP 308* as an external company.

- *Complaints Handling*

FSC commenced its complaints handling programme with the enhancement and development of standard procedures for complaints. In this regard, FSC issued an information circular in early 2017 on complaints handling, which is aimed at educating the public and regulated financial institutions on procedures to follow when requesting assistance and lodging complaint with FSC. In addition, the circular seeks to guide the public on how to correctly file a complaint with financial institutions and also outlines FSC's expectations as regulator with respect to complaints handling by regulated financial institutions.

- *Information Sharing and Institutional Strengthening*

FSC formalised and established information sharing with the Barbados Statistical Service specifically in furtherance of data sharing. The Memorandum of Understanding seeks to establish a framework for sharing of data between FSC and the Barbados Statistical Service, outlining the specific duties and obligations in respect of the data being shared, consistent with the *Financial Services Commission Act*

2010-21, the *Statistics Act CAP 192*, relevant laws and best practices with respect to data sharing, confidentiality and data protection.

FSC also continues to collaborate with its fellow regional and international regulatory colleagues pertaining to various requests relating to information sharing within the parameters of the law.

- *Litigation*

Two litigious matters involving insurance companies placed under judicial management and in which FSC was the Petitioner continued to engage FSC's attention and resources and those of the local law courts. While solutions have been posited in both matters by the Judicial Managers, judicial management continues as the Court has retained oversight of the execution of the solutions. In addition, on July 11, 2016 the final judgment of the Court of Appeal was given in the matter involving an appeal against the decision of the Court to discharge an injunction freezing the competitive bidding process in respect of a take-over bid.

Human Resources

The Human Resources Department undertook a number of activities in relation to the organisation's strategic objectives. The summary below highlights the activities undertaken, as well as provides relevant human resources data.

- *Staffing*

FSC continued its practice of cross training and internal promotion to allow for the development of individual skill sets. Five employees were reassigned to more senior positions and one benefitted from a lateral transfer. As a result of these internal changes, an Analyst – Credit Unions was recruited externally.

- *Staff Welfare*

In order to foster camaraderie and promote teamwork among staff, as well as encourage personal development, FSC undertook a number of staff activities. These included:

- A staff fun day which was well supported by employees and them to get to know each other outside the work environment
- The Annual Staff Appreciation and Awards luncheon where staff were recognised in line with the below titled awards:
 - **Perfect Attendance**
 - ✓ *Nicole Phillips*
 - ✓ *Wayne Griffith*
 - ✓ *Shari Mapp*
 - ✓ *Tamara Mayers*
 - ✓ *J. Waveney Forde*
 - ✓ *Crystalle Walcott*
 - ✓ *Keisha Daniel*
 - ✓ *Carolyn Jones*
 - ✓ *Jacqueline Ince*
 - ✓ *Kim Blenman*
 - ✓ *Paul Griffith*
 - ✓ *Sydney Robertson*
 - ✓ *Thania Lynch*
 - ✓ *Tanya Bretney*
 - **FSC Spirit Award** – *Ian Armstrong*
 - **FSC Stability Award** – *Shari Hope*
 - **FSC Corporate Support Award** – *Lisa Niles*
 - **FSC “Yes We Can” Award** – *Esther Griffith/ Amber Boyce*

- **Training and Development**

FSC has been strategically supported in its training and development of staff through partnership with CARTAC, which has provided several training opportunities at little cost to the organisation. Several employees were the beneficiaries of training during the financial year.

See below summary:

Training Course	Training Course
The Barbados Association of Office Professionals – “Reducing Employee Absence and Enhancing Workplace Productivity”	The Small Countries Financial Management Programme – Said Business School, University of Oxford
Accounting and Financial Management Training - China	“Building Systemic Strength and Resilience” - Toronto Centre
Caribbean Financial Action Taskforce Plenary meeting – Jamaica	One-week Leadership Development Programme - UWI Cave Hill School of Business
Risk Management of Investment Portfolios	SAGE 300
Group of International Insurance Centre Supervisors (GIICS) Annual General Meeting – England	Think Like an Entrepreneur: 5 skills that turn bright ideas into reality
Caribbean Financial Action Taskforce (CFATF) XLIV Plenary and Working Groups Meeting – Turks and Caicos Islands	CARTAC/CAIR Annual Insurance Supervision Conference and Workshop Annual General Meeting and College of Regulators – Suriname
Caribbean Association of Pension Supervisors – Suriname	“Balancing Supervision, Regulation and Enforcement - Toronto Centre
Small Countries Financial Management Programme - Isle of Man	Webinar: Become Indispensable with Essential Tips from Office Heroes!
Caribbean Association of Insurance Regulators - Suriname	RIMS Annual Conference and Exhibition – Calgary Canada
CARTAC/ Bank of Jamaica Conference – Enhancing Financial Soundness Macro-prudential and Real Estate Indicators in the Caribbean	Event Management for Business Professionals – CHSB - University of the West Indies, Cave Hill Campus
Leadership Development Programme – (CHSB)	CARTAC/CACS Credit Union Regional Workshop - George’s, Grenada
ICURN Annual Conference and Continuing Education	Participation in the Annual Barbados Week of Financial Sector Meetings - Canada
Technical Working Session to Review the Draft Model Securities Market Law for Caribbean Community (CARICOM) Member States in Trinidad and Tobago	CARTAC sponsored training to the IOPS/FSC International Seminar on Pension Supervision and Regulation in Jamaica
Toronto Centre International Program for Securities	CCMF 48 th Annual Monetary Studies Conference –

Regulators Conference	Bahamas
Toronto Centre International Program for Supervisors: Building Systematic Strength and Resilience	CARTAC Caribbean Group of Securities Regulators (CGSR) Annual Conference, Workshop and Members' Meeting – Bahamas
The Institute of Internal Auditors Barbados Chapters – Working Papers Tracking Audit Evidence and Effective Interviewing Techniques	Inter-American Regional Committee (IARC) / Council of the Securities Regulators of the Americas (CORSA)
Crestcom Bullet Proof Manager	Fighting Fraud – Whose responsibility it is?
Caribbean Commercial Law Workshop	NISE Leader to Leader Innovation Forum
National Risk Assessment on Money Laundering and Terrorism Financing Risks in Barbados: Understanding your Role	

Communications

The reporting period included the acknowledgment and celebration of a milestone anniversary for FSC in April – five years as a regulatory organisation. The 5th anniversary celebrations began with a “thank-you” church service attended by FSC Chairman and Board of Commissioners, management and staff. That activity was followed by the hosting of a media conference and an appearance on the local CBC TV **People’s Business** programme to update the nation on FSC’s regulatory developments and corporate achievements over the past five years. These activities also served to help advance strategic efforts to strengthen dialogue with local journalists to help them understand and appreciate FSC’s role and relevance to the financial services landscape and to the financial stability of Barbados. The FSC Annual Lecture & Cocktail Reception, also held in the anniversary month, was a great success with a capacity audience invited to hear lecture presenter Minister of Finance and Economic Affairs, the Honourable Christopher P. Sinckler, M.P., deliver on the topic **“Transforming Statutory Corporations in Barbados: A Focus on FSC’s Development Five Years On”**.

Anniversary events for staff included an expanded annual Health & Wellness Expo with health presentations on breast and prostate cancer from the Barbados Cancer Society. This local charity was

selected by staff to be the recipient of proceeds from the inaugural FSC “Fitness for Charity” programme – a two-part approach to health awareness where staff participate in a fitness challenge and help to raise funds for a local health charity to advance its work. Over \$5,000 was presented to the Barbados Cancer Society in a presentation covered by local media. Staff will vote each year for the recipient charity of funds raised with “Fitness for Charity”.

The Communications Department continued to support and promote the work of FSC divisions, particularly where there was need for a greater level of staff engagement and external stakeholder outreach. The department facilitated a Peer Recognition Award programme that allowed staff to nominate and vote for colleagues to win the **Team Member Professionalism Award**, the **Team Member Integration Award**, and the **Team Member Support Award**. Respective winners in these categories were:

- *Roxanne Morgan-Went (Senior Analyst – Insurance)*
- *Lynette Taylor (Communications Officer)*
- *Paul Byer and Lisa Niles (Systems Administrator and Human Resources Officer)*

These awards complimented the annual corporate Staff Appreciation & Awards organised by the HR Department. Both categories of awards were presented at a luncheon which doubled as a farewell function for former CEO, Randy Graham, who moved on to other professional pursuits at the end of December 2016.

In keeping with its strategy on external stakeholder engagement and public education, FSC, during the period under review, hosted two two-day Pensions Trustee Training Workshops. They were facilitated via a partnership with Morneau Shepell out of Canada and it is hoped that FSC will be able to host similar training activities in the near future.

Internally, FSC’s partnership with the Central Bank of Barbados allowed for a special presentation to our staff from Distinguished Visiting Fellow, Dr. Patrick Honohan, former Governor of the Central Bank of Ireland. Dr. Honohan, who was in Barbados at the invitation of the Governor of the Central Bank, addressed staff on the topic – “The Impact of Deregulated Interest Rates on the Non-Bank Financial Sector”.

Information Technology

The main focus of the department during the year under review was the Electronic Filing/Document Management Project (EFDM). The objective of the project is to provide FSC with the appropriate information technology tools and framework necessary to enable it to effectively execute its mandate to supervise, regulate, monitor and review the non-bank financial sector. The EFDM will be designed to provide FSC with an integrated solution equipping the organisation with the tools necessary to collaborate electronically both internally and externally with licenced entities and applicants, as well as with the wider public.

The EFDM project started in December of 2015 and was initially scheduled to be completed in November of 2016. However, the completion timeframe of the project was extended to September 2017. The technical testing of the system has been completed and everything is in place to proceed to the hardware setup and user testing aspects.

For the 2017/2018 fiscal year, the department intends to continue working with its various stakeholders to facilitate the selection of a vendor for a Disaster Recovery Consultancy to develop a robust disaster recovery plan for FSC.

Finance and Planning

FSC's expenditure is closely managed against an annual budget agreed by the Board of Commissioners. The major item of expenditure remains staff costs, although, as in previous years, staff was increased only when absolutely necessary. During the fiscal year under review, income from fees charged to licensees and registrants totaled BDS\$6,077,800.

Under the Exempt Insurance Act, Cap 308A, exempt insurance companies domiciled in Barbados for more than 15 years are required to pay a tax to the Barbados Revenue Authority as opposed to the regulator. As a result of this loss of revenue, FSC receives an annual grant from the Ministry of Finance and Economic Affairs. The total received for the period under review was BDS\$1,070,000. Interest on

FSC investments in Government of Barbados Treasury Bills provided an additional BDS\$49,569 to corporate income.

Under the Insurance Act, CAP 310, FSC is responsible for managing unclaimed monies legally payable by an insurance company in respect of policies, but which have not been recovered within the allotted time. This includes sums of money payable on the maturity of an endowment policy or endowment insurance policy not claimed within seven years after the date of maturity. The total monies received and refunded under this Act was BDS\$1,129,904.56 and BDS\$91,643.82, respectively. The total held in escrow at the Central Bank of Barbados as at March 31, 2017 was BDS\$10,341,398.

FSC also maintains records for and custody of securities placed as regulatory or statutory deposits based on the requirements of the Insurance Act, CAP 310.

Details of the financial position for the year ending March 31, 2017 are contained in the annexed Audited Financial Statements.

Statistical Highlights

Insurance

- *International Sector*

Barbados was again ranked among the top 10 domiciles for captive insurance companies, having demonstrated this by its retention rates of international insurance companies during the period under review. Total assets for this sector was BDS\$132,816 million, with liabilities of BDS\$99,165 million. International insurers' gross premium written was BDS\$49,672 million as at December 31, 2015. During 2016, an additional 13 international insurers and one management company, were licensed.

Table 1: New Registrations 2016

	2016
Exempt Insurance Companies	9
Qualifying Insurance Companies	4
Holding Companies	0
Management Companies	1
Totals	14

Table 2: Analysis of International Insurance Companies

	2016	%	2015	%	2014	%	2013	%	2012	%
Exempt Insurance Companies	200	71%	192	71%	189	72%	179	69%	166	68%
Qualifying Insurance Companies	46	16%	44	16%	42	16%	45	17%	45	18%
Holding Companies	11	4%	11	4%	11	4%	12	5%	12	5%
Management Companies	25	9%	24	9%	22	8%	22	9%	22	9%
Totals	282	100%	271	100%	264	100%	258	100%	245	100%

In the international insurance sector, Canada was the most significant source for business, followed by the United States of America and the United Kingdom.

Figure 1: Country of Origin-International Insurers

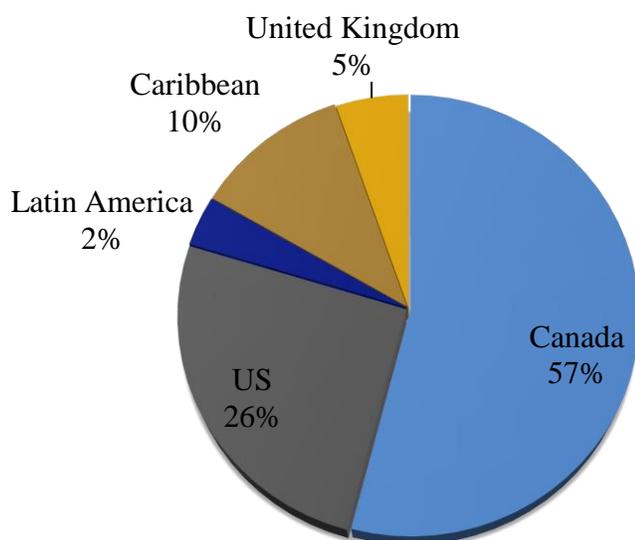


Table 3: Select Financial Information – International Insurers

	2012	2013	2014	2015
	(BD\$ Millions)	(BD\$ Millions)	(BD\$ Millions)	(BD\$ Millions)
Total Assets	122,554	126,023	104,116	132,816
Total Liabilities	76,660	89,944	70,249	99,165
Share Capital	9,338	10,831	10,631	9,405
Gross Premium	33,709	39,036	40,224	49,672
Net Earned Premium	20,991	42,421	34,225	44,117
Investment Income	2,053	6,664	3,998	1,937
Net Income	16,179	6,803	9,138	6,824
Claims Paid	14,267	12,082	19,911	19,308

- *Domestic Sector*

As at December 31, 2016, there were 24 domestic companies actively writing insurance business in Barbados.

Table 4: Insurance Entity Registration 2012-2016

	2016	2015	2014	2013	2012
General Insurance Companies	15	14	15	16	16
Life Insurance Companies	8	6	7	9	9
Combined Life and General Insurers	1	1	1	1	1
Brokers	25	23	22	22	24
Agents, Sub-agents, Salespersons	554	547	534	516	560
Loss Adjusters/Surveyors	14	14	14	7	16
Totals	617	605	593	571	626

The sector recorded aggregated total assets of BDS\$3,635million¹ and liabilities of BDS\$ 2,262 million.

Aggregate gross written premium for the domestic insurance sector was BDS\$704 million in 2015.

Overall net income was BDS\$113 million.

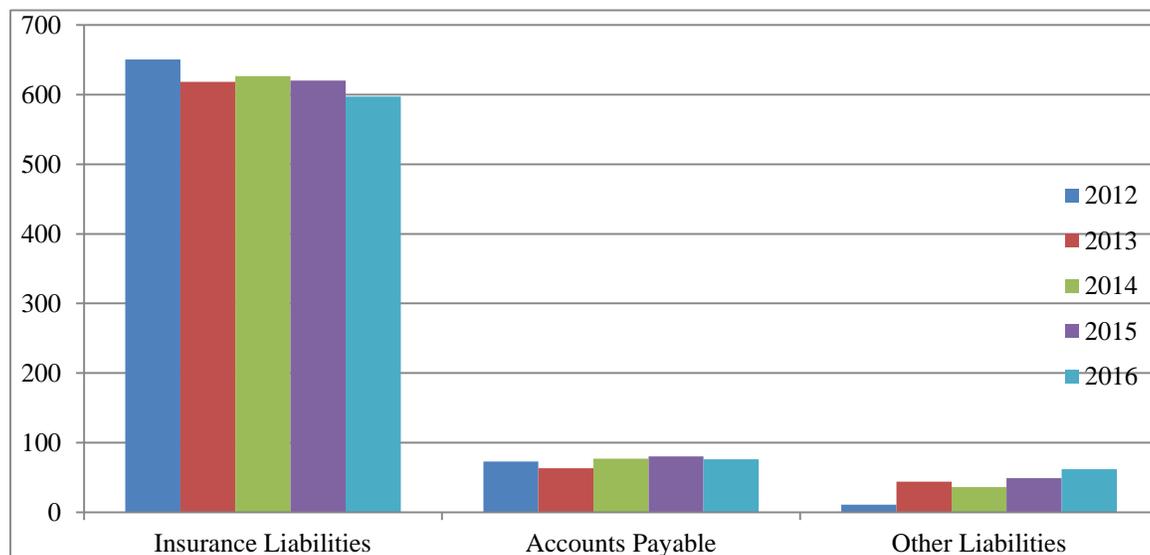
Table 5: Select Industry Information 2012-2016

	2012	2013	2014	2015	2016	% Change
	(BDS\$ Millions)	(BDS\$ Millions)	(BDS\$ Millions)	(BDS\$ Millions)	(BDS\$ Millions)	2015-2016
Gross premium written	646	668	724	916	704	-23%
Reinsurance ceded	291	283	298	280	263	-6%
Net premiums written	365	396	433	643	447	-30%
Incurred claims	151	155	175	176	173	-2%
Commission paid	56	55	56	70	53	-24%
Total assets	3,142	3,010	3,024	3,243	3,635	12%
Total liabilities	2,174	2,159	2,102	2,289	2,262	-1%
Net income (after tax)	129	80	115	100	113	13%

¹ Financial information presented is based on annual statutory returns received as at December 31, 2016. It must be noted that one company did not provide annual statutory reporting forms.

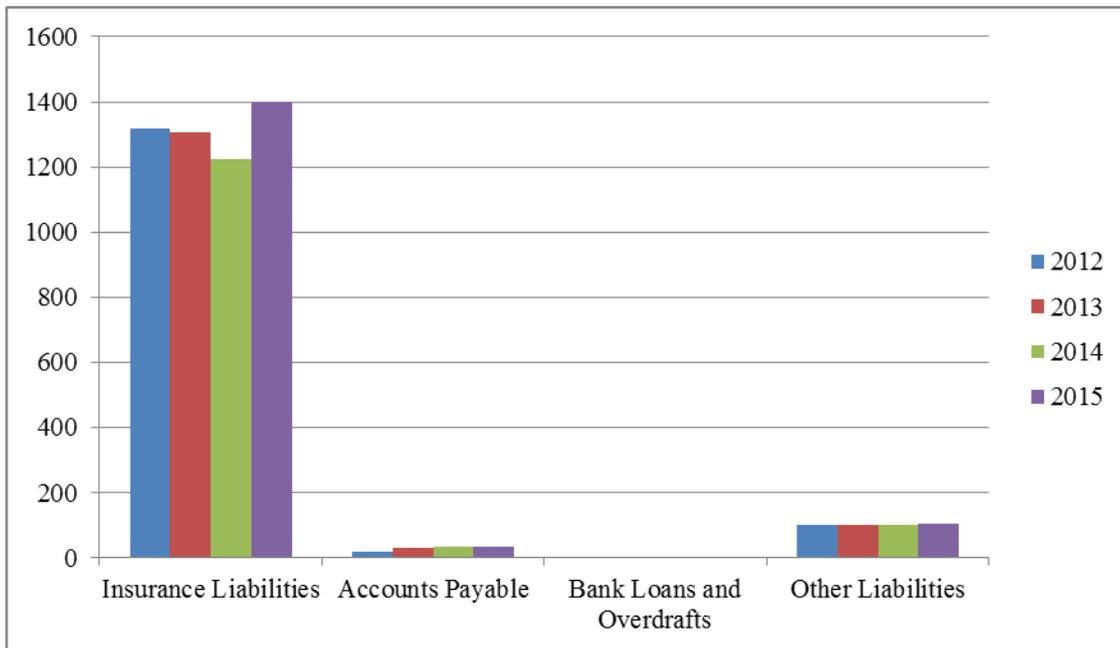
The domestic insurance industry experienced a gradual decline in assets being held by general insurers in the last five years. In 2015, companies writing general insurance business held assets of BDS\$1038 million, a 1% decrease when compared with the previous year. These assets comprised mainly of government securities and reinsurance. The industry also experienced a 2% decrease in general insurance liabilities in 2016 when compared with the previous year.

Figure 2: Total Liabilities for General Insurers



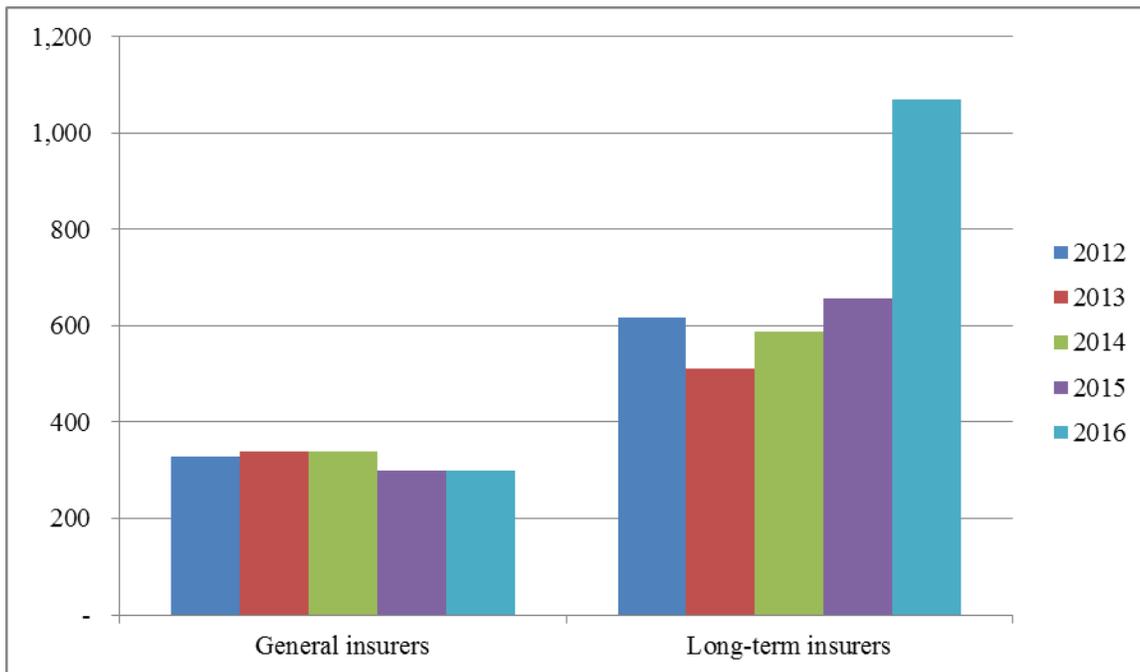
As at December 31, 2016, companies writing long term insurance business held BDS\$2,596 million in assets, which were concentrated between related party investments and government securities. Long term insurance liabilities slightly decreased by 1% over the previous financial year.

Figure 3: Total Liabilities for Long-term Insurers



Total capital and reserves for general insurers was BDS\$299 million in 2016, a 0.01% decrease from the 2015 figure. Capital and reserves for long-term insurers increased by 63% over 2015.

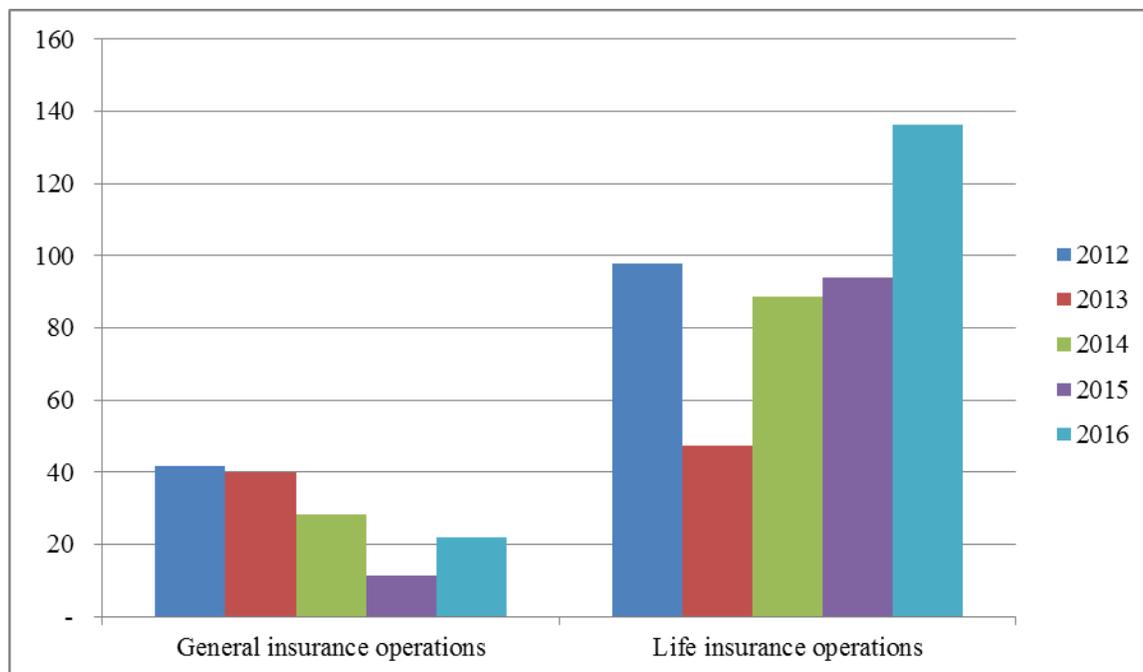
Figure 4: Total Capital and Reserves 2012-2016



Premiums attributed to general insurance business accounted for 63% of the total premium written in 2016 (BDS\$446 million). Most companies writing general insurance business recorded decreases in the amount of premium written for 2016 over 2015. Overall, there was a 3% decrease in general insurance gross premium written over the amount recorded for 2015. A total of BDS\$232 million was ceded to reinsurers, which was 7% lower than the amount ceded in the preceding year. Incurred claims related to general insurance business was BDS\$132 million, an increase of 3% over the previous year. Companies undertaking general insurance business had a combined underwriting loss of BDS\$0.5 million. Investment income increased by 6% from BDS\$21 million in 2015 to BDS\$22 million in 2016. Net operating income from general insurance activities was BDS\$22 million in 2016, a large increase over the previous year's figure of BDS\$11 million.

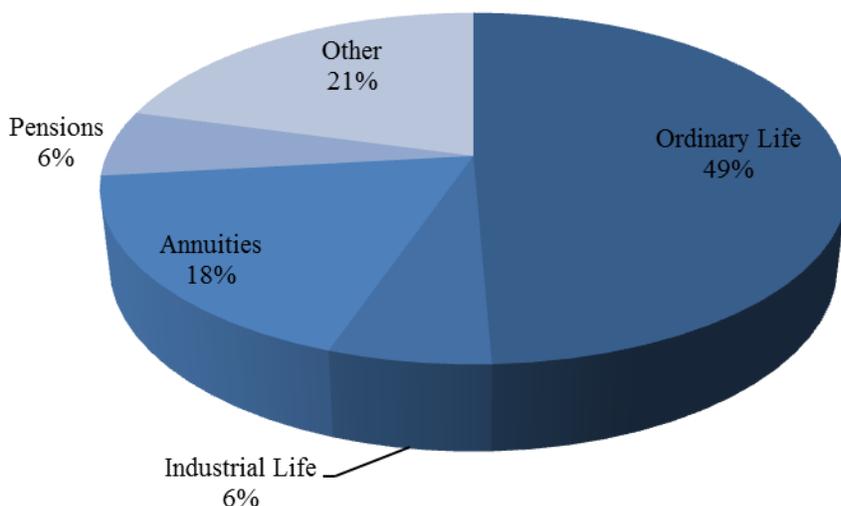
Gross written premium for long term insurance was BDS\$258 million. Companies writing long term insurance recorded a 45% increase in investment income from BDS\$60 million in 2015 to BDS\$104 million in 2016. Net operating income for life operations was BDS\$136 million in 2016, a 45% increase over the previous year.

Figure 5: Net Operating Income 2012-2016



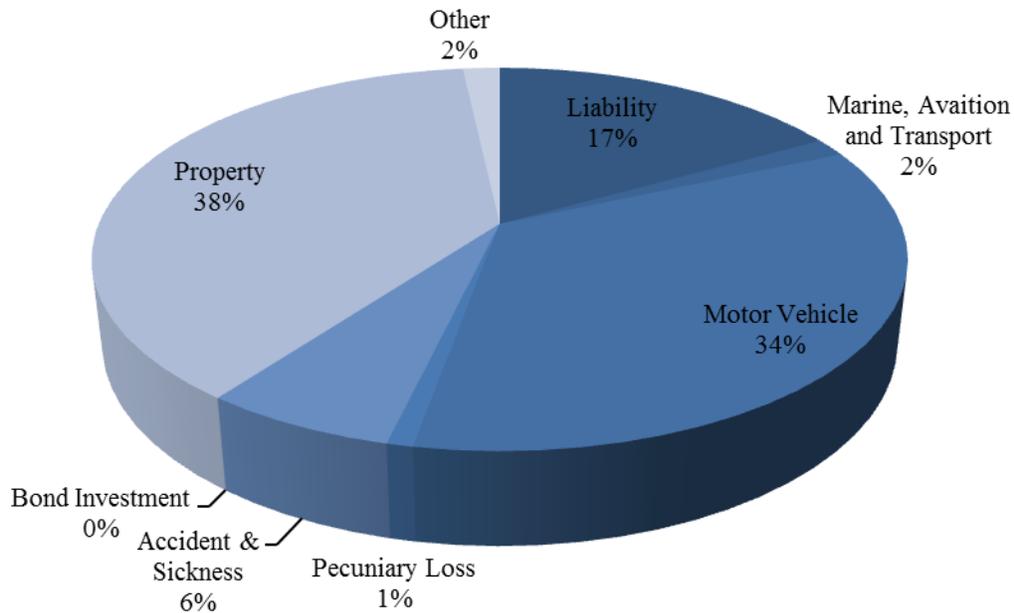
Premiums related to long-term insurance comprised largely of ordinary life insurance, which represented 49% of long-term insurance business. Industrial life accounted for 6% of the premiums written for long-term insurance business. Annuities, pensions and other classes (personal accident, creditor life and health) accounted for the remainder of premium written in the long-term insurance market.

Figure 6: GPW by Policy Type – Long Term



Motor and property insurance remain the key segments of the general insurance market, accounting for 72% of the premiums written. Liability insurance accounted for 17% of the premiums written by general insurers. Marine aviation and transit, accident and sickness, pecuniary loss and bond investment represented the remainder of gross premium written.

Figure 7: GPW by Policy Type – General



Credit Unions

During the 2016/2017 fiscal year there was further consolidation in the sector. At the end of March 2017 there were 33 active credit unions, one less than the previous fiscal year – the result of a decision made by a small credit union to transfer its assets and liabilities to a larger credit union. This process ensured there was no decline in total asset value. While FSC remains of the view that there will be further reduction in the number of active credit unions, it is expected, however, that strong growth in total sector assets and membership will continue. This view is supported by general global trends towards consolidation, which enhances the safety and soundness of the sector as assets are concentrated in financially stronger entities that are more adept at servicing member needs.

Table 6: Credit Union Sector Profile at a Glance

	2013	2014	2015	2016	2017
Number of credit unions	35	35	35	34	33
Total Assets (billions)	\$1.62	\$1.71	\$1.79	\$1.94	\$2.09
Total Savings (billions)	\$1.33	\$1.42	\$1.50	\$1.64	\$1.79
Net Loans (billions)	\$1.20	\$1.24	\$1.32	\$1.42	\$1.53
Capital Ratio²	11.24%	11.76%	11.86%	11.77%	11.90%
Profitability (Return on Average Assets)	1.32%	1.06%	0.64%	1.07%	1.09%

Assets

Sector assets were reported at BDS\$2.09 billion as at March 31 2017, an increase of 7.76% relative to the preceding year. A credit union’s viability is generally benchmarked by a five-year compound annual growth rate of at least 5%. Over the five-year period 2013 to 2017, the industry reported a robust compound annual growth of 5.24%. This result is indicative of the sustainability and resilience of the sector. The sector continued to be characterised by its heterogeneous nature as assets ranged from BDS\$101,286 to BDS\$1.11 billion as at March 31, 2017. The sector’s balance sheets were dominated by loans with net loans reported at BDS\$1.53 billion, or 73.14% of total assets in 2017 – up from BDS\$ 1.42 billion or 73.08% a year earlier. While there was absolute growth in loans, loans as a percentage of total assets declined, largely due to growth in assets driven by members’ savings. Between 2016 and 2017, the sector increased its concentration of assets in cash and investments which grew by 19.14% and 5.77% respectively.

Profitability

The sector generated returns on average assets of 1.09% at March 31, 2017 compared to 1.07% in the previous reporting period, largely due to the reduction of non-performing loans which enhanced the earning capacity of the sector. The lower Non-performing Loans (NPLs) resulted from the mitigation of credit risk through the tightening of loan underwriting practices across the sector.

² Capital ratio inclusive of qualifying shares and non-risk weighted

Capital

A non-risk weighted capital ratio of over 7% is considered an adequate buffer to insulate the credit union against shocks. The domestic sector, over the 2013 to 2017 period, reported capital levels ranging from 11.24% to 11.90% characterised by an upward trend. Capital consists primarily of reserves and retained earnings which constitute tier I capital under the Basel standards.

Figure 8: Breakdown of Credit Union Sector Assets

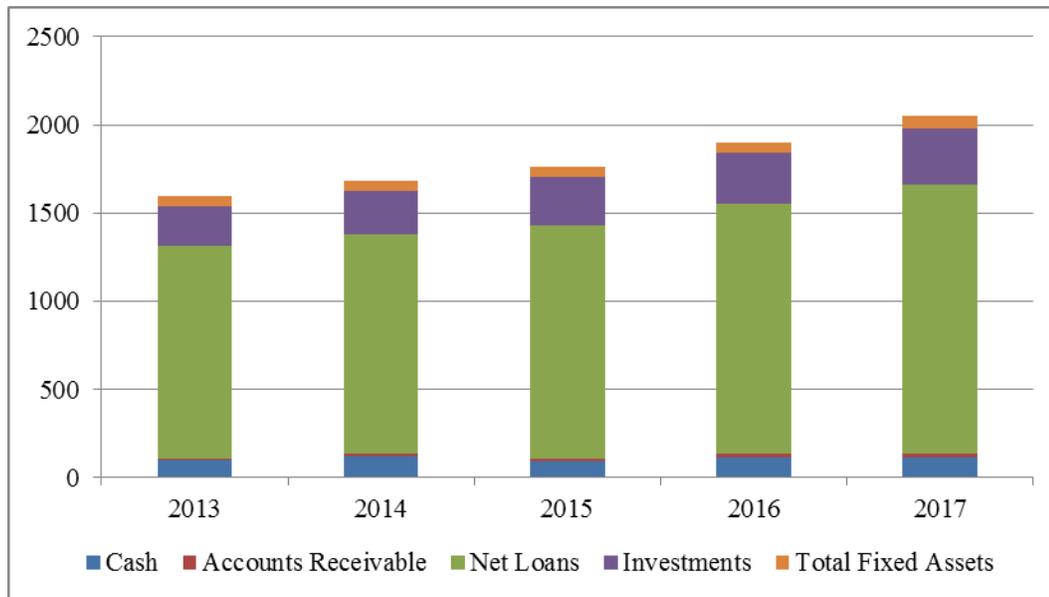


Table 7: Breakdown of Assets (In \$ Millions) by Peer Group

	2013		2014		2015		2016		2017	
	\$	Number of Credit Unions								
Greater than \$40 million	1,432	6	1,557	7	1,636	7	1,777	7	1,925	7
\$10 million to \$40 million	135	6	104	5	103	5	116	6	117	6
Less than \$10 million	51	23	52	23	53	23	44	21	47	20
Total	1,618	35	1,713	35	1,792	35	1,937	34	2,088	33

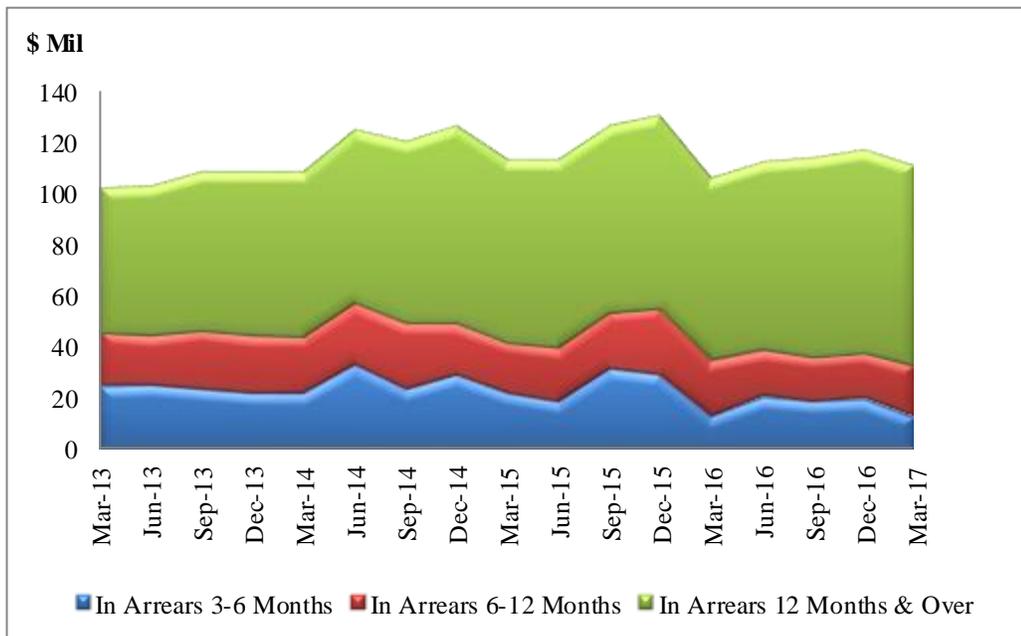
The two largest credit unions held approximately BDS\$1.54 billion which represents 74% of the assets of the sector. This is consistent with the previous five years under review. New loans across the sector fell by BDS\$26.15 million or 17% relative to 2016, as illustrated in Table 3. Lending was concentrated in Consumer and Real Estate loans.

Table 8: Annual Loan Disbursements (*in thousands*)

	2013	2014	2015	2016	2017
Consumer	40,466.0	45,109.8	63,378	64,635.7	57,048.2
Real Estate	47,854.3	35,989.2	57,052	60,999.1	44,730.5
Private Transport	9,874.7	11,341.2	16,413	20,915.1	19,999.8
Commercial Transport	242.2	188.8	1,056	388.0	159.2
Agriculture	9.8	4.0	9	741.5	419.6
Other Business	513.2	380.4	1,021	2,508.5	1,680.8
Total	98,960.2	93,013.4	138,930	150,187.8	124,038.1

A slight improvement in the sector's NPLs was recorded as these loans declined from 7.33% to 7.13% between March 31, 2016 and March 31, 2017. This decrease was due to action taken to address delinquent mortgages and continued write offs during the period. Loan loss provisions for the sector were reported at BDS\$38.3 million or 34.11% of NPLs, which represent an increase of 5.46% in provisioning levels relative to the previous year.

Figure 9: Breakdown of Credit Union Sector Non-Performing Loans



Members’ Savings

Members’ investments in savings and shares totalled BDS\$1,791 million up from BDS\$1,642 million in the previous corresponding period. Between March 31, 2013 and March 31, 2017 deposits grew from BDS\$1,328 million to BDS\$1,791 million, reflective of growth of 34.86% over the period. This inflow created potential liquidity challenges in the medium to long term.

FSC continues to enhance its ability to proactively assess potential risks in the credit union sector through the refinement of its stress testing framework.

Securities

A statistical presentation and comparison of the number of registrants and/or licencees is outlined in Tables 9 and 10 below.

Table 9: Regulated Entities

Category	Number of Regulated Entities (as at the date shown)				
	March 31, 2013	March 31, 2014	March 31, 2015	March 31, 2016	March 31, 2017
Market Actors (companies) ³	17	21	28	35	35
Market Actors (individuals) ⁴	27	29	37	55	54
Self-regulatory organisations	2	2	2	2	2
Mutual funds (including sub-funds)	26	26	25	21	22
Mutual fund administrators (general)	10	10	10	10	9
Mutual fund administrators (restricted)	1	1	0	0	0
Issuers ⁵	46	48	49	47	43

Table 10: Market Intermediaries

Category	Breakdown of Market Intermediaries (as at the date shown)			
	March 31, 2014	March 31, 2015	March 31, 2016	March 31, 2017
Securities company	10	13	18	17
Investment adviser	7	15	21	19
Dealer	3	3	6	5
Underwriter	5	6	7	6

³ Market Intermediaries refers to firms registered in the categories of securities companies, underwriter, investment adviser, dealer and mutual fund administrator. Some firms are registered in more than one category.

⁴ Brokers, Dealers, Traders, Investment Advisers

⁵ Issuers refers to reporting issuers plus two entities that have registered securities but are not required to register as reporting issuers

Mutual Fund Administrator (General)	11	10	10	9
Mutual Fund Administrator (Restricted)	0	0	0	0

Registration and/or Licensed Entities

The number of companies registered and/or licensed as market actors has remained relatively constant; whereas, FSC has recorded a marginal decrease in the number of individuals registered. This decrease was reported mainly in the category of broker. There were minor fluctuations in the general numbers recorded throughout the year as a result of licensing new entities and the loss of other entities which had ceased to carry on business in regulated activities during the year.

In terms of the reporting issuers, there was also a decrease which was attributed to issuers who sought an order declaring they were no longer reporting issuers because they had ceased to be public companies due to the maturity of issued securities, or were qualifying issuers utilising the option of the private placement regime.

Table 11: Mutual Funds Data (as at date shown)

Funds under management BDS\$ (in millions)			
	Domestic <i>(offered in Barbados)</i>	Foreign <i>(not offered in Barbados)</i>	Total
March 31, 2013	979.8	1,489.9	2,469.7
March 31, 2014	1,834.7	3,322.3	5,157.5
March 31, 2015⁶	1,871.7	4,777.5	6,649.2
March 31, 2016⁷	1,902.8	727.2	2,630.1
March 31, 2017	2,072.7	471.7	2,554.5

⁶ Previously reported AUM figures updated

⁷ Previously reported AUM figures updated

Funds

The size of the domestic funds market experienced modest growth over the last financial year, while a notable decrease in the foreign sector was recorded in reported assets under management. The decline experienced on the foreign side was mainly attributed to significant redemptions in a large fund and the commencement of the dissolution proceedings in respect of other funds. The number of mutual funds, including sub-funds, has shown a slight increase over the previous year with the licensing of a new foreign fund and its sub-funds. In respect of fund administrators/managers there was a slight decline in the number of licensed entities for the period under review. A statistical representation of the market is outlined in Table 12 below:

Table 12: Activity on the Barbados Stock Exchange Inc. (BSE)

	Market data ⁸ (as at date shown)				
	March 31, 2013	March 31, 2014	March 31, 2015	March 31, 2016	March 31, 2017
Listed companies	23	20	20	20	17
Listed securities	28	26	25	24	19
Local market index	3,084.37	2,568.58	2,194.13	2,478.82	2,866.91
Cross-listed market index	1,325.98	1,539.55	1,726.65	1,738.11	1,029.34
Composite market index	738.76	668.90	624.23	678.19	687.56
Local market capitalisation BDS\$	8,869,156,101	6,395,315,382	5,499,741,673	6,272,039,643	6,226,553,949
Cross-listed market capitalisation BDS\$	2,214,570,569	2,569,376,511	2,895,433,099	2,862,760,630	694,849,524
Composite market capitalisation BDS\$	11,103,526,670	8,964,691,893	8,395,174,722	9,134,800,272	6,921,403,473
No. of major transactions ⁹	1	0	0	2	2

⁸ Source: The Barbados Stock Exchange Inc.

⁹ Takeovers, mergers, rights issues etc.

Stock Market

BSE reported a modest increase in the market index and a moderate decline in market capitalisation for the domestic market as compared with the prior financial year. In the cross-listed market the index and capitalisation experienced notable declines from the previous financial year. The movement on the cross-listed market was mainly a result of the discontinuation of the listings of cross-listed entities over the period.

Pensions

Table 13 shows the number of registered pension plans by plan type as at March 31. Over the 2014 to 2017 period, there has been a steady increase in the number of occupational pension plans registered under the Occupational Pensions Benefit Act (OPBA), with the number of defined contribution (DC) plans representing approximately 60% of the total plans registered in 2017.

Table 13: Number of Pension Plans Registered by Plan Types as at March 31

Type of Pension Plan	2014	2015	2016	2017	Change 2017/2016
Defined Benefit (DB)	36	60	66	81	15
Defined Contribution (DC)	107	131	139	159	20
DB+DC (combination)	2	9	10	15	5
Multi-Unit	0	3	7	12	5
Multi-Employer DC	0	1	1	1	0
Total	145	204	223	268	45

Registration Process

During the period under review, the Pensions division processed 50 applications for the registration of occupational pension plans and eight applications for the registration of amendments to an occupational pension plan. As at March 31, 2017, there were a total of 268 active pension plans. Table 14 presents the number of active pension plans categorised by registration status:

Table 14: Number of Active Pension Plans Categorised by Registration Status

Type of Pension Plan	Fully Registered Active Pension Plans	Not Registered Active Pension Plans	Total
Defined Benefit (DB)	81	3	84
Defined Contribution (DC)	159	8	167
DB+DC (combination)	15	0	15
Multi-Unit	12	0	12
Multi-Employer DC	1	0	1
Total	268	11	279
Percentage (%)	96%	4%	100%

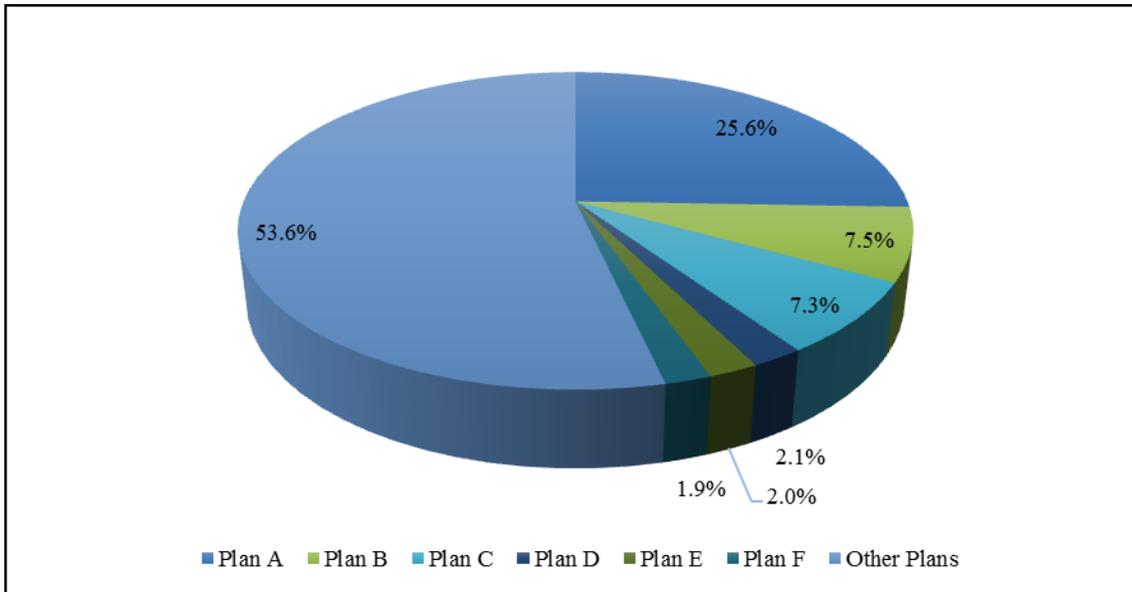
Regulation Process

The pensions sector continued to be a substantial component to the financial system in Barbados. This is primarily the result of the significant value of the assets under management.

Assets under Management

As at the end of December 2015, total assets for the pensions industry were estimated at approximately BDS\$1.9 billion. Figure 10 shows the estimated breakdown of the assets of the top six pension plans in comparison to the assets under management of the other pension plans within the industry.

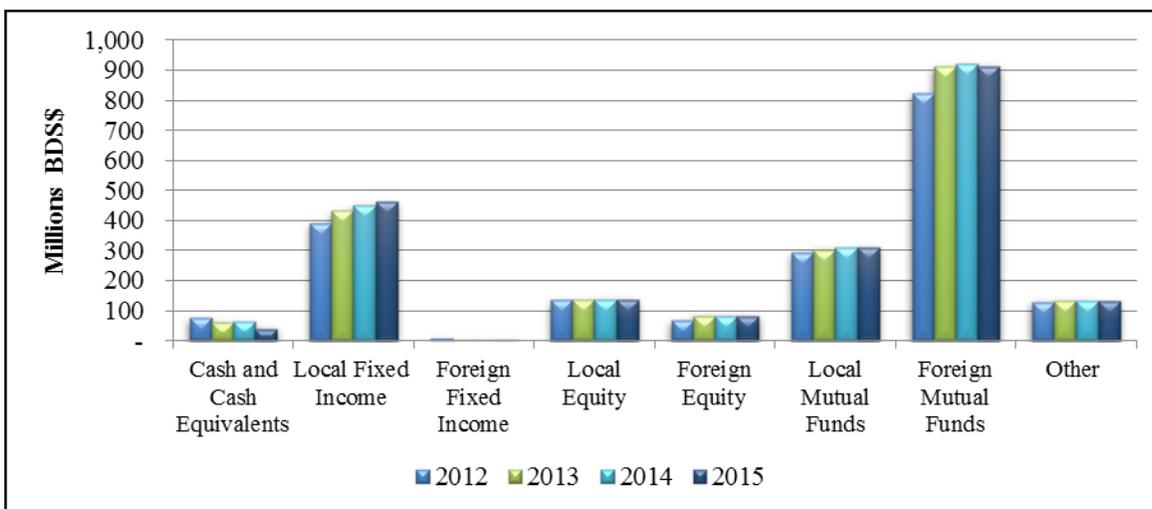
Figure 10: Estimated Breakdown of the Total Pension Industry Asset as at December 31, 2015



Of the six pension plans identified above, only Plan D has investments in both Segregated Pension Funds and Mutual Funds. The assets of Plan A represent more than a quarter of the total industry assets in the amount of 25.6%.

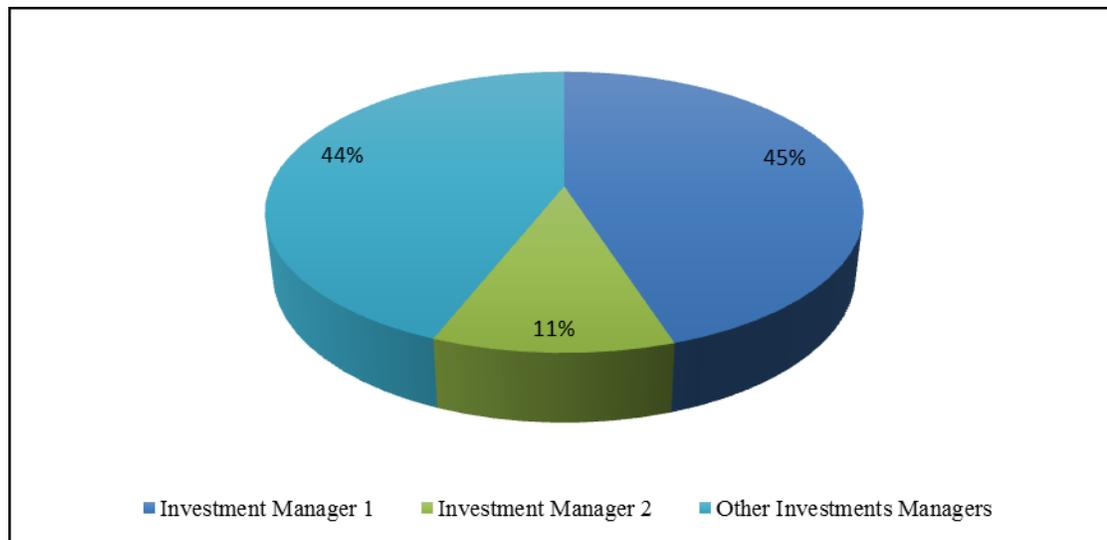
Figure 11 shows the asset distribution for the pension industry for the 2012 to 2015 period. The figure indicates that the pension funds have invested mainly in local fixed income and foreign mutual funds.

Figure 11: Pension Industry Assets as at December 31



A review of the Industry Assets by Investment Manager has shown, as demonstrated in Figure 12, that 55% of the total assets under management are invested outside of the funds offered by the main insurance company in Barbados. This is further broken down to show that 44% of industry assets are not being managed by the two main pension investors in the industry which are regulated at FSC by the Securities division. This would suggest that the Pensions division needs to place more emphasis on monitoring these other investments.

Figure 12: Industry Assets by Investment Manager



Risk Ratings

Over the past financial year, FSC has been placing significant emphasis on the completion of the risk ratings for the registered active pension plans. Table 15 shows that as at March 31, 2017, 202 risk ratings have been created for pension plans spanning the period 2011/2016. With the registration of the pension plans commencing in 2013, most of the financial information submitted has coincided with that period, with 30% of the overall ratings being completed.

Table 15: Risk Ratings for Pension Plans

RISK RATINGS	FINANCIAL YEARS						
	2011	2012	2013	2014	2015	2016	Total
No. of High Impact/ High Risk Plans	3	7	9	9	7	2	37
No. of High or Moderate Impact/Low or Moderate Risk Plans	0	2	13	11	9	0	35
No. of Low or Moderate Impact/High or Moderate Risk Plans	0	3	11	9	9	3	35
No. of Low Impact/ Low Risk Plans	0	19	29	25	19	3	95
Total No. of assessments completed	3	31	62	54	44	8	202

Wind-up Process

Table 16 reveals the total number of pension plans that were granted approval to wind-up as at March 31, 2017. Noting that the total number of approvals to wind-up for the period reflected a 50% decline over the 2016 period, some of the reasons for winding-up provided by administrators were alternative financial long term benefits to employees, closure of plant and burdensome cost of plan to the company.

Table 16: Pension Plans Wound-up – Fully and Provisionally Registered as at March 31, 2017

Type of Pension Plan	Wind-up of Fully Registered Pension Plans	Wind-up of Provisionally Registered Pension Plans	Total Wind-ups
Defined Benefit (DB)	0	1	1
Defined Contribution (DC)	5	3	8
DB+DC (combination)	0	0	0
Multi-Unit	0	0	0
Multi-Employer DC	0	0	0
Total	5	4	9

Strategic Focus for 2017/2018

For the upcoming 2017/2018 period, the Pensions division will be concentrating on improving the early warning indicators by completing the risk ratings for the registered pension plans under its review to determine the high risk pension plans. Additionally, the division will be focusing on creating risk profiles for high risk plans, the commencement of regulatory action as per the divisional supervisory ladder and the creation of an excel spreadsheet listing pension plans with their regulatory issues and the actions taken to date. In an attempt to monitor trends that may affect the financial soundness of the pension plans, the division will also convert all submitted financial statements to excel and have the financial indicator spreadsheet updated on a monthly basis. The division will work assiduously towards registering the remaining unregistered pension plans under the OPBA, as well as facilitating training workshops for pension plan administrators and meeting with stakeholders.

With regards to the Securities division, FSC will continue its work on the update of the securities and mutual funds legislation with a view to submitting recommendations to the Ministry of Finance on the legislative changes needed to foster the development of the capital market. This will provide FSC with the capability to provide a robust and facilitative regulatory framework.

For the 2017/2018 fiscal year, FSC will continue to partner with key stakeholders in the development of an appropriate deposit insurance framework for the credit union sector. Significant progress has been made in this regard and deposit insurance coverage for the sector is expected to be implemented in the short term.

During the 2017/2018 year, FSC will seek to engage domestic insurance companies by hosting annual prudential meetings. A review will also take place as it relates to the Statutory Forms for domestic and international insurance companies, and a consultation paper will be circulated to the industry for comments.

Audited Financial Statements 2016-2017

Financial Services Commission

Financial Statements

Year ended 31 March 2017
(Expressed in Barbados Dollars)

FINANCIAL SERVICES COMMISSION

Index to the Financial Statements
Year ended 31 March 2017

	Page
Auditors' Report	1 - 3
Statement of Financial Position	4
Statement of Comprehensive Income	5
Statement of Changes in General Fund	6
Statement of Cash Flows	7
Notes to the Financial Statements	8 - 15



Ernst & Young Ltd
P.O. Box 261
Bridgetown, BB11000
Barbados, W.I.

Tel: 246 430 3900
Fax: 246 426 9551
246 430 3879
246 430 1352
www.ey.com

Street Address
One Welches
Welches
St. Thomas, BB22025
Barbados, W.I.

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF COMMISSIONERS OF THE FINANCIAL SERVICES COMMISSION

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Financial Services Commission (“the Commission”), which comprise the statement of financial position as at 31 March 2017, and the statement of comprehensive income, statement of changes in general fund and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Commission as at 31 March 2017 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards for Small and Medium Sized Entities (“IFRS for SMEs”).

Basis for Opinion

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

Responsibilities of Management and the Board of Commissioners for the Financial Statements

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

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

The Board of Commissioners is responsible for overseeing the Commission’s financial reporting process.



INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF COMMISSIONERS OF THE FINANCIAL SERVICES COMMISSION (CONT'D)

Report on the Audit of the Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Commission's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Commission to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF COMMISSIONERS OF THE FINANCIAL SERVICES COMMISSION (CONT'D)

Report on the Audit of the Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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

Ernst & Young Ltd

Chartered Accountants
BARBADOS
21 July 2017

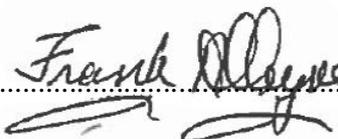
FINANCIAL SERVICES COMMISSION

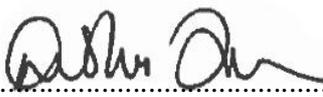
Statement of Financial Position
As at 31 March 2017

	Notes	2017 \$	2016 \$
Assets			
Current assets			
Cash		6,126,824	5,980,570
Deposits with Central Bank	3	10,341,398	8,050,781
Accounts receivable	4	109,989	157,430
Prepayments		79,828	35,256
Lease deposits		28,763	28,763
		<hr/>	<hr/>
		16,686,802	14,252,800
Property and equipment	5	475,001	587,368
		<hr/>	<hr/>
		17,161,803	14,840,168
Liabilities			
Current liabilities			
Accounts payable		190,812	764,124
Due to related parties	6	532,796	532,796
Deferred income		4,347,770	4,199,024
Escrow deposits		10,341,398	8,050,781
		<hr/>	<hr/>
		15,412,776	13,546,725
Represented by:			
Capital contribution	7	699,198	699,198
Accumulated surplus		1,049,829	594,245
		<hr/>	<hr/>
		1,749,027	1,293,443
		<hr/>	<hr/>
Total Liabilities and General Fund		17,161,803	14,840,168
		<hr/> <hr/>	<hr/> <hr/>

The accompanying notes form part of the financial statements.

Approved by the Commission on **20 July 2017** and signed on its behalf by:


.....Chairman


.....Deputy Chairman

FINANCIAL SERVICES COMMISSION

Statement of Comprehensive Income Year ended 31 March 2017

	Notes	2017 \$	2016 \$
Income			
Fees		6,077,800	5,812,394
Government grants	8	1,170,000	1,000,000
Interest income		49,569	43,494
Other income		48,618	20,942
		<hr/>	<hr/>
		7,345,987	6,876,830
		<hr/>	<hr/>
Expenses			
Salaries and benefits		5,122,850	4,824,427
Lease	10	366,600	305,500
Professional fees		271,535	82,183
Utilities		268,652	253,443
Depreciation	5	188,195	216,433
Conferences and meeting expenses		127,898	103,639
Membership and registration fees		110,072	112,552
Commissioner fees and allowances		91,600	93,600
Maintenance		69,559	56,696
Corporate		60,917	39,976
Training		42,286	5,450
Security		37,859	37,859
Stationery		32,773	35,308
Computer expenses		21,975	31,936
Vehicle expenses		21,783	28,463
Office supplies		20,829	16,012
Tribunal expenses		20,424	17,624
Subscription		19,529	26,083
Uniforms		17,934	62,852
Advertising		17,788	9,431
Insurance		16,519	14,913
Refreshments		4,473	4,894
Bank charges		3,260	2,965
Miscellaneous		803	2,673
Travel expense		360	256
Discount received		(1,070)	(914)
Gain on Disposal		(15,000)	-
Bad debts		(50,000)	(99,982)
		<hr/>	<hr/>
		6,890,403	6,284,272
		<hr/>	<hr/>
Surplus for the year		455,584	592,558

FINANCIAL SERVICES COMMISSION

Statement of Changes in General Fund
Year ended 31 March 2017

	Capital Contribution	Accumulated Surplus	Total
	\$	\$	\$
Balance as at 1 April 2015	699,198	1,687	700,885
Surplus for the year	-	592,558	592,558
Balance as at 31 March 2016	699,198	594,245	1,293,443
Surplus for the year	-	455,584	455,584
Balance as at 31 March 2017	699,198	1,049,829	1,749,027

The accompanying notes form part of the financial statements.

FINANCIAL SERVICES COMMISSION

Statement of Cash Flows
Year ended 31 March 2017

	2017	2016
	\$	\$
Cash flows from operating activities		
Surplus for the year	455,584	592,558
Adjustments for:		
Depreciation	188,195	216,433
	<u>643,779</u>	<u>808,991</u>
Operating surplus before working capital changes:		
Increase in deposits with Central Bank	(2,290,617)	(739,478)
Decrease (increase) in accounts receivable	47,441	(465)
Increase in prepayments	(44,572)	(2,818)
(Decrease) increase in accounts payable	(573,312)	60,613
Increase in due to related parties	-	4,230
Increase in deferred income	148,746	464,279
Increase in escrow deposits	2,290,617	739,478
	<u>222,082</u>	<u>1,334,830</u>
Net cash from operating activities	222,082	1,334,830
Cash flows from investing activities		
Purchase of property and equipment	(75,828)	(48,128)
	<u>(75,828)</u>	<u>(48,128)</u>
Net cash used in investing activities	(75,828)	(48,128)
Increase in cash for the year	146,254	1,286,702
Cash – beginning of year	5,980,570	4,687,868
	<u>6,126,824</u>	<u>5,980,570</u>
Cash – end of year	<u>6,126,824</u>	<u>5,980,570</u>
Represented by:		
Cash at bank	6,126,418	5,980,170
Cash in hand	406	400
	<u>6,126,824</u>	<u>5,980,570</u>

The accompanying notes form part of the financial statements.

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
Year ended 31 March 2017

1. Establishment, principal activity and registered office

The Financial Services Commission (“the Commission”) is a regulatory entity, established in Barbados on 1 April 2011 under the Financial Services Commission Act, 2010-21. The principal function of the Commission is to supervise and regulate the non-bank financial services sector in Barbados.

The Commission’s principal place of business is situated at Suites 301 & 302, Building 4, Harbour Industrial Park, Bridgetown, Barbados.

2. Significant accounting policies

Basis of preparation

The financial statements are expressed in Barbados dollars on a historical cost basis and are in accordance with the International Financial Reporting Standards for Small and Medium-sized Entities (“IFRS for SMEs”) promulgated by the International Accounting Standards Board.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Commission’s accounting policies, management is required to make judgement, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and liabilities are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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.

Other than in the establishment of routine provisions against accounts receivables, there are no key estimates or judgements which are required in applying policies which may have a material impact on the Commission’s reported assets, liabilities, revenues and expenses.

a) Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individual or corporate entities.

b) Cash

Cash comprises cash at bank and on hand.

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
Year ended 31 March 2017

2. Significant accounting policies (cont'd)

c) Property and equipment

Property and equipment is stated at cost less depreciation and provision for impairment. Cost includes expenditure that is directly attributable to the expenditure of the items. The charge for depreciation is computed on the straight line basis calculated to write off the cost of the property and equipment over their expected useful lives. The estimated useful lives of the assets are as follows:

Office equipment	5 years
Furniture and fittings	5 years
Motor vehicles	5 years
Computer equipment	3 years
Library books	3 years
Leasehold improvements	5 years

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss on disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of comprehensive income.

d) Revenue recognition

Fees and deferred income

Application fees are recognized as revenue upon receipt. Annual registration and license fees are due in January of each year and are recognized in income on a calendar year basis. Deferred income represents fees which will be earned in the next financial year.

Rental income

Rental income is recognized in the statement of comprehensive income on a straight line basis over the term of the lease.

Government grants

Government grants represent funds received from the Ministry of Finance and Economic Affairs during the financial year in the form of cash and goods or services to assist with operating expenses.

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
Year ended 31 March 2017

2. Significant accounting policies (cont'd)

d) *Government grants (cont'd)*

Government grants are not recognized until there is reasonable assurance that the Commission will comply with the conditions attaching to them and that grants will be received. Government grants that are receivable as compensation for expenses already incurred or for the purpose of giving immediate financial support to the Commission with no future related costs are recognized in the statement of comprehensive income in the period in which they become receivable.

e) **Accounts receivable**

Accounts receivable are recognized initially at the fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of accounts receivable is established when there is objective evidence that the Commission will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor and default and delinquency in payment are considered indicators that the trade receivable is impaired. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of comprehensive income.

f) **Foreign currency translation**

i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Commission operates ('the functional currency'). The financial statements are presented in Barbados dollars, which is the Commission's functional and presentation currency.

ii) Transaction and balances

Foreign currency transactions are translated to the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchanges gains and losses resulting from the settlement of such transactions and the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income.

g) **Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
Year ended 31 March 2017

3. Deposits with Central Bank

The Commission has an escrow account in the amount of \$10,341,398 (2016 - \$8,050,781). The funds are deposited at the Central Bank of Barbados. The account comprises:

- a) A statutory deposit of \$5,592,356 (2016 - \$4,340,000) representing amounts paid by insurance companies to satisfy their requirement under the Insurance Act CAP 310.
- b) Unclaimed moneys totaling \$4,536,092 (2016 - \$3,502,042) which are unclaimed moneys paid to the Commission by insurance companies, in accordance with the Insurance Act CAP 310 Section 138. These amounts are held in escrow until such time as they are claimed.
- c) Residual funds from a liquidated credit union totaling \$212,950 (2016 - \$208,739) representing funds held with the Commission in accordance with the Co-operative Societies Act CAP378A Section 159(2).

4. Accounts receivable

Accounts receivable consist of the following:

	2017	2016
	\$	\$
Trade receivable	26,989	77,430
Registration fees receivable	376,838	423,838
Other receivable	20,547	20,547
	<hr/>	<hr/>
	424,374	521,815
Less: Provision for doubtful debts	(314,385)	(364,385)
	<hr/>	<hr/>
	109,989	157,430
	<hr/> <hr/>	<hr/> <hr/>

No interest is charged on outstanding receivables. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired.

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
Year ended 31 March 2017

5. Property and equipment

	Leasehold \$	Office Equipment \$	Computer Equipment \$	Motor Vehicles \$	Furniture and fittings \$	Library books \$	Total \$
Cost							
Balance – beginning of year	315,179	52,329	515,243	106,037	447,419	24,532	1,460,739
Additions	-	-	25,007	48,269	2,552	-	75,828
Balance – end of year	<u>315,179</u>	<u>52,329</u>	<u>540,250</u>	<u>154,306</u>	<u>449,971</u>	<u>24,532</u>	<u>1,536,567</u>
Accumulated depreciation							
Balance – beginning of year	82,595	45,824	506,415	95,432	119,363	23,742	873,371
Depreciation	63,036	2,681	13,343	18,649	89,696	790	188,195
Balance – end of year	<u>145,631</u>	<u>48,505</u>	<u>519,758</u>	<u>114,081</u>	<u>209,059</u>	<u>24,532</u>	<u>1,061,566</u>
Net book value							
Beginning of year	<u>232,584</u>	<u>6,505</u>	<u>8,828</u>	<u>10,605</u>	<u>328,056</u>	<u>790</u>	<u>587,368</u>
End of year	<u>169,548</u>	<u>3,824</u>	<u>20,492</u>	<u>40,225</u>	<u>240,912</u>	<u>-</u>	<u>475,001</u>

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
Year ended 31 March 2017

6. Related party transactions

The amount due to related parties is \$532,796 (2016 - \$532,796). This represents \$440,000 collected from the exempt insurance companies for taxes due to the Barbados Revenue Authority in accordance with Section 29(2) of the Exempt Insurance Act Cap. 308A., and \$92,796 (2016 - \$92,796) due to the Government Printery for the printing of regulatory guidelines.

Key management compensation

The remuneration of members of key management personnel during the year was as follows:

	2017	2016
	\$	\$
Salaries and other short-term benefits	1,736,345	1,538,748

7. Capital contribution

In accordance with Section 56 of the Financial Services Commission Act, 2010-21

- a) All assets and liabilities of the Securities Commission are deemed to be transferred to the Commission
- b) Any right, privilege, duty or obligation conferred on or imposed upon the Securities Commission and existing immediately before the date referred to, shall be deemed to be conferred on or imposed upon the Commission; and
- c) Any contract entered into by or on behalf of the Securities Commission before the date referred to have been entered into by or on behalf of the Commission.

In accordance with the above the following assets and liabilities were transferred to the Commission as of 1 April 2011:

	\$
Assets	
Current assets	
Cash	838,355
Lease deposits	20,547
Property and equipment	41,841
Total assets	<u>900,743</u>

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
Year ended 31 March 2017

7. Capital contribution (cont'd)

	\$
Liabilities	
Current liabilities	
Accounts payable	24,090
Deferred income	388,684
	<hr/>
	412,774
	<hr/>
Capital contribution	<u>487,969</u>

A further amount of \$211,229 was contributed to the Commission in September 2011 which has been added to contributed capital.

8. Government grants

Government grants represent funds totaling \$1,170,000 (2016 - \$1,000,000) which were received from the Ministry of Finance and Economic Affairs during the financial year in the form of cash and goods and services to assist with operating expenses.

9. Taxation

In accordance with Section 46 of the Financial Services Commission Act, 2010-21, the Commission is exempt from the payment of corporation tax, stamp duty and land tax.

10. Operating lease commitments

The future minimum lease payments under the operating lease are as follows:

	2017	2016
	\$	\$
Not later than 1 year	366,600	366,600
Later than 1 year and not longer than 5 years	1,099,800	1,466,400
	<hr/>	<hr/>
	1,466,400	1,833,000
	<hr/>	<hr/>

During the year, operating lease payments of \$366,600 (2016 - \$305,500) were recognized as an expense.

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
Year ended 31 March 2017

11. Contingent liabilities

Through its activities as a regulatory body, the Commission is subject to various legal proceedings.

During the year ended 31 March 2017 the Commission, as successor to the Supervisor of Insurance, was named as defendant in the legal proceedings brought by the Barbados Investors and Policyholders Alliance Inc. with respect to the failure of CLICO and BAICO. It is impracticable to estimate the outcome of these proceedings and their financial effect as they do not include a quantified claim against the Commission.

12 Pension Plan

The Commission's defined contribution pension plan commenced on 1 July 2016. Contributions to the plan are determined by an independent qualified actuary. The Commission contribute to the plan at the rate 2.0% per annum of total pensionable salary up to the NIS maximum plus 5% of any salary in excess of this maximum to the pension plan.

The assets of this plan are held separately from those of the Commission and are invested and managed by its Trustees.

During the year, the total amount of \$215,078 was contributed to the plan by the Commission and this amount is included in salaries and benefits in the statement of comprehensive income.