



**FINANCIAL SERVICES
COMMISSION**

Annual Report

2013/2014

LETTER OF TRANSMITTAL

September 8, 2014

The Hon. Christopher Sinckler, MP
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 Barbados Financial Services Commission for the year ending March 31, 2014, in accordance with the provisions of Sections 50 of *The Financial Services Commission Act*.

Yours faithfully,
FINANCIAL SERVICES COMMISSION



Sir Frank Alleyne K.A
Chairman

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ABOUT THE FINANCIAL SERVICES COMMISSION

The Financial Services Commission (FSC) is an integrated regulatory body, established on April 1st, 2011 by virtue of the Financial Services Commission Act, 2010. It represents a consolidation of the regulatory and supervisory functions previously conducted by the Supervisor of Insurance and Pensions, the Securities Commission and the Co-operatives Department, insofar as it relates to credit unions. The 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)

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

Risk-Based Supervision

In an effort to ensure that the tenets of safety and soundness prevail in the management of all sectors, and that regulatory resources are used in the most efficient and effective manner, the FSC is converting its internal regulatory processes from compliance-based to risk-based supervision. This is consistent with international best practices, where supervisory attention is prioritised to focus primarily on high-risk entities and on the inherent risk within the various industries. The introduction of a risk-based supervisory framework will also ensure that there is continuous monitoring of key indicators to allow for the prompt and appropriate mitigation of any potential impact to stakeholders. As such, the FSC will continue to build regulatory capacity, develop risk-based policies and procedures, and train staff in this area.

MESSAGE FROM CHAIRMAN OF THE BOARD



SIR FRANK ALLEYNE, K.A

The focus of the Financial Services Commission (Commission) during 2013-2014 was directed towards capacity building in the following areas:

- Robust regulatory framework;
- Policy setting in line with international best practices
- Building relationships with fellow regulators;
- Enhanced data warehouse; and
- Human capital

The Commission continued to work assiduously to monitor the performance of regulated entities in order to strengthen the non-bank financial sector. The immediate goal of the Commission was to build a robust regulatory framework that would allow for strong entity level risk assessments which would provide the background information necessary for appropriate regulatory actions. The Commission's regulatory framework was assessed during Barbados' 2013 Financial Sector Assessment Programme (FSAP). The assessment team which comprised representatives from both the World Bank and the IMF reported positively concerning the Commission's regulatory framework.

The Commission acknowledges that there is still much work to be done to build capacity in certain areas of regulation, particularly in the macro prudential framework, and we remain committed to the task to ensure that we promote stability in Barbados' financial system.

The Board of Commissioners of the FSC is satisfied that substantial progress has been achieved with respect to the goals identified above. On behalf of colleague commissioners I commend the management and staff for their sustained efforts and commitment to the regulation of the non-bank financial sector. This level of commitment to the Commission's corporate goals augurs well for the future of financial regulation in Barbados.

With respect to the Governance of the Commission, I am pleased to report that the Board of Commissioners and the respective sub-committees of the Board recorded another busy and productive year. Energies were focused on ensuring that the Commission implemented the requisite policies to support good governance, and this has created greater efficiencies in the organisation's operations. The Board has every confidence that the Commission has built a solid platform and will grow from strength to strength to be recognized internationally as a financial services regulator committed to excellence.

The outcomes of several consultancies to support the institutional strengthening of the Commission are being implemented and have positively contributed to the staff's professional development as well as to an enhanced regulatory framework. The Commission, once again, places on record its appreciation of the contribution by management of the Special Projects Unit (SPU) of the Ministry of Finance and Economic Affairs, the Caribbean Development Bank, and the Caribbean Regional Technical

Assistance Centre (CARTAC), for their support with respect to the enhancement of the Commission's regulatory capacity. On behalf of my colleague commissioners and staff of the Commission, I convey our gratitude to the Minister of Finance and Economic Affairs – the Hon. Christopher P. Sinckler, who has at all times acted to ensure that the Commission is guaranteed the independence to discharge its remit.

The Financial Services Commission (FSC) is pleased to present the report of its activities for the 2013/2014 fiscal year (FY). I am heartened to report that during the FY 2013/2014, despite the continued sluggish domestic environment, Barbados' financial system remained sufficiently stable, with no precipitous declines in activity recorded in any of the sectors for which the FSC regulates. The details of the FSC's work in FY 2013/2014 are contained in the following sections of this report, and have been produced by senior staff of the FSC.

This year, in a departure from the established custom, my statement will focus primarily on the immediate future and, most notably, on the expanding regulatory landscape, and new regulatory requirements, as they affect almost every facet of the financial system. New requirements and approaches to the regulatory framework present new challenges to the industry and regulators alike. They aim to lay the foundations for a more stable, robust and competitive finance industry in the future, and to ensure that Barbados is not bypassed as a *bona fide* financial hub. In addition to new structures and guidelines emanating from outside of Barbados, the world's two largest financial services economies, the USA and the UK, have also instituted wide-ranging reforms in their regulatory structures, philosophy and legislation. Other jurisdictions around the world and multi-lateral standard-setting bodies have made or are implementing adjustments as to how the finance sector is regulated. Taken as a whole, there is no doubt that we are experiencing the most substantial changes to financial regulation for the better part of one-half of a century; all at unprecedented speed.

Nearly six years after the 2008 shocks to the global finance system, the full extent of the regulatory changes brought in by developed countries and key global multilateral institutions have become clearer. The implementation of some changes, most notably in banking supervision, is already underway, and over the course of the next few years it is probable that every part of the mainstream finance industry will be included in the new approach. The industry has had to cope with revamped core principles and best practices in virtually every area of finance. This has been buttressed by changes to the Financial Action Task Force's recommendations with respect to anti-money laundering initiatives. What is common across all the changes already in place or coming into force, are the twin objectives of minimising threats to the stability of the financial system, and the strengthening of consumer and public confidence in the finance sector. The non-bank financial sector has not been left out in this regard as there has been significant work in modernising the standards of the sub-sector. In these efforts, during the year the FSC issued new guidelines and circulars to all of the sectors, performed a broad review of the legislation under its remit, and made recommendations accordingly. In 2013, Barbados had also undergone a review of the financial system through the Financial Sector Assessment Programme under the auspices of the IMF and the World Bank. While there remains work

to be done, Barbados and the FSC received largely encouraging reviews, and the report has highlighted that there have been improvements in the regulation of the financial system.

Confidence is the critical element, and is fundamental to Barbados' ability to remain globally competitive in financial services, attract corporate and private capital, develop products that meet market needs and enhance the industry's ability to attain and sustain healthy profit margins. This is important because we are also experiencing an interesting time for the global financial system in general and financial services in particular. Developing markets in Asia, Africa and South America are producing new corporate and private wealth and the finance industries, both domestic and international, are developing a broad range of services and expertise. In order to tap into new markets, there will be a need for new sponsors and stakeholders to be confident in Barbados financial system. In the mature, mainly Western economies, governments are tackling elevated national debt levels, a slow return for some in terms of the numbers of economically-active persons, as the aged become the largest group in society, and escalating costs for public health and social care. These changes are creating new product niches for the finance sector, therefore value-for-money and clear customer benefits will be fundamental to success. The FSC will continue to partner with industry stakeholders with respect to enhancement of its regulatory oversight, expanding its efficiencies, and highlighting its regulatory processes in a range of fora.

The increased use of technology will become a fulcrum for the expanded efficiencies of the FSC. One of the consultancies through which the FSC stands to benefit from is heavily grounded in technology. The FSC plans to launch an e-filing and data management project which could generate significant efficiencies, in particular a more streamlined approach to the manipulation of data. This remains the last of the four consultancies which the FSC benefitted from in 2013/2014. Consultancies concluded during the year in review enhanced the FSC's public relations capacity; team building strategy; and institutional strengthening of the CEO's office and the Board.

The Commission is fully cognizant that going forward, digital technology is poised to become a more significant instrument in finance. The Internet has spawned new venture capital vehicles, such as crowd-funding, new consumer advice and guidance investment software and new currencies (such as the bitcoin). Some commentators even believe that large global technology companies that own social media and search engine platforms are also keen on developing financial products. Therefore, while there are opportunities for the FSC to leverage technology as a means to boost efficiency at the FSC, there are clear challenges on the horizon in ensuring that new products which can potentially impact the financial system are properly understood and regulated.

Existing and emerging software and hardware developers also present the industry with unprecedented opportunities to reduce marketing and operational costs, improve the quality of information, analysis and compliance, and offer products and services more exactly tailored to the circumstances of individual customers. As highlighted in the FSC's case, regulatory bodies can also secure large benefits from advanced technology, including real-time information, higher quality statistical and market data, enhanced cost effective management, and more comprehensive and efficient collation of documents in dispute resolution. Entities from trusted domiciles that have established track records of solid performance and good customer service are likely to be able to command a premium place in the market, where a proven record of trust, service and expertise are central to differentiating companies and product. The place of domicile will be particularly important for serious and careful consumers, and is likely to emerge as a matter of equal importance to consumers as it has historically been to sponsors and promoters.

Technological advances have particular resonance for the rapidly-growing funds management industry, as technology can open up new markets and greatly reduce costs. The lines of demarcation between traditional fund managers and the alternative investment sector are beginning to blur as businesses compete for profitable business worldwide, develop similar ranges of products and use similar techniques. The securities market subsector is only one of the sectors that the FSC regulates, and it is likely that these developments will also impact the other sectors – insurance, occupational pensions and credit unions - but in varying degrees of complexity. As such, and had been previously highlighted, the FSC must constantly modernise its operations and legislation in a proactive fashion.

Working across borders presents several operational challenges, including language, time zone, reporting and regulatory issues. Indeed, regulatory changes are seeing some businesses looking to create new business models that strengthen competitiveness, while mitigating cost burdens through outsourcing, merger or deeper market penetration. Though Barbados has proven itself attractive to the captive insurance market because it offers the range of skills and benefits which the industry needs, this same level of comfort has not been transferred to some of the other sub-sectors, though it is well placed to do so.

At this time, we are witnessing the convergence of regulatory approaches and requirements. While structure and details will vary, in high quality jurisdictions broadly similar philosophies, rules and procedures will apply. In banking, insurance, fund management and investment services, similar patterns are apparent worldwide; convergence on consumer protection; corporate governance and regulation and centred on transparency, high standards of personal and corporate conduct and fit and proper personnel. The FSC and Barbados as a jurisdiction must not be left behind. Regulators and registrants have to respond to new levels of complexity and increasingly legally-codified corporate

governance standards. All sectors of the finance industry now have to comply with new requirements in liquidity, corporate governance, consumer protection, transparency, conduct of business rules and with tighter laws and obligations regarding preventing market abuse, money laundering and corruption.

In the years immediately following the crisis in 2008, many of the structures set up in the wake of the crash were mainly involved in identifying and minimising further potential shocks to the system and developing policy and legislation. Significant amounts of new legislation have been crafted both globally and across the region, and have been delegated to national regulators.

National regulators like the FSC have typically retained or enhanced all their existing powers and areas of discretion and flexibility, but now have additional responsibility to ensure that the new global requirements set by standard-setting bodies are introduced and complied with by registrants. The FSC's obligation is to ensure that Barbados is compliant with these new standards. New legislation and regulations will, particularly in the early years, put very considerable demands on stakeholders and the resources of the FSC. New systems always take time to be introduced and, in the complex world of financial services, the FSC, industry representative bodies and individual firms will have to digest a range of issues, meanings, interpretation and purpose. With the introduction of a risk-based framework, the FSC aims to place the highest level of scrutiny on those entities that pose the greatest level of risk to the system. In doing so the FSC is able to efficiently use its resources and does not place undue or unreasonable demands on those entities less able to deal with them.

Focus on Corporate Governance and Market Conduct

The behaviour of corporations and of individuals in positions of trust and influence is now centre stage in the drive to reduce the incidence of business failures that threaten stability and weaken public confidence in the financial services sector. Much of the new activity in regulation has been focused on these areas – corporate governance and market conduct. In Barbados, the FSC has decided to review the conduct of business regulatory regime for all of the sub-sectors with the primary goal of enhancing customer protection. Guidelines and circulars have been issued to stakeholders addressing various issues, such as the measurement of risk, the dissemination of information on risk, “know your customer” tests, standards of care, records and disclosures, professional standards, and transparency.

In the issuance of new guidance the FSC's process is very transparent. All new proposals from the FSC will be submitted to the industry for comment, and the feedback will be evaluated. It is worthwhile to note that all new recommendations contemplated by the FSC, while fashioned for the domestic realities must also be in line with global requirements, where the overriding aim is to ensure that Barbadian consumers and investors have acceptable levels of protection, and that the rules are applied by firms in Barbados in ways that enhance consumer confidence and build on the country's established reputation for business probity and high standards. All new guidelines and legislative

changes define, in principle, the same standard to be expected of any financial business in the post-crisis world. In its continuous review, the FSC aims to propose a comprehensive regime on corporate governance and conduct of business, aimed at enhancing transparency while still securing financial systemic stability.

Consultation and Participation

The FSC along with the regulators in all other CARICOM states, continue to be subject to scrutiny and benchmarked alongside very well-resourced jurisdictions within a greatly strengthened global regulatory regime. There is no doubt that the consumer – the customer – is at the centre of our world more firmly than ever in the past. This is right, but it is also right that the momentous changes in regulation act as a catalyst for the emergence of the finance industry in the region, so that every member state economy is stronger, citizens are better served, and the CARICOM respective member states non-bank financial sectors are better able to compete in finance across the world. In Barbados, the FSC has in a short time established a tradition of working closely with the industry and that cooperation has, over the years, delivered benefits to all parties. Given the new complexities of the global regulatory requirements, it is now more important than ever that the FSC, ‘sister’ regulators and industry representatives continue to play an active role in their respective consultative and policy fora. It will be a challenge for us all to apply the new regimes and keep an eye open for threats and opportunities that arise from both domestic and global implementation efforts and revisions. The sustained development of Barbados’ industry and system as a whole requires that the sector is characterised by high standards, openness, cooperation, entrepreneurship, and nimbleness. For the FSC, the idea of co-operation is not only applied to domestic stakeholders, the FSC regularly engages in dialogue with our regional counterparts through the signing of memoranda of understanding (MOUs), the hosting of regional conferences, seminars and colleges of regulators. In the upcoming fiscal year, the FSC will host, in collaboration with CARTAC, the annual conferences of the Caribbean Association of Insurance Regulators’ and the Caribbean Association of Pension Supervisors.

The FSC is characterised by expertise, knowledge, rigour, impartiality, fairness and a commitment to service. By ensuring that all of these qualities remain strong at the FSC and in the industry, the country can continue to reap the benefits for many years to come. I wish to conclude my statement by thanking all the members of staff at the Financial Services Commission and the Board of Commissioners for their hard work and valuable counsel in 2013/2014.

Warrick Ward
Chief Executive Officer (Ag.)

CORPORATE GOVERNANCE

The 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 – a chairman and six others – hold office for a period of three (3) 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 the operations of the FSC.

The Board and the FSC's executive management team are committed to conducting affairs according to the highest standards of corporate governance and integrity applicable to statutory bodies, particularly to regulatory agencies.

BOARD OF COMMISSIONERS



(Sitting – left to right): Margaret Sivers; Professor Sir Frank Alleyne K.A, Chairman; Debbie Fraser, Deputy Chairperson (Standing – left to right): Felton Burton; Basil Murray; Lawson Yearwood

(Absent) Jefferson Cumberbatch

Sir Frank Alleyne is a retired University of the West Indies Professor of Economics. He has extensive management experience having served in the capacities of 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 and the Securities Commission of Barbados.

Ms. Debbie A.P. Fraser 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 41 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 Electronic Transactions Act 1999 and 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 and the Anti-Money Laundering Authority. He has previously acted as a Justice of Appeal of the Eastern Caribbean Court of Appeal.

Mr. Lawson Yearwood is a member and Deputy Chairman of the Anti-Money Laundering 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 established 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 called the Barbados Agricultural Development and Marketing Corporation – from 1986-1994.

Mrs. Margaret Sivers is a Management Studies graduate of the University of the West Indies and a member of the Society of Management Accountants. She has participated in several postgraduate training courses related to management and accounting in the United Kingdom and the United States of America. Prior to her current assignment as Permanent Secretary (Ag.) in the Ministry of Finance and Economic Affairs with responsibility for special assignments, Mrs. Sivers held the position of Accountant General in the public service of Barbados. Her main responsibilities include managing various consultancies for the purpose of building capacity within the FSC. She sits on the Board as the representative for the Minister of Finance and Economic Affairs.

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

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:

- Debbie Fraser – Chairperson
- Jefferson Cumberbatch – Commissioner
- Chief Executive Officer – FSC
- General Counsel – FSC
- Representative – Ministry of Finance & Economic Affairs
- Representative – Chief Parliamentary Counsel

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; the audit process; the tendering process and the financing process. 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:

- Felton Burton – Chairperson
- Margaret Sivers – Commissioner
- Basil Murray – Commissioner
- Chief Executive Officer – FSC
- Manager, Finance & Planning – FSC
- General Counsel – 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:

- Sir Frank Alleyne K.A – Chairperson
- Debbie Fraser – Deputy Chairperson
- Felton Burton – Commissioner
- Representative – Ministry of Finance & Economic Affairs
- Chief Executive Officer – FSC
- Human Resources Manager – FSC

ENFORCEMENT COMMITTEE

The purpose of the Enforcement Committee of the Board of the 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 the FSC, is implemented in a timely and proficient manner.

Committee members are:

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

FSC MANAGEMENT TEAM

Chief Executive Officer (Ag.)	Mr. Warrick Ward
Deputy Chief Executive Officer (Ag.)	Mrs. Cyralene Benskin-Murray
Director – Insurance & Pensions	Mr. Randy Graham
Manager – Insurance	Mrs. Leticia Alleyne ¹
Manager – Examinations	Mr. David Shepherd
Manager – Securities	Miss Rosina Knight
Manager – Credit Unions	Mr. Curtis Lowe
Manager – Finance & Planning	Miss J. Waveney Forde
Manager – Human Resources	Miss Joanne Mapp
Manager – Information Technology	Mr. Emmerson Cadogan
Manager – Research & Policy	Miss Kerry-Ann Alleyne

¹ Mrs. Leticia Alleyne joined the Financial Services Commission in the capacity of Manager, Insurance on January 2, 2014. Prior to this the position was held by Ms. Jean Cobham.

FINANCIAL SECTOR OVERVIEW

The Barbados economy continues to be impacted by the effects of the economic slowdown; however, during the period under review, the financial system remained resilient. Given the overall weakened economic environment, assets at deposit-taking institutions, including credit unions, experienced moderate growth and the financial system remained relatively liquid and profitable. Total assets at commercial banks were up 3.1% as at March 31, 2014, raising to BDS\$12.4 billion from BDS\$12.1 billion the year prior.

As of March 31, 2014, cash as a proportion of both total current assets and of overall assets in the credit union sector stood at 8% and 7% respectively. This represented the highest cash position for the comparative period over the last 4 years, and reinforces an upward trend which saw total cash held by the credit union sector moving from BDS\$73.6 million at March 31, 2011 to BDS\$124.7 million at March 31, 2014.

The slowdown in domestic economic activity contributed to a weakened demand for loans and a decline in credit quality amongst deposit-taking institutions. Demand for real estate loans in the credit union sector for example fell by 24.8% from March 2013 to 2014, continuing the four year cumulative decline in loan demand of 35.3%.

Non-performing loans (NPLs) demonstrated an upward trend, with NPLs at March 31, 2014 rising to 8.5% of total industry loans compared to 5.7% at March 31, 2010. The amount of NPLs in the three to six months category declined, however, NPLs in the six to twelve months and twelve months categories increased compared to the prior year at a rate faster than the decline in the shorter category leading to the overall increase. This further emphasises that some deterioration in credit quality has occurred and a graduation in the NPLs to more severe categories as debt arrears now run longer than in prior years.

The domestic insurance sector is one of the more significant sectors of the Barbadian financial sector and economy, but it too has faced challenges from the economic slowdown. These include: sluggish growth; low interest rates on its investments and downgrades in the rating of Caribbean government issued bonds which constitute a material component of the investment portfolios of insurance companies. As a result of the contraction in economic activity, the demand for insurance products, as measured by gross premiums written, did not show significant growth. Although growth in the non-bank financial sector was sluggish, total assets under management combined in the insurance, mutual fund, and credit union sectors held firm at approximately BDS\$6.5 billion. Financial institutions in the sector continued to hold more capital than required by local regulatory or international guidelines supporting the continued resilience in the domestic financial system.

FINANCIAL SECTOR ASSESSMENT PROGRAMME

During this fiscal year ending March 2014, a joint mission comprising experts from the World Bank (WB) and the International Monetary Fund (IMF) visited Barbados (July and October 2013) to conduct an assessment of Barbados' financial system under the Financial Sector Assessment Programme (FSAP). The FSAP is a comprehensive and in-depth analysis of a country's financial sector, focusing on health of the sector and the quality of regulatory oversight. It is a key instrument used by the International Monetary Fund to gauge the stability of a country's financial system and to assess its potential contribution to the country's growth and development.

The 2013 mission concluded with a detailed assessment of Barbados' observance of the Basel Core Principles (BCPs) and the International Association of Insurance Supervisors Insurance Core Principles (ICPs). With regard to the regulation and supervision of the insurance sector, a summary of Barbados' observance of the ICPs is provided in **Table 1**.

Table 1 – Barbados Summary of Observance Level of ICPs

Level of Observance	Number of Principles
Observed	0
Largely Observed	6
Partly Observed	20
Not Observed	0
Total	26

In addition to the detailed assessments of the BCPs and the ICPs, there were reviews of the capital market and the credit union sector. Arising from these reviews three technical notes were produced:

- The Technical Note on Credit Unions –this technical note examined Barbados' credit union sector and the credit union regulatory framework
- The Technical Note on Capital Markets – this technical note primarily focused on capital market development in Barbados with limited focus on the capital market regulatory structure
- The Technical Note on Financial Safety Net and Crisis Preparedness – this technical note examined financial crisis management and the resolution framework for banks, credit unions and insurance companies in Barbados

Following from the assessment, a number of key financial sector vulnerabilities and developmental challenges were identified. The assessment team, in its technical notes and detailed assessments, made several policy recommendations to improve the observance of the BCPs and the ICPs, as well as address the challenges and vulnerabilities identified. The FSC has embarked on a programme to ensure the implementation of these recommendations aimed at enhancing the stability and regulation of the financial system.

SECTORAL REPORTS

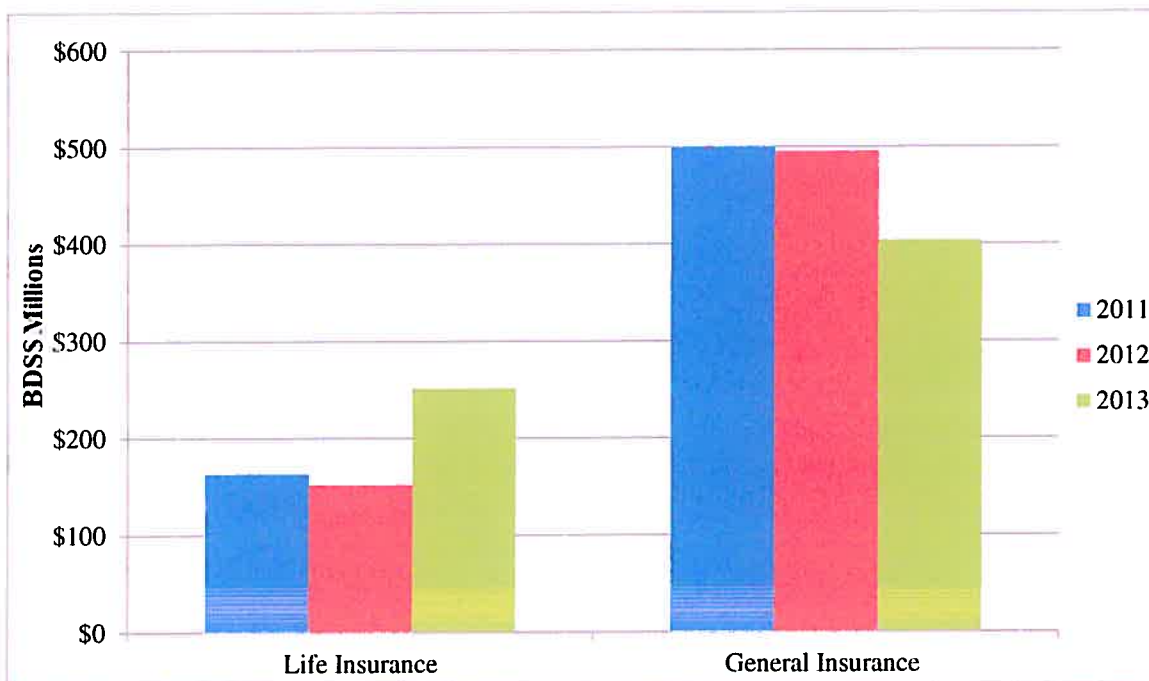
INSURANCE

Domestic Insurance Sector

The domestic insurance sector remains a significant component of the financial sector in Barbados with total assets of approximately BDS\$3.1 billion as at the end of December 2013. The combined gross premium written for the industry (life and general insurance) was BDS\$655 million. Gross premium written in 2013 was approximately \$7 million higher than the 2012 figure of BDS\$648 million. At the end of 2013, general insurance premiums were approximately BDS\$404 million, accounting for the bulk of domestic market premiums, with the remaining (BDS \$251 million) in premiums attributed to the life insurance sector. (See Figure 1)

Figure 1: Gross Premiums Written (Year Ended December 31)

(BDS\$ Millions)



Motor and property insurance policies are the key segments of the general insurance market, accounting for 88% of the gross premium written. In the life insurance market, the key products sold are whole life, term life and universal life. (See Table 2) The insurance loss ratios, which measure the relationship between premiums collected and claims paid in the industry, have declined slightly when

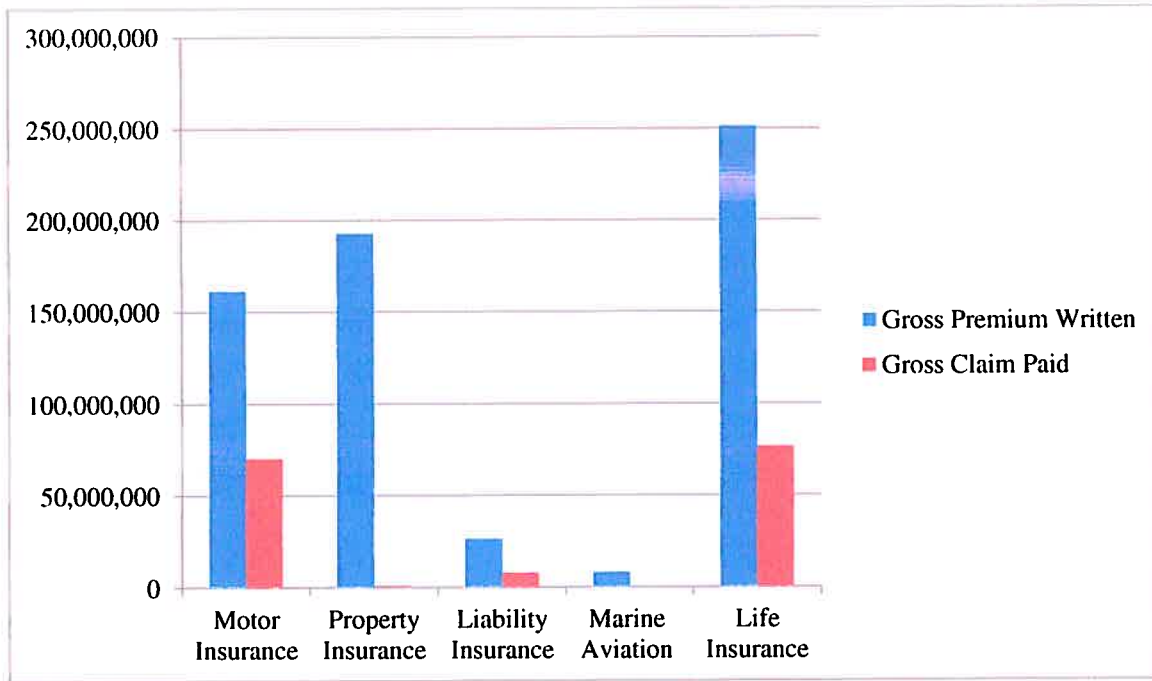
compared to the previous year. The industry-wide motor insurance gross loss ratio fell from at 45% in 2012 to 43% in 2013, while the industry-wide property insurance gross loss ratio declined from 5% in 2012 to 1% in 2013. (See **Figure 2**) The low loss ratio on property insurance is linked to low occurrences of natural catastrophes in Barbados in the period under review.

Table 2 Insurance Market Penetration (Year Ended December 31)

	2012	2013
Type of Insurance	Gross Premium Written BDS\$	Gross Premium Written BDS\$
General insurance premiums	495,198,169	403,996,938
Life insurance premiums	152,513,462	251,295,335
Total industry premiums	647,711,631	655,292,273
Premiums by policy type		
Motor insurance	164,180,469	161,654,716
Property insurance	211,408,562	193,330,391
Liability insurance	10,801,602	26,463,020
Life insurance	152,513,462	170,589,659
Marine aviation & transit insurance	8,549,710	9,662,774
Accident & sickness insurance	80,874,874	4,399,403
Group health and individual health ²	0	80,705,676
Other insurance	19,382,950	8,486,634

² New reporting forms capture information under group health and individual health. Previously, this information was captured under accident and sickness insurance.

**Figure 2 - Gross Premiums Written versus Gross Claims Paid by Line of Business
(Year Ended December 31)**



The amount of reinsurance ceded by insurance companies in 2013 was BDS\$279 million, with net premiums written in the industry standing at BDS\$376 million. The amount ceded in 2012 was BDS\$291 million. In 2013, the amount ceded represented 41% of gross premium written, lower than that recorded in 2012 which was 45%. Life insurance companies ceded less than 1% of gross premium written while general insurance companies ceded 66% of gross premium written. The use of reinsurance is the primary risk diversification tool used by general insurance companies operating in the domestic market, as such; increased focus is being placed on the evaluation of reinsurance agreements being entered into by the domestic insurance companies.

At the end of December 2013, approximately BDS\$1,340 million was held in statutory funds in support of policy holder liabilities. The statutory fund provides access to assets in the event of a company distress and is used as regulatory capital to provide buffer for insurance liabilities and to support the overall quality of assets on the insurance industries balance sheet. All regulated entities currently hold statutory funds which are monitored by the regulator. The industry's total assets stood at approximately BDS\$3.1 billion, while combined net income was reported at BDS\$97 million. Overall profits for the industry were up from the prior year. These statistics point to a relatively stable and

solvent domestic insurance industry with limited growth in assets or gross premium written in the fiscal year but no deterioration in the industry's asset position. (See Table 3 and Figure 3)

Table 3 – Consolidated Industry Totals

	2011	2012	2013	% Change
	BDS\$ Millions	BDS\$ Millions	BDS\$ Millions	2012-2013
Gross premium written	663	648	655	1.08%
Reinsurance ceded	293	291	279	-4.12%
Net premiums written	370	357	376	8.12%
Claims paid	275	160	106	-33.75%
Reinsurance recovered	59	47	131	178.72%
Commission received	70	43	43	0.00%
Commission paid	55	36	48	33.33%
Total assets	2,604	3,061	3,092	1.01%
Statutory fund requirement	1,102	987	1,340	35.76%
Net income	246	39	97	148.72%

**Figure 3 – Annual Premium and Reinsurance Totals (2011 -2013)
(Year Ended December 31)**

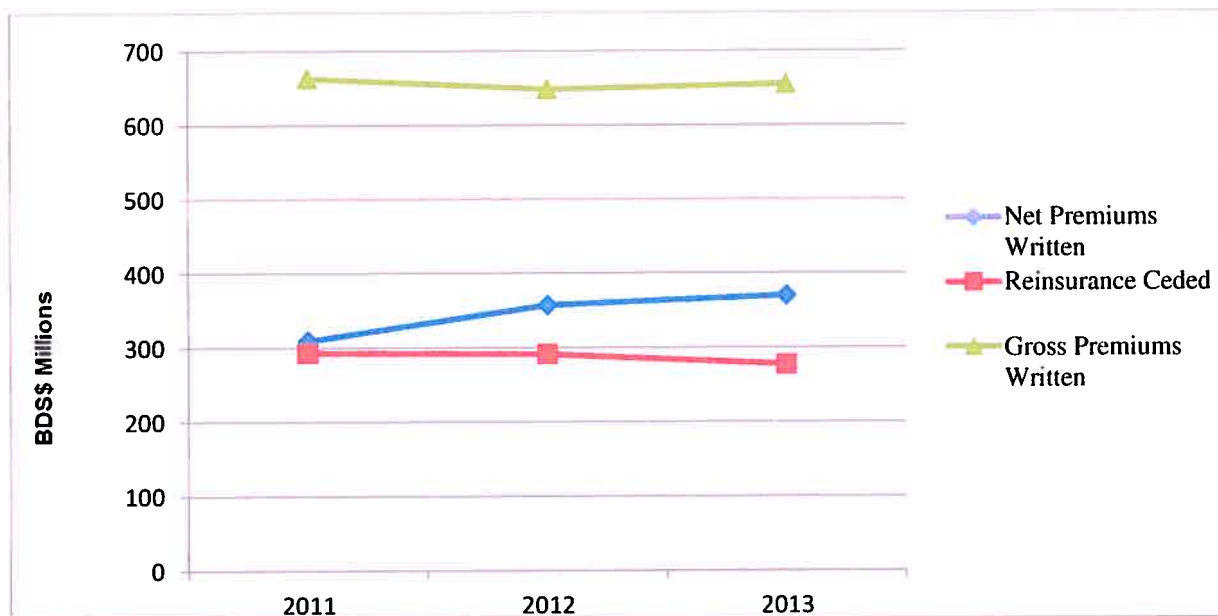


Table 4 provides greater detail on domestic insurance companies and insurance intermediaries registered entities. At the end of the 2013 financial year there were twenty-three (23) domestic insurance companies and twenty-two (22) insurance brokers. There are various other types of entities registered to conduct insurance business in Barbados under the Insurance Act, Cap. 310, with five hundred and thirty-four (534) registered salespersons being the largest category of intermediaries.

Table 4 – Entity Registration (Year Ended March 31)

Regulated Entities	31-Mar-13	31-Mar-14
General Insurance Companies	16	15
Life Insurance Companies	9	7
Combined Life and General Insurers	1	1
Brokers	22	22
Agents, Sub-Agents, Sales Persons	516	534
Loss Adjusters/Surveyors	7	14

International Insurance Sector

Barbados remains a leading jurisdiction for foreign entities seeking to set up captive insurance companies. The country remains ranked in the top 10 domiciles for captive insurance as measured by the number of registered captive insurance companies. The Exempt Insurance Act, CAP. 308A (EIA) is the legislation established to supervise this sector. International insurance companies may also register as qualifying insurance companies offering international insurance business similar to the exempt sector.

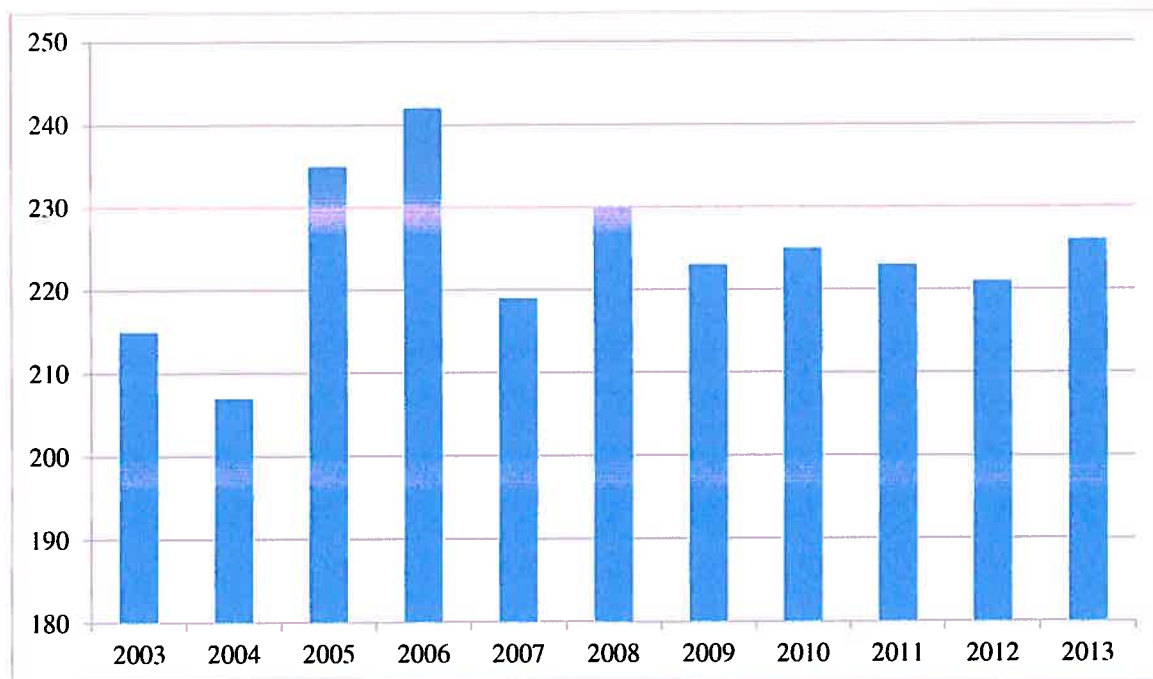
The international insurance sector has performed steadily and is substantially larger than the domestic insurance industry based on asset size. During the last financial year, there were two hundred and fifty-eight (258) international insurance companies supervised by FSC compared to two hundred and fifty-five (255) in 2012. There were one hundred and seventy-nine (179) exempt insurance companies. There were twelve (12) holding companies and twenty-two (22) management companies registered. In addition, there were forty-five (45) qualifying insurers registered to conduct international business. There were also sixteen (16) companies registered as segregated cell companies under the Companies Act. (See Table 5)

Table 5 – International Insurance Companies

Types of International Insurer	31-Dec-11	31-Dec-12	31-Dec-13
Exempt Insurance Companies	166	166	179
Holding Companies	16	16	12
Management Companies	20	22	22
Qualifying Insurance Companies	76	51	45
Segregated Cell Companies	-	12	16

Overall, Barbados has been able to maintain high retention rates among this class of insurer as shown in the following figure which displays historical registration of captive insurance companies. (See Figure 5)

Figure 5 – Registered Number of Exempt Insurance Companies and Qualifying Insurance Companies (2003 – 2013)



Total assets of the exempt insurance sector for the fiscal year ending 2012 was BDS\$122 billion, while gross premium written was BDS\$31 billion. Table 6 highlights key indicators used to evaluate the sector's performance. An analysis of the international insurance companies registered in Barbados indicated that 92% of the active insurance companies met the solvency requirement. The entities which did not meet this requirement are primarily in run-off mode and the FSC in its oversight role has mandated that they take remedial action and submit periodic reports on the run off activities. The FSC continues to monitor the process to ensure the smooth run-off of the portfolios. Since these international insurance companies write business in other countries, it is very important to engage in cross-border supervision and partner with the host regulator to ensure that the companies are operating prudently. The greatest inherent risk to the FSC from this category of companies is reputational risk and as such, the FSC remains vigilant in its supervision of the sector.

Table 6 – Exempt Industry: Selected Indicators

	2010	2011	2012
	BD\$ Millions	BD\$ Millions	BD\$ Millions
Total Assets	125,779	133,594	122,554
Total Liabilities	93,189	100,500	76,660
Share Capital	10,171	6,428	9,338
Gross Premium	37,184	62,896	33,709
Net Earned Premium	31,343	56,274	20,991
Investment Income	3,058	4,078	2,053
Net Income	7,126	5,785	16,179
Claims Paid	27,098	53,256	14,267

PENSIONS

The pension sector is a substantial contributor to the financial system in Barbados primarily as a result of the significant assets under management. The FSC reviews financial, demographic, and other critical information in accordance with the Occupational Pension Benefits Act, CAP. 350B (OPBA), which provides for the supervision, regulation and registration of occupational pension plans in Barbados. Over the past financial year, the FSC has put significant effort into developing the supervisory framework, registering compliant occupational pension plans, and maintaining dialogue with stakeholders regarding requirements under the OPBA.

During the period under review, seven (7) administrators submitted documentation to the FSC to have their pension plans registered as per the requirements of the OPBA, bringing the total number of applications for registration to three hundred and five (305). These pension plans have combined assets under management at March 31, 2014 of approximately BDS\$1.5 billion.

The department has registered one hundred and forty-six (146) pension plans during the financial year. Three (3) pension plans were also wound up during the same period. Active plans now cover approximately 30,000 members, and vary in size from one (1) member to two thousand, eight hundred and thirty one (2,831) members. The distribution of pension plan members per plan is somewhat skewed with two hundred and forty-six (246) pension plans - approximately 80% - consisting less than one hundred (100) members, while fifteen (15) plans provide coverage for more than five hundred (500) members each. (See **Figure 6**)

Figure 6 – Plan Membership Distribution as at March 31, 2014



Consistent with international trends, more plan sponsors (63%) have been choosing defined contribution (DC) plans over defined benefit (DB) plans. This practice is expected to continue as more employers shift the investment risk away from the plan sponsor to the plan members. (See Figures 7 and 8)

Figure 7 – Fully Registered Occupational Pension Plans as at March 31, 2014

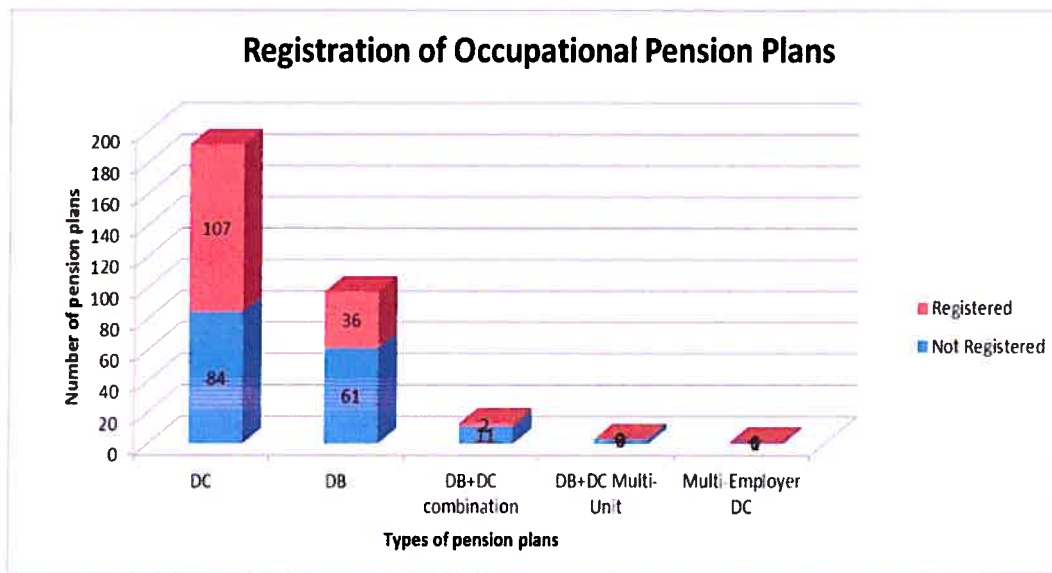


Figure 8 – Occupational Pension Plans Applications as at March 31, 2014

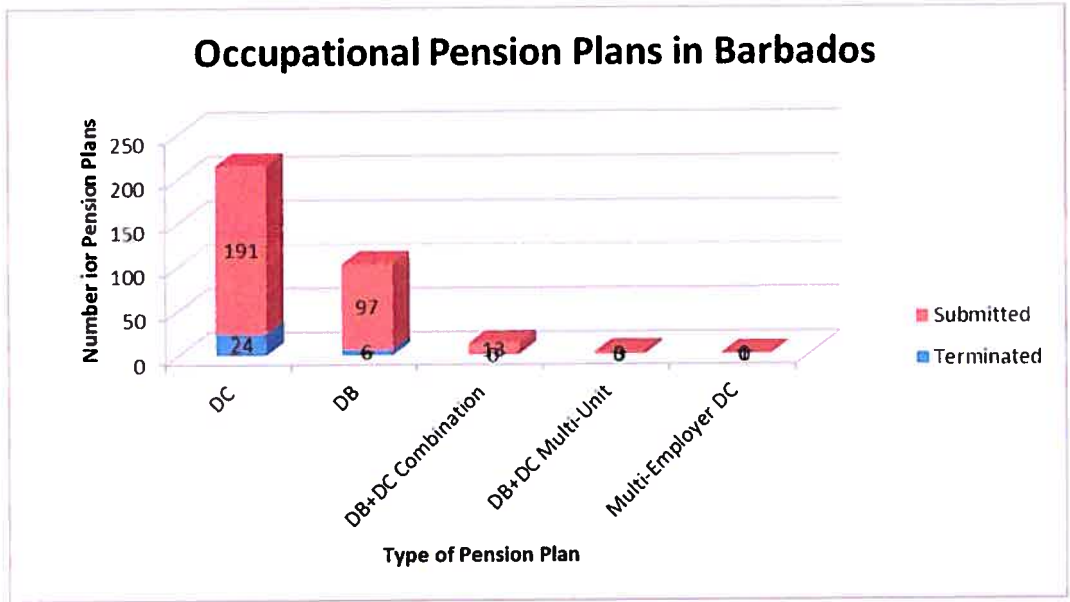


Figure 9 – Occupation Pension Plan Sponsors by Sector as at March 31, 2014

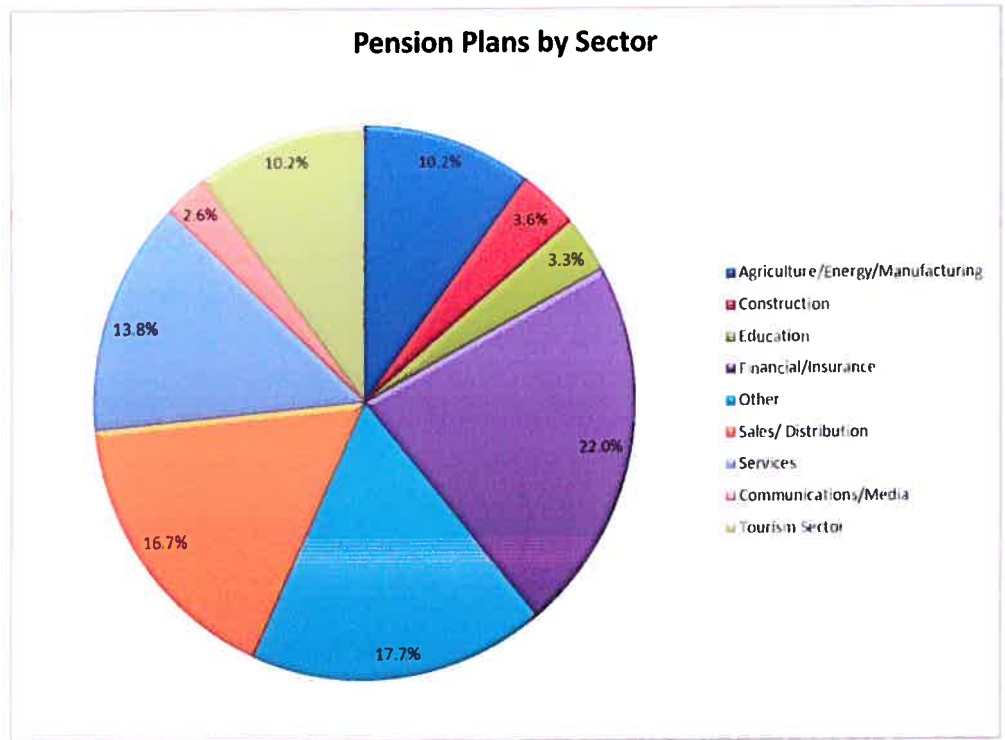


Figure 9 highlights that the sponsors of pension plans originate from various sectors, with the financial/insurance sector continuing to be the leader in the market. This sector is followed closely by sales/distribution and services sectors. Whereas the asset size of the sector has remained stable, applications for the establishment of new occupational pension plans have slowed with fewer than 10 new applications received during the period under review.

SECURITIES

The regulation of the capital market by the FSC is undertaken through its Securities Division which is responsible for the licensing/registration, authorisation and regulation of mutual funds; issuers of securities; securities companies; brokers; dealers; investment advisers; underwriters; and self-regulatory organisations (*i.e. the Barbados Stock Exchange Inc. and the Barbados Central Securities Depository Inc.*). The Securities Division also works to ensure the integrity of the market against abuses resulting from improper practices, while creating and promoting conditions appropriate to ensuring the orderly growth and development of the market.

Market Developments

Regulated Entities

The number of individuals/entities registered and/or licensed with FSC remained relatively constant when compared with the previous financial year. Minor increases were noted with respect to market actors; mutual funds/sub-funds; fund administrators and issuers who have registered securities. A statistical presentation and comparison of the number of registrants and/or licencees is outlined in **Table 7**.

Table 7 - Financial Services Commission Data

Number of Regulated Entities (as at the date shown)		
Category	March 31, 2014	March 31, 2013
Market Actors (companies) ³	17	16
Market Actors (individuals) ⁴	27	25
Self-regulatory organisations	2	2
Mutual funds (<i>including sub-funds</i>)	26	23
Mutual fund administrators (general)	10	9
Mutual fund administrators (restricted)	1	1
Issuers ⁵	45	44

³ Securities Companies, Dealers, Investment Advisers, Underwriters

⁴ Brokers, Dealers, Traders, Investment Advisers

⁵ Listed & unlisted issuers

Stock Market

During the year under review there were no new major transactions in the stock market and there continued to be limited trading activity. The FSC received and processed two applications for de-listing of securities from the stock exchange. Additional information regarding stock exchange activity is outlined in **Table 8**.

Table 8 – Stock Exchange Activity

Market data⁶ (as at date shown)		
	March 31, 2014	March 31, 2013
Listed companies	20	23
Listed securities	26	28
Local market index	2,568.58	3,084.37
Cross-listed market index	1,539.55	1,325.98
Composite market index	668.90	738.76
Local market capitalisation BDS\$	6,395,315,382	8,869,156,101
Cross-listed market capitalisation BDS\$	2,569,376,511	2,214,570,569
Composite market capitalisation BDS\$	8,964,691,893	11,103,526,670
No. of major transactions ⁷	0	1

Funds Sector

The FSC issued new mutual fund licences to two domestic funds which have made a significant impact to the increase in funds under management. Foreign funds also recorded an increase in funds under management when compared with the previous year.

Table 9 - Mutual Funds Data

Funds under management BDS\$ (in millions)			
	Domestic (offered in Barbados)	Foreign (not offered in Barbados)	Total
March 31, 2014	1,834.7	3,322.3	5,157.5
March 31, 2013	979.8	1,489.9	2,469.7

⁶ Provided by the Barbados Stock Exchange Inc.

⁷ Takeovers, mergers, rights issues etc.

Regulatory Activity

Approval of New Stock Exchange Rules

The FSC approved extensive revisions to the rules of the Barbados Stock Exchange Inc. in November 2013. The amendments represent a significant development from the dated rules which were created under the former Securities Exchange of Barbados. The new rules are intended to:

- (i) Bring the Barbados Stock Exchange's rules in line with the Securities Act, Cap. 318A (Securities Act) in order to reflect the spirit and intent of the governing provisions in the Securities Act;
- (ii) implement rules tailored to meet specific requirements of the securities industry of Barbados, whilst reflecting international and regional best practices and;
- (iii) clarify the rules so that the rules will not pose any practical difficulties in their application.

CREDIT UNIONS

The Credit Union Division provides off-site monitoring and analysis of credit union activities, advises on the establishment of standards for the industry and supports the development of financial co-operatives by advising various stakeholders. It also recommends and participates in legislative developments needed to support and further enhance the regulatory protection of *inter alia* depositors and the public.

During the year under review, the FSC continued to strengthen its capacity to regulate the credit union sector and made significant progress in developing its off-site supervision programmes. This was buttressed by the implementation of prudential industry guidelines, which established an appropriate framework for credit union operations and risk management practices.

The FSC further enhanced the efficacy of its regulation of the sector by categorising credit unions into peer groups, allowing it to effectively deploy resources based on the size and complexity of the individual credit union. Its ability to anticipate and detect heightened levels of risk within the sector has also been boosted through the development of entity risk profiles, a greater focus on trends within the sector, and the collection and analysis of a wider range of entity-specific qualitative and quantitative data. The Barbados Co-operative & Credit Union League Limited is the umbrella body for the domestic credit union sector representing thirty three of the thirty five registered credit unions. The Division saw it beneficial to enhance its stakeholder engagement programme by formalising an ongoing series of quarterly meetings with the Barbados Co-operative & Credit Union League Limited. These fora have redounded to the benefit of both parties by facilitating timely and open discussion on matters of mutual interest.

Active Credit Unions

Table 10– Credit Union Sector Profile at a Glance

	2013	2014
Number of credit unions	35	35
Total Assets (billions)	\$1.617	\$1.709
Total Savings (billions)⁸	\$1.348	\$1.441
Net Loans	\$1.201	\$1.241
Capital Ratio⁹	10.06%	10.73%
Profitability (Return on Average Assets)	1.27%	1.06%

⁸ Savings are inclusive of Qualifying Shares

⁹ Capital ratio excludes Qualifying Shares

At March 31, 2014 there were thirty-five (35) registered credit unions operating in Barbados, ranging in asset size from BDS\$129,870 to BDS\$873.902 million. There were twenty-three (23) credit unions with reported assets less than BDS\$10 million. These credit unions collectively held assets totaling BDS\$52.3 million which represented 3% of sector assets. Two credit unions held approximately BDS\$1,252.1 million which represents 73% of the assets of the sector and the remaining ten (10) accounted for the other 24% or BDS\$404.9 million in assets. The sector is mature and its importance to the Barbados economy is characterised by high levels of penetration¹⁰ reported at 72.6% of the economically active population. This represents the fourth highest penetration level in the world after St Vincent & the Grenadines – 86.2%, St Lucia – 75.8%, and Ireland – 73.2% (World Council of Credit Unions Statistical Report 2012).

Membership and Employees

The reported number of members in local credit unions increased from 145,186 to 150,527 during the year under review. Reported membership continues to show variations resulting from the amendment of by-laws and related actions taken by credit unions to comply with the Cooperatives Society Act. Available information indicated that the credit union sector provided direct employment for four hundred and two (402) persons, an increase of twenty-nine (29) or 7.8% over the previous year.

Credit Unions Assets

The credit union sector experienced growth at a rate of 5.7%, with reported assets at BDS\$1.709 billion at the end of the period, when compared to BDS\$1.617 billion for the corresponding period during 2013. Liquid assets, comprising cash and investments, increased from BDS\$327.9 million at March 31, 2013, to BDS\$373.6 million at March 31, 2014. (See **Figures 10 and 11**)

¹⁰ Penetration rate is calculated by dividing the total number of reported credit union members by the economically active population age 15-64 years old.

Figure 10 – Credit Union Sector: Assets

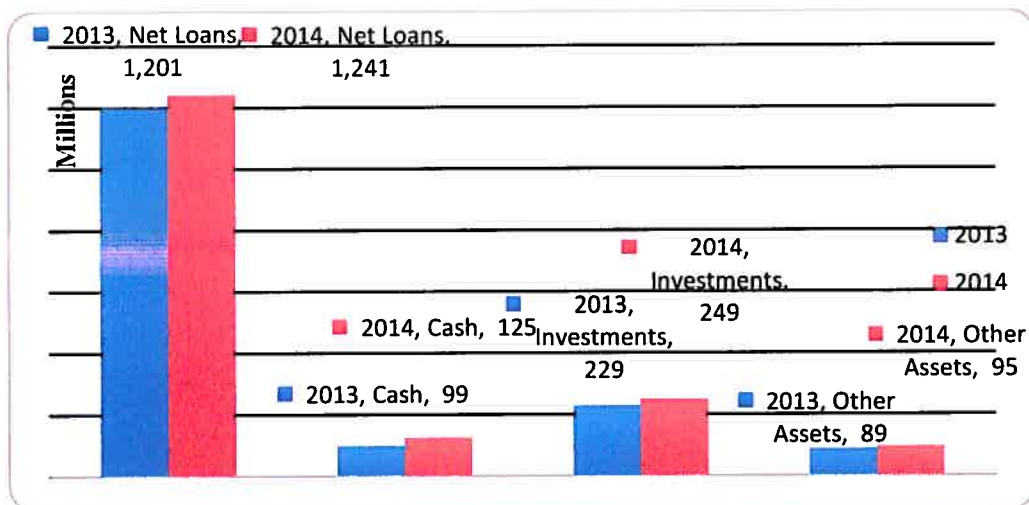
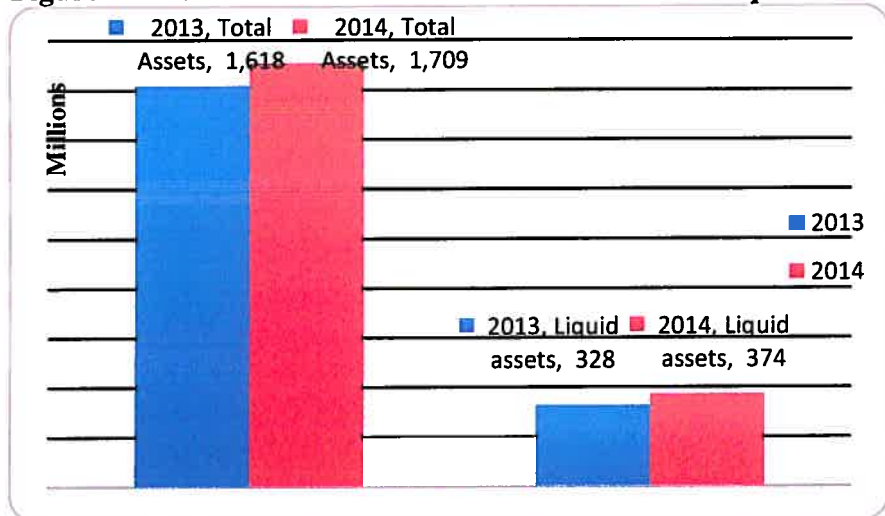


Figure 11 – Credit Unions Sector: Total Assets and Liquid Assets

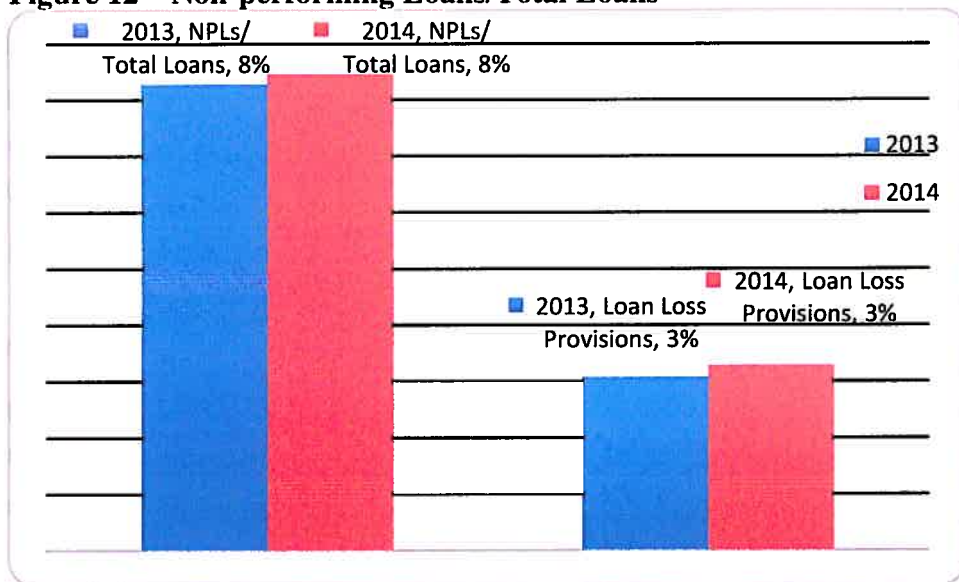


Net loans to credit union members increased from BDS\$1.201 billion to BDS\$1.240 billion for the year ended March 31, 2014. These represented the largest asset category for credit unions followed by investments of \$248.8 million (down from \$229.2 million the previous year); cash, totaling \$124.9 million (up from \$98.9 million,); and all other assets comprising: accounts receivable; land; buildings; furniture and equipment; and vehicles among others, which amounted to \$94.8 million, an increase of \$6.1 million over the March 31, 2013 position. (See Figure 11)

There was some moderation in the growth rate of non-performing loans (NPLs) in the sector, as these increased from 8.23% to 8.5%. (See Figure 12) The continued growth in NPLs resulted in a

concomitant increase in loan loss provisions. The total level of provision stood at BDS\$42.2 million compared with BDS\$38.2 million as at March 31, 2013. As a result, the coverage ratio (loan loss provision as a percentage of non-performing loans) increased from 37.2% to 38.8% as at the corresponding period in 2014.

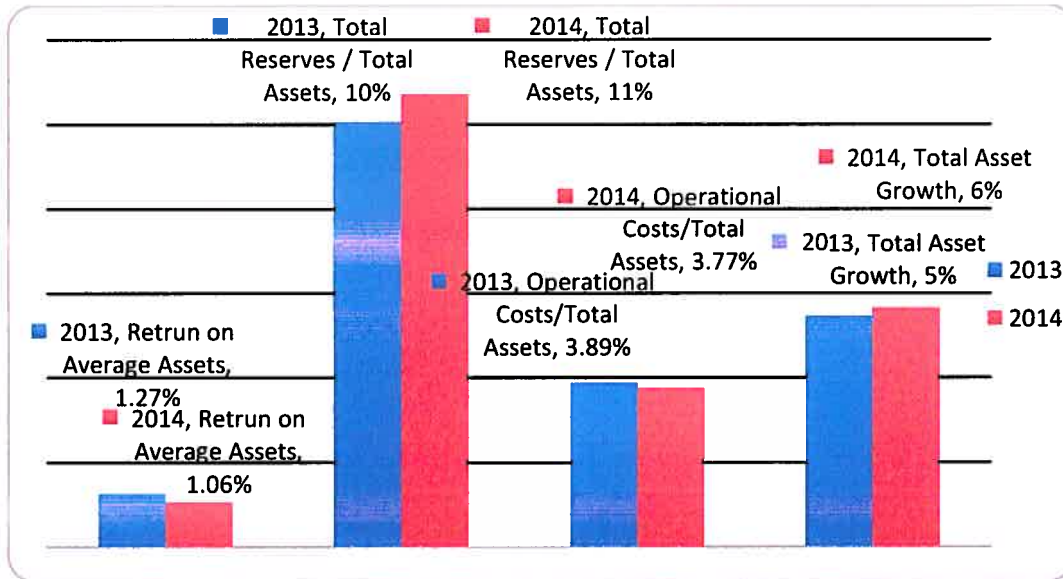
Figure 12 – Non-performing Loans/Total Loans



Key Performance Ratios

During the year under review, profitability in the credit union sector was negatively impacted by the high levels of NPLs and the associated increases in the cost of bad debt provisions. Additionally, investment income was moderated due to prevailing economic conditions; low interest rates and the attendant impact on the return on investments. The rate of return on average assets declined from 1.27% to 1.06%. In spite of the challenges faced, the sector’s capital ratio improved as reserves as a percentage of total assets increased from 10.06% to 10.73%. Operational costs increased marginally by 2.29% to \$64.4 million or 3.77% of total assets. Asset growth was robust, as the rate of growth was 5.66% up from 5.47% the previous year fueled predominantly by the issuance of new loans.

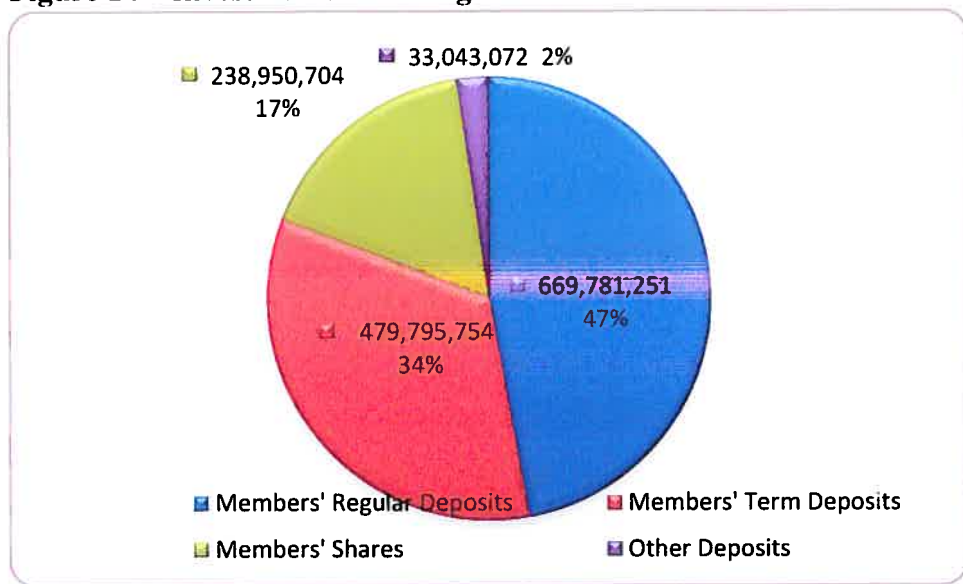
Figure 13 – Credit Unions Sector: Key Performance Ratios



Members’ Savings

At March 31, 2014 members’ investments in savings and shares totalled BDS\$1,441.2 million up from BDS\$1,347.7 million a year earlier. For the year ending March 31, 2014, members’ regular deposits increased by BDS\$8.7 million (1.32%). During the review period, there was strong growth in term deposits which grew by BDS\$77.2 million (19.17%); this result was consistent with the expected trend for the year. It is expected that this trend will again continue into 2014, as the interest rates offered on these products have tended to be higher than the rates offered on other savings products. During the financial year, members’ shares (liability) grew by BDS\$5.1 million. The shift away from shares to deposits in the short-term, which has been evident subsequent to the amendment of the Co-operative Societies Act at the end of 2007 continued, as members pursued higher returns on their funds, since the returns on these shares have been less attractive than those offered on term products.

Figure 14 – Investments in Savings and Shares



Profitability

During the year under review, credit unions' profitability was negatively impacted by the current low interest rate regime, the faster growth rate of deposits relative to loans, the increasing levels of NPLs, and the resultant increased levels of reserves set aside for bad debt. Even though there was a 3.3% increase in loans to members, the return on average assets ratio declined from 1.27% in 2013 to 1.06% in 2014, as net income declined by 9.08% from BDS \$20.0 million for the year ended March 2013 to BDS \$18.2 million during the comparable period of 2014.

Capital

The credit union sector remains well capitalised. During the year, capital increased by 12.6% going from \$162.8 million at the end of March 2013 to BDS\$183.0 million at the end of March 2014. Consequently, the capital asset ratio increased marginally from 10.1% at the end of March 2013 to 10.7% at the end of March 2014. This level of growth has resulted from the sector's execution of appropriate capital management policies.

EXAMINATIONS

The Examinations Division is responsible for performing on-site examinations across all regulated sectors, and supplements the off-site supervisory function of the regulatory units. To date, the Division has completed on-site examinations of twenty-three (23) companies/entities. (See Table 11)

Table 11 – Examination Statistics, August 2012-March 2014

Sector	Total completed as at March 31, 2013 (commenced Aug 2012)	Total completed for the financial year ended March 31, 2014	Total completed as at March 31, 2014 (from Aug 2012)	Total percentage of sector's assets examined as at March 31, 2014
Insurance brokers	2	0	2	Note 1
Credit Unions	1	3	4	32%
Non-life insurance	1	2	3	49% ¹¹
Life insurance (including holding company)	0	2	2	80% ¹²
Securities				
Self-regulatory organisation	0	2	2	100%
Mutual fund administrator (MFA)	0	2	2	Not applicable – see below the mutual funds.
Broker ¹³	0	1	1	Not applicable from a prudential standpoint.
Mutual funds (sub funds) ¹⁴	0	7	7	50%
Total	4	19	23	
Total per examination plan in financial year	5	20	25	
Percentage of completion of examination plan	80%	95%	92%	

Note 1 – total statistics for the current reporting period at March 31, 2014 were unavailable, hence not included.

¹¹ Excludes a composite insurance company which underwrites both life and non-life insurance.

¹² Excludes two companies currently under judicial management and one company currently seeking an amalgamation

¹³ FSC examined a MFA that also had registered brokers on the Barbados Stock Exchange; so in terms of statistics this is the same company.

¹⁴ Of the two MFA(s) examined, seven sub-funds were selected in the scope of examination.

During the financial year ended March 31, 2014, FSC's examiners employed the use of the 'Early Warning Indicator System' which assisted with focusing examinations in key inherent risk areas. The FSC also performed full scope examinations on some entities in order to assist in developing a risk and institutional profile which is consistent with the corporate direction of the FSC towards a risk-based approach to regulation. The FSC employed a consolidated supervisory approach to the on-site examination of one company which assisted in creating a level of efficient supervision across different regional regulators. The benefits of this approach will allow for other regulators within the group to rely on the efforts of the home regulator as it relates to the areas of group operations examined. Supervision and regulation is costly and in an effort to utilise regulatory resources and not burden our registrants, FSC through its regulatory units will seek to enhance the consolidated approach across all applicable sectors under FSC's purview.

As part of the general examination approach and scope, the FSC examined registrants for compliance with the Money Laundering and Financing of Terrorism Act 2011-23 (MLFTA), and the recently-issued Anti-money Laundering Guidelines. During the period, nine (9) entities were examined for compliance. The FSC has developed a specific and focused examination plan for Anti-money laundering, in order to address the key inherent risks associated with money laundering and financing of terrorism. The development of this plan allows the FSC to be proactive in its approach towards the preparation of the Caribbean Financial Action Task Force (CFATF) national risk assessment review in 2016. These efforts are being undertaken in conjunction with all regulatory units.

The Examinations Division has also successfully employed the net risk model to assist with finalising entities' risk profiles and implementing the Early Warning System. This will bring a greater level of efficiency to the examination process.

The Research and Policy Department is responsible for the development and co-ordination of all policy and research within FSC, and to this end, provides technical support to all regulatory divisions. The department is responsible for researching and analysing current and emerging issues, innovations and developments related to the non-bank financial sector, in order to facilitate early and appropriate regulatory responses. It also researches and develops consultative papers on issues that may impact or enhance the supervision of regulated entities.

Research and Policy is also responsible for reviewing and providing comments on numerous technical documents for both internal and external parties. The division responded to all data requests submitted by the Central Bank of Barbados, various Ministries of Government, as well as regional and international organisations, among others. These contributions have enhanced the information presented in the Barbados Economic and Social Report; the Financial Stability Report produced in conjunction with the Central Bank of Barbados, and have been used for press articles, and other presentations.

During the period under review, the Department drafted several policy and research papers for the regulatory divisions on a range of topics including binary options, crowd funding regulation, foundations regulation and arbitration. It advanced the development of an internal library and an enhanced journals/book collection, and worked on fostering a research and reading culture within the organisation, led by a series of internal publications:

- Bookworm – a brief overview of a selected book from the Library to raise awareness among staff of the resources available in the library
- Financial Current Affairs – a contemporary perspective on important issues in regulation and finance addressing pertinent topics
- Look What our Competitors are Doing – focuses on providing regulatory updates and initiatives taken by other competing jurisdictions

Memoranda of Understanding

The FSC understands the importance of standards for institutional strengthening with domestic, regional and international regulatory bodies. During the period 2013 to 2014, the FSC established and formalised frameworks for information sharing, consultation and co-operation between the Commission and three (3) regulatory bodies: the Central Bank of Barbados, Turks & Caicos Islands Financial Services Commission and the Caribbean Group of Securities Regulators comprising the Eastern Caribbean Securities Regulatory Commission, Financial Services Commission (Jamaica) and Trinidad & Tobago Securities and Exchange Commission. The signing of these Memoranda of Understanding with the regulatory bodies will further enhance existing work relationships to improve effective regulation and co-operation as it relates to the supervision and oversight of cross-border transactions and initiatives.

Guidelines to the Industry

The FSC sets guidelines to which the industry must adhere. Some of these guidelines were issued for the Securities, Credit Unions and Insurance sectors and were published in the Official Gazette in October 2013. The various Guidelines address *inter alia*, corporate governance, market conduct, related party transactions, qualifications and remuneration of directors, officers and committee members. In addition, the FSC also published the Anti-money Laundering/ Combatting Terrorist Financing (AML/CTF) Guideline in November 2013. This relates to customer due diligence for the non-bank financial sector, and it is expected to provide the industry with some degree of clarity concerning what will be expected and how key aspects of the regulatory regime fit together. Under this guideline, management of entities will have a wide range of responsibilities to set policies, procedures and controls to address and mitigate risk within their respective entity.

Review of Decisions

The FSC is undergoing scrutiny on a number of matters which affect the public. Appeals, which provide independent and impartial avenues for review of FSC decisions, engaged the attention of the FSC Appeals Tribunal. The Tribunal is an independent body established by the Financial Services Commission Act.

REGISTRATION AND LICENSING

The Registration and Licensing Department is responsible for the processing of all registrations received by the FSC and the preparation of licences and certificates which are issued to registrants. The department's functions include:

- Receipt and record keeping of registration documents submitted by all registrants with the FSC
- Receipt and recording of registration fees paid by all registrants
- Maintenance and update of the FSC's registers
- Preparation of all licences and certificates to be issued to registrants
- Conducting due diligence background checks on proposed regulated persons and companies
- Adjudication of matters of share transfers submitted by estates for shares held in public companies
- Preparation of books for and participation in the meetings of the Authorisation and Licensing Committee

Table 12 – Activities the Registration and Licensing Department April 1, 2013 to March 31, 2014

Activity	Number
New Licenses – Insurance Division	29
New Licences – Securities Division	7
Full Registration of Pension Plans	150
Adjudication of Matters of Share Transfers	68
Due Diligence Searches Performed	215

During the year, the ALC considered 249 matters of which approximately 95% were approved. (See Table 13)

Table 13 - Authorisation and Licensing Committee Matters Considered During the Year

Status	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
	2013 April – June	2013 July – Sept.	2013 Oct. – Dec.	2014 Jan. – Mar.	
Approved	80	40	30	86	236
Not Approved	0	1	0	6	7
Deferred or Withdrawn	0	2	4	0	6
Total Matters Considered	80	43	34	92	249

INFORMATION TECHNOLOGY

During the period under review, the Information Technology department was able to make progress on some areas of focus from the previous review period – acquisition of Hardware and IT Governance and Policies. Due to factors beyond the control of the FSC, the installation of an Electronic Filing/Document Management (EFDM) was postponed. Given the significant importance of this core system to the organisation, the department sought to provide interim value-added services and was able to complete the following objectives:

- Hardware acquisition was completed through implementation of the organisation's security firewall appliance; this resulted in a significant upgrade of FSC's network security protocols
- Preparation of the platform for the EFDM project was achieved through collaboration with personnel working on the risk-based consultancy
- Technology policies and Governance were reviewed and updated and training identified to strengthen areas of deficit.

Efficiency levels were improved by the:

- Rollout of electronic solution through tablet devices for use by FSC Commissioners and senior staff
- Implementation of remote access for senior staff and members of the Examinations Division; this provided officers secure access to the office network from anywhere with internet connectivity
- Rollout of the IT helpdesk system to effectively manage technical support within the organisation; this system is expected to take on a greater role for response and tracking of system issues with external parties and regulated entities once the EFDM is completed
- Rollout out of request tracking and management system for Legal Division
- Completion of the preliminary work for task tracking system for Insurance Division
- Rollout of company's intranet site

Strengthening of systems was achieved through:

- The installation of dedicated internet access; this allowed for a more robust email solution given the increasing communications requirements of the FSC
- The installation of complete wireless coverage of the building comprising two separate networks – secure user network access and internet access only
- The installation of UPS devices at both user and administrative systems level
- The realignment of IT Division staff work hours, in order to cover the full in-office time of all employees

The department intends to work with the selected vendor on the implementation of the EFDM project, continue to update IT Governance and Policies to industry standard best practice levels, and update the skills level of the IT team through completion of the Department's training programme.

COMMUNICATIONS

The Communications function within the FSC exists to support the organisation's mandate to promote stability, public awareness and public confidence in the operations of the non-bank financial services sector.

This process began with the development of a long-term strategic communications plan. The expressed objectives were to support the FSC's vision to generate a nationwide culture of compliance among regulated entities, by encouraging understanding, responsibility and action through the development and delivery of a range of communications products and services.

In the first phase of the programme, research was commissioned through the Special Projects Unit in the Ministry of Finance and Economic Affairs. A "Knowledge, Attitudes and Perceptions" (KAP) survey was carried out among the local population, to determine the appropriate communications tools necessary for the exchange and mutual understanding of information between the FSC and its key stakeholders. Research findings indicate that the public expects the FSC's regulation of the sector to be robust, not only in terms of setting policy, but also in continuously monitoring and actively enforcing regulations to ensure that regulated entities comply fully; that they are "properly managed" and that they are "doing the right thing", thus protecting the public interests.

This phase ended with a review and revision of the FSC's brand mark. There was a soft launch of this new-look corporate logo and associated communications collateral, which included a tri-fold information brochure for all stakeholders.

The second phase of the programme introduced a public education campaign developed to share information with the public about the FSC and its areas of responsibility. It was created in order to clarify any misconceptions and to manage public expectations concerning the Commission's remit under the relevant legislation. Activities in this phase included:

- Media conference to outline the FSC's strategic plan to help close the information gap highlighted in the research, and to continue to build awareness about the organisation's role and responsibilities
- Media conference to launch the Public Education Programme, with some targeted focus on the Occupational Pensions Benefit Act (OPBA)

- Media interviews with both print and broadcast media houses, and follow-up activities to foster and maintain positive media relations
- Advertising campaign for print media
- Production of 30-sec corporate radio ad

Phase three of the planned programme included the revamping of the FSC's existing website toward a more user friendly, information driven and public education site. It also included a strong emphasis on building trust between the regulator and the regulated entities as the department supported the Insurance, Pensions and Securities divisions in various presentations.

Internal Communications

The communications focus for employee engagement included a range of staff events and activities organised in collaboration with the Human Resources department. An intranet was also developed as a joint effort with the IT department, to facilitate sharing of ideas by staffers and provide for easy access to important staff and corporate information.

The selection of a name and template for an internal eZine – “FSC Direct” – was also completed. The focus of the eZine is to help create an atmosphere of inclusion and participation among staff, where colleagues share information to educate, entertain, enlighten and empower each other.

The Communications Department continues to work with all divisions and corporate support departments, to ensure the enhancement of the FSC's brand and corporate image. Primary focus continues to be on building and maintaining strong, positive relationships with the organisation's key stakeholder groups. This is vital to the FSC performing its primary function of promoting soundness, stability and transparency within the financial services sector in Barbados.

HUMAN RESOURCES

The Human Resources Department was established primarily to:

- Identify and attract adequate staff and ensure they are adequately trained to efficiently and effectively execute the mandate of FSC
- Ensure that the necessary systems are in place to retain and manage staff performance
- Maintain employee records
- Provide support to other departments and provide general office support services e.g. reception, office cleaning

In support of the department's mandate several initiatives were undertaken by the department during the year under review:

- Training plan – A plan detailing comprehensive training for employees was developed and approved; it will cover the upcoming period ending March 2015 as part of the project funding
- In addition to the development of the training plan, several employees benefitted from training during the year (See **Table 14** below)

Table 14 – Training Courses Attended

Name of training course/conference	No. of employees
Financial Analysis & Risk Management (1-week course)	Regulatory staff (36)
Performance Management	All staff
Change management workshops	All staff
Change Leadership workshop	All Managers
Registry Procedures	1
Training Delivery Skills	2

Communication and Interpersonal Relations	5
Management Development for Executive Secretaries	1
Labour Legislation and Industrial Relations	2
Check Point Security Administration	1
Driver/Messenger Course	1
Caribbean Financial Action Task Force (CFATF) National Risk Assessment Workshop	2
Effective Presentations	1
World Captive Forum	1
Sage Conference	1
IABC Conference	1
Caribbean Financial Action Task Force Standards	2
RIMS Conference	1
Captives & Corporate Insurance Strategies Summit	1
Caribbean Association of Pension Supervisors (CAPS) Workshop	1
IOSCO & Self-Regulatory Workshop	2
Caribbean Association of Insurance Regulators (CAIR) workshop "Risk Management through Group Wide Supervision & Reinsurance	1
Caribbean Conference on the International Financial Services Sector	1
Quality Service Delivery; Effective Communications towards Impacting Customer Relations	2
AML/CFT workshop	1
Anti-Money Laundering & Preparing for Enforcement Action	Regulatory Staff

During the year under review, two employees terminated their employment with the organisation and one employee's contract was not renewed. The following positions were recruited for, Manager-Insurance, Internal Auditor, and two Senior Analysts-Securities. As a result, three new employees were appointed to staff during the review period.

The division organised a training project to prepare staffers for the implementation of a performance appraisal system. This training included a "train-the-trainer" session which allows the organisation to facilitate its own training sessions on performance management as necessary. It is anticipated that this system will be implemented during the first quarter of the 2014-2015 financial year.

To foster collegiality among the staff, several initiatives were undertaken during the year under review. These activities include:

1. The staff celebrated independence with an evening of Karaoke, dominoes and the FSC version of "Things Bajan"; Bajan delicacies were provided for the enjoyment of all.
2. For Christmas, the managers sponsored a "Ham Cutter Lime" in appreciation of the hard work put in by the staff over the year.
3. In honour of the staff's birthdays, the FSC began a tradition of celebrating all birthdays from each quarter of the year; this initiative commenced in March for the last quarter of the financial year.

Going forward the Human Resources Department will focus on completing the process of establishing the staff pension plan, the full implementation of the performance management system, continued training of employees and the updating of organisational policies where necessary. The department will also continue to provide support to all departments for the achievement of the organisation's objectives.

FINANCE AND PLANNING

The FSC was established and initially funded under the Special Projects Unit (SPU) of the Ministry of Finance and Economic Affairs (MOF) through a loan from the Caribbean Development Bank. The timeframe under which the organisation was scheduled to receive funding disbursements has been extended to March 31, 2015 to allow for the completion of critical projects which support the establishment of an integrated regulator. During the year under review, a total of BDS\$93,873 in goods and services was received from the SPU under the project. The FSC also received \$1.2 million from the MOF to alleviate cash flow challenges imposed by the Exempt Insurance Act Cap 308A, which compels exempt insurance companies domiciled in Barbados in excess of fifteen years to pay a tax to the Inland Revenue Department as opposed to fees to the regulator - the FSC.

The FSC is otherwise funded through fees charged to licensees and registrants in accordance with the fee schedules set out in the attendant legislation. During the fiscal year 2013-2014, fees collected totaled BDS\$5.9 million.

In addition to regular financial responsibilities, the FSC is responsible for the management of unclaimed moneys as referenced in the Insurance Act, CAP 310:

(all sums of money that became or become legally payable by an insurance company in respect of policies but in respect of which the time within which proceedings may be taken for their recovery has expired, and includes sums of money payable on the maturity of an endowment policy or endowment insurance policy that are not claimed within seven (7) years after the maturity date of the policy).

During the fiscal year 2013-2014, the FSC received \$473,066 in unclaimed/undistributed monies and refunded \$302,290. The total held in escrow at the Central Bank of Barbados as at March 31 2014 was \$2.6 million. The 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.

The FSC continues to manage the associated expenditure as best as possible within the confines of the accessible income. Details of the FSC's financial position for the year ending March 31, 2013 are contained in the annexed Audited Financial Statements.



Financial Services Commission

Financial Statements

Year ended 31 March 2014
(Expressed in Barbados Dollars)

FINANCIAL SERVICES COMMISSION

Index to the Financial Statements
Year ended 31 March 2014

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AUDITORS' REPORT

To the Board of the Financial Services Commission

We have audited the accompanying financial statements of the Financial Services Commission, which comprise the statement of financial position as of 31 March 2014 and the statement of comprehensive income, statement of changes of equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Commission as of 31 March 2014 and its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards for Small and Medium Sized Entities.

Other Matter

The financial statements for the year ended 31 March 2013 were audited by another auditor whose unqualified opinion was dated 4 October 2013.

CHARTERED ACCOUNTANTS
Barbados
25 July 2014

FINANCIAL SERVICES COMMISSION

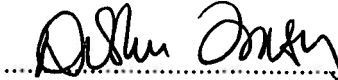
Statement of Financial Position
Year ended 31 March 2014

	Notes	2014 \$	2013 \$
Assets			
Current assets			
Cash		4,909,337	3,953,130
Deposits with Central Bank	3	5,562,604	4,808,766
Accounts Receivable	4	262,392	177,685
Prepayments		90,671	92,026
Lease deposits		90,671	90,671
		<hr/>	<hr/>
		10,915,675	9,122,278
Property and equipment	5	247,504	372,072
		<hr/>	<hr/>
		11,163,179	9,494,350
Liabilities			
Current liabilities			
Accounts payable		166,260	225,912
Due to Related Parties	6	527,890	440,000
Deferred Income		3,881,879	3,955,138
Escrow Deposits		5,812,604	4,368,766
		<hr/>	<hr/>
		10,388,633	8,989,816
Represented by:			
Capital Contribution	7	699,198	699,198
Retained Earnings		75,348	(194,665)
		<hr/>	<hr/>
		774,546	504,534
Total Liabilities and General Fund		11,163,179	9,494,350
		<hr/> <hr/>	<hr/> <hr/>

The accompanying notes form part of the financial statements.

Approved by the Commission on 25 July 2014 and signed on its behalf by:

 Chairman

 Deputy Chairman

FINANCIAL SERVICES COMMISSION

Statement of Comprehensive Income Year ended 31 March 2014

	Notes	2014 \$	2013 \$
Income			
Fees		5,885,837	6,056,333
Government grants	8	1,325,873	85,985
Rental income		105,000	43,774
Interest income		8,700	-
Other income		523	3,741
		<hr/>	<hr/>
		7,325,933	6,189,833
Expenses			
Salaries and benefits		4,440,124	4,182,643
Lease	10	1,088,048	1,088,048
Professional fees		305,455	252,150
Utilities		276,361	313,283
Depreciation	5	204,004	184,124
Advertising		117,177	50,591
Bad debts		107,955	356,594
Membership and registration fees		101,151	166,933
Commissioner fees and allowances		93,600	93,600
Security		59,217	117,839
Conferences and meeting expenses		56,241	83,516
Stationery		33,128	63,436
Tribunal expenses		30,739	32,915
Maintenance		27,582	52,308
Vehicle expenses		21,717	19,053
Subscription		19,590	3,580
Computer expenses		18,499	5,722
Office supplies		17,260	17,989
Insurance		15,281	11,370
Training		14,712	4,218
Refreshments		6,776	8,921
Miscellaneous		3,714	5,876
Bank charges		2,126	2,804
Travel expense		795	6,887
Web Master		-	4,128
Discount received		(1,013)	(2,374)
Uniforms		(4,319)	78,222
		<hr/>	<hr/>
		7,055,920	7,204,376
Surplus/(deficit) for the year			
		270,013	(1,014,543)

FINANCIAL SERVICES COMMISSION

Statement of Changes in General Fund
Year ended 31 March 2014

	Capital Contribution	Retained Earnings	Total
	\$	\$	\$
Balance as at 31 March 2012	699,198	819,879	1,519,077
Deficit for the year	-	(1,014,544)	(1,014,544)
Balance as at 31 March 2013	699,198	(194,665)	504,533
Surplus for the year	-	270,013	270,013
Balance as at 31 March 2014	699,198	75,348	774,546

The accompanying notes form part of the financial statements.

FINANCIAL SERVICES COMMISSION

Statement of Cash Flows
Year ended 31 March 2014

	2014	2013
	\$	\$
Cash flows from operating activities		
Surplus/(deficit) for the year	270,013	(1,014,543)
Adjustments for:		
Depreciation	204,004	184,124
Property and equipment received as government grant	(36,120)	(85,985)
	437,897	(916,404)
Operating surplus/(deficit) before working capital changes:		
Increase in deposit with Central Bank	(852,216)	(440,000)
Increase in accounts receivable	(84,708)	(166,577)
Decrease in government grant receivable	-	600,000
Increase/(decrease) in prepayments	1,475	(1,355)
Decrease in lease deposits	-	20,546
(Decrease)/increase in accounts payable	(59,652)	104,005
Increase/(decrease) in due to related parties	87,890	(600,000)
Decrease in deferred income	(73,259)	(51,643)
Increase in escrow deposit	1,542,097	-
Net cash from (used in) operating activities	999,524	(1,451,428)
Cash flows from investing activities		
Purchase of property and equipment	(43,317)	(9,886)
Increase/(decrease) in cash for the year	956,207	(1,461,314)
Cash – beginning of year	3,953,130	5,414,444
Cash – end of year	4,909,337	3,953,130
Represented by:		
Cash at bank	4,908,937	3,953,015
Cash in hand	400	115
	4,909,337	3,953,130

The accompanying notes form part of the financial statements.

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
Year ended 31 March 2014

1. Establishment, principal activity and registered office

The Financial Services Commission is a regulatory entity, established in Barbados on 1 April 2011 under the Financial Services 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 #34 Warrens Industrial Park, Warrens, St. Michael, 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.

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
Year ended 31 March 2014

2. Significant accounting policies (cont'd)

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.

c] Property and equipment

Property and equipment are stated at cost less depreciation. 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

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.

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
Year ended 31 March 2014

2. Significant accounting policies (cont'd)

d] Revenue recognition

Fees and deferred income

Application fees are recognized as revenue upon receipt. Annual registration and licence fees are due in January in each year and recognized in income on a calendar year basis. Deferred income represents fees which will be earned in the next financial year for the period April to December.

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.

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.

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
Year ended 31 March 2014

2. Significant accounting policies (cont'd)

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 in 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 off 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.

3. Deposit with Central Bank

The Commission has an escrow account in the amount of \$5,562,604 (2013 - \$4,808,766). The funds are deposited at the Central Bank of Barbados. The account represents:

- a) A statutory deposit of \$2,690,000 (2013 - \$2,130,000) (paid by insurance companies to satisfy their requirement under the Insurance Act CAP 310).
- b) Unclaimed moneys totalling \$2,663,865 (2013 - \$2,030,027) (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 liquidated credit union totalling \$208,739 (2013 - \$208,739) (funds held with the Commission in accordance with the Co-operative Societies Act CAP378A Section 159(2)).

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
Year ended 31 March 2014

4. Accounts receivable

Accounts receivable consist of the following:

	2014	2013
	\$	\$
Trade receivable	116,393	57,285
Registration fees receivable	589,838	456,283
Other receivable	20,546	20,546
	<hr/>	<hr/>
	726,777	534,114
Less: Provision for doubtful debts	(464,385)	(356,429)
	<hr/>	<hr/>
	262,392	177,685
	<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 2014

5. Property and equipment

	Office equipment \$	Computer equipment \$	Motor Vehicles \$	Furniture and fittings \$	Library books \$	Total \$
Year ended 31 March 2013						
Opening net book amount	24,236	330,052	106,037	-	-	460,325
Additions	-	90,371	-	5,500	-	95,871
Depreciation	(10,505)	(141,166)	(31,811)	(642)	-	(184,124)
Net book amount	13,731	279,257	74,226	4,858	-	372,072
As at 31 March 2013						
Cost	32,022	468,863	127,245	5,500	-	633,630
Accumulated depreciation ¹	(18,291)	(189,606)	(53,019)	(642)	-	(261,558)
Net book amount	13,731	279,257	74,226	4,858	-	372,072
Year ended 31 March 2014						
Opening net book amount	13,731	279,257	74,226	4,858	-	372,072
Additions	11,587	43,317	-	-	24,532	79,436
Depreciation	(8,959)	(165,351)	(21,208)	(1,100)	(7,386)	(204,004)
Net book amount	16,359	157,223	53,018	3,758	17,146	247,504
As at 31 March 2014						
Cost	43,609	512,180	127,245	5,500	24,532	713,066
Accumulated depreciation	(27,250)	(354,957)	(74,227)	(1,742)	(7,386)	(465,562)
Net book amount	16,359	157,223	53,018	3,758	17,146	247,504

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
Year ended 31 March 2014

6. Related party transactions

The amount due to related parties is \$527,890 (2013 - \$440,000). 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 \$87,890 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:

	2014	2013
	\$	\$
Salaries and other short-term benefits	1,485,310	1,366,276

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 2014

7. Capital contribution (cont'd)

	\$
Liabilities	
Current liabilities	
Accounts payable	24,090
Deferred income	388,684
	<u>412,774</u>
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 \$1,325,873 (2013 - \$85,985) 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.

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
Year ended 31 March 2014

10. Operating lease commitments

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

	2014	2013
	\$	\$
Not later than 1 year	544,026	544,026
Later than 1 year and not longer than 5 years	-	-
	<u>544,026</u>	<u>544,026</u>

During the year, operating lease payments of \$1,088,048 (2013 - \$1,088,048) were recognized as an expense.

11. Contingent liabilities

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

During the year ended 31 March 2014 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 are at a very early stage and do not include a quantified claim against the Commission.