TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

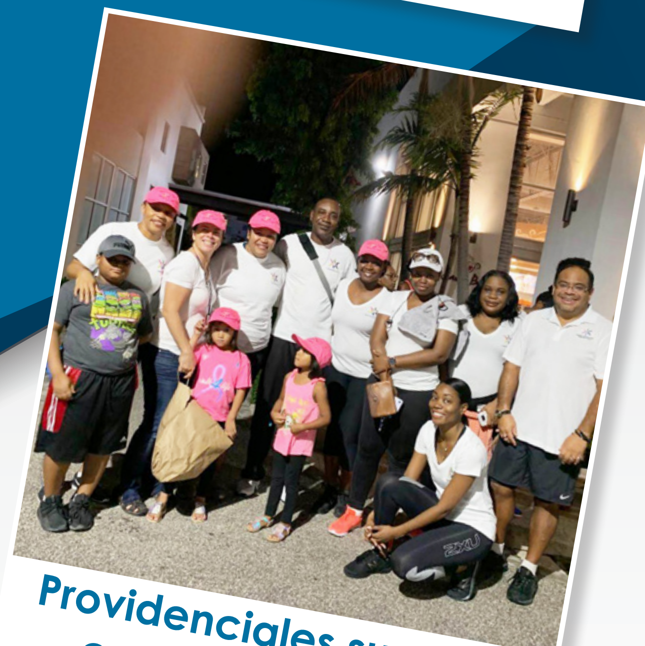
2019 2020 ANNUAL REPORT

THE YEAR IN REVIEW

Governance Structure

Annual Industry Meeting

Grand Turk supports cancer awareness



Providenciales supports cancer awareness

Another day; another fire

Framing the Argument

COMMISSIONERS *OF THE FINANCIAL SERVICES COMMISSION*

Seated from left to right: Neville Grant, Sir Errol Allen (Chairman) and Oswald Simons (Deputy Chairman).
Standing from left to right: Kevin Mann, Athenée Harvey-Basden (PS Finance), David Oakden and Niguel Streete (Managing Director).

COMMISSIONERS AND SENIOR MANAGEMENT

BOARD OF COMMISSIONERS

Sir Errol Allen	-	Chairman
Oswald Simons	-	Deputy Chairman
Neville Grant	-	Commissioner
Kevin Mann	-	Commissioner
David Oakden	-	Commissioner
Athenée Harvey-Basden	-	Commissioner, Permanent Secretary - Ministry of Finance
Niguel Streete	-	Managing Director

SENIOR MANAGEMENT

Niguel Streete	-	Managing Director
Kenisha Bacchus	-	Deputy Managing Director
Claudia Coalbrooke	-	Advisor – Managing Director's Office
Desmond Morrison	-	Director, Finance
Marlon Joseph	-	Director, Bank and Trust
Katia Camps-Campins	-	Director, AML Supervision
Corine Bolton	-	Director, Insurance
Cathrice Williams	-	Director, Information Technology
Karlene Ferrier	-	Registrar of Companies

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SECTION A

REPORT OF THE COMMISSION

PROFILE OF THE COMMISSIONERS

Errol Allen

Sir Errol is an economist and a former Deputy Governor of the Eastern Caribbean Central Bank. He was also a special appointee for one year with the International Monetary Fund. Sir Errol Allen was appointed Chairman of the Commission from 1st April 2011 and comes to the FSC with vast experience in the field of financial regulation and supervision.

Athenée Harvey-Basden

Mrs Harvey-Basden served in various positions in the Turks and Caicos Islands Government, including in the Treasury Division and as Accountant General. She now holds the position of Permanent Secretary, Ministry of Finance since 2012. Mrs Harvey-Basden has various degrees in Accounting.

Oswald Simons

Mr Simons is a retired banker whose career spanned over 30 years with various banking groups. Mr Simons also served as Chairman of the Turks and Caicos Investments Agency.

Neville Grant

Mr Grant has vast experience in the field of financial supervision and regulation. He was a consultant to the International Monetary Fund (IMF), and to the Governments of Jamaica, Vanuatu, and Zambia. He is a past Managing Director of the Cayman Islands Monetary Authority.

PROFILE OF THE COMMISSIONERS

Kevin Mann

Mr Mann is a Certified Anti-Money Laundering Specialist (CAMS). He has over 28 years in the supervision and regulation of the financial services industry in the UK and the British Overseas Territories. He was responsible for the oversight of regulatory standards for international financial services activities in the six British Overseas Territories of the Caribbean. He has played a critical role in assisting territories in preparations for successful OECD, CFATF and IMF evaluations.

David Oakden

Dr Oakden brings to the Commission considerable experience in the field of insurance. He is a Fellow of the Canadian Institute of Actuaries, and a Fellow of the Casualty Actuarial Society. Dr Oakden holds a PhD in Mathematics from the University of Toronto.

Niguel Streete

Mr Streete has extensive training and over 22 years' experience in financial sector development, supervision, and regulation. He held several executive positions in financial regulation in the region, including Deputy Executive Director of the Grenada Authority for the Regulation of Financial Institutions, Executive Director of the Anguilla Financial Services Commission, and Director of Bank Supervision and Advisor in the Governor's Office at the Eastern Caribbean Central Bank.

1.0 CHAIRMAN'S REPORT

On behalf of the Board of Commissioners, I am pleased to comment on the performance of the Financial Services Commission during the 2019/20 financial year, and to provide some insights into the board's plans for the years ahead.

The financial system remained strong during the review period. Except for the Coronavirus Pandemic (COVID-19), which will be discussed further, there were no major shocks to the integrity of the system. The board remains optimistic about the resilience of the system and its ability to withstand a reasonable amount of shock, as reflected in the Commission's various stress-testing scenarios. The board is also satisfied with the Commission's performance during the review period, especially considering the continued staff constraints.

During the last quarter of the financial year, the Commission started monitoring activities in the international community with respect to COVID-19. However, the Commission and the local financial system did not feel the full impact of COVID-19 until the last month of the financial year, when, via emergency powers, the country was 'locked down' in an effort to mitigate the risk of the virus. The health and social mitigating factors instituted to curb the spread of the virus are expected to have a significant impact on economic activities and, by extension, on the financial system. The Turks and Caicos Island's (TCI) dependence on tourism makes it especially vulnerable to the impact of COVID-19, which resulted in the suspension of travel. Early estimates are that in 2020 global international tourist arrivals would decline by 20-30%, down from an estimated growth of 3-4% as forecasted in early January 2020.

COVID-19 has required a major shift in the Commission's regulatory program, with the program now focused primarily on monitoring

the resilience of the system to the ongoing shock of the pandemic. The Commission will continue to develop early warning systems to identify and respond to areas of vulnerability and increasing risk in the system. This requires the Commission to develop a close working relationship with the sectors it regulates/supervises to allow for more detailed insights into the operations of these sectors.

At the macro level, COVID-19 has heightened the national concerns around reliance on a single economic sector. The Commission continues to support efforts to further diversify the local economy by expanding the contribution of financial services. To this end, the Commission reaffirms its support for the findings and strategies detailed in the accepted KPMG Strategic Analysis of the TCI's Financial Services Sector. While not a development agency, the Commission recognises its role in supporting the development of the financial system and remains committed to working with all stakeholders to achieving this desired goal.

Consistent with the strategy to support the expansion of the financial sector, the Commission continued work on developing the legislative and regulatory frameworks for the licensing of credit unions in the TCI. With the legislative and regulatory frameworks now in place, and the demand for greater financial inclusion, the Commission was hopeful of licensing its first credit union during the review period. While this was not to be, the Commission is aware of continued strong interest by several entities in establishing credit unions in the Islands. The Commission's review of all applicants will be based on the safety and soundness of the proposed structure.

In recognition of the importance of orderly resolution of insolvent institutions to financial sector development and stability, the Commission contributed to further enhancement of insolvency legislation, concentrating on building an appropriate regulatory framework for insolvency practitioners. The Commission is very pleased with the strong working relationship that has developed with insolvency practitioners, a recently introduced class of licensees. Given the anticipated economic impact of COVID-19, the Commission expects its role as Official Assignee (liquidator of last resort) to expand significantly in the short to medium-term.

In a current more virtual world, influenced in part by COVID-19, any strategy for financial sector development must include the introduction and regulation of virtual assets, their delivery systems, and processes. The Commission and other relevant policymakers must remain engaged in looking at options and strategies for expanding the jurisdiction's product offering to reflect the prevailing demands. However, the development of new products and services must be guided by an emphasis on safety and soundness, which is reflected in appropriate risk management strategies.

Work continued on developing a macro-prudential regulatory framework, which seeks to establish linkages between macro-economic activities and risk in regulated/supervised institutions. We anticipate significant further work on this initiative in the 2020/21 period, and the development of relevant macro-prudential tools for assessing systemic risks. The Commission will work closely with the TCIG Statistical Unit for relevant information, and with CARTAC for technical support, to pursue this initiative.

While the importance of good products/ services and high-quality regulation can not be overstated, success is still dependent on international acceptance. Accordingly, the Commission remains very focused on ensuring that the jurisdiction achieves compliance with the requirements of relevant international standards-setting bodies, including recent changes in accounting standards. The Commission is committed, as set out in its work program, to playing its part in addressing the deficiencies cited by these bodies in the various recent assessments of the TCI. Over the next three years, the Commission will work closely with all stakeholders, especially the private sector, to ensure that its legislative and regulatory frameworks are appropriately aligned, based on risk and context, with the various relevant international standards.

The board, through the Commission, continues to closely monitor the current and potential impact on financial sector stability and development of the recently introduced economic substance legislation and regime, and the discussions around the introduction of a public registry for beneficial ownership information. Both initiatives are to be assessed in terms of their impact on the competitiveness of the jurisdiction, especially to foreign investments. There are various theories as to whether the net long-term effect will be positive or negative. It is the Commission's position that every effort should be made to secure positive outcomes.

In conclusion, I wish to reiterate that the financial system is strong and appears to be capable of withstanding reasonable shocks. We anticipate that with effective and proportionate regulation, the system will remain resilient. This, coupled with Commission's support for and national efforts towards economic diversification, should reduce areas of vulnerability in the system.

We are optimistic that the vision set out above is achievable and we will continue to strive for its realisation.

In closing, I take this opportunity on behalf of my colleague Commissioners to thank the various policymakers and stakeholders for the support provided to date, noting that more support will be required to continue to build a more risk resilient financial system. I wish to commend management and staff of the Commission for their hard work, dedication, and accomplishments during the past year.

Sir Errol Allen
Chairman

2.0 MANAGING DIRECTOR'S REPORT

The financial year ending 31st March 2020 proved to be a relatively stable and uneventful period for the financial system in the Turks and Caicos Island (TCI), except for the last month of this period, when the system started to feel the effects of the Novel Corona Virus (COVID-19) pandemic. Given the timing of the pandemic and the policy responses in the TCI, COVID-19 did not have a material impact on financial stability issues during the 2019/20 financial year; however, it did cast an ominous and foreboding shadow over short-term economic and financial projections.

While this report will concentrate on activities in the financial system during the 2019/20 financial year, it will also consider the potential impact of COVID-19 on financial sector stability in the short-term.

Pre-COVID-19

The stability of the financial system was reflected in strong performance in the regulated sectors. Capital adequacy[1] in the banking sector increased by 3.9 percentage points to 30.3%, which was well above the statutory minimum of 11.0%. Non-performing credit declined by 7.6% to account for 5.3% of total credit, while credit loss provisioning as a percentage of non-performing credit expanded by 4.4 percentage points to 56.6%. The banking sector remained highly liquid with a liquid asset ratio of 65.4% compared to the statutory minimum of 12%. The banks generated aggregate profit of $52.5M, with a return on assets of 2.4% and a return on equity of 16.6%.

The other financial sectors also had strong performances. The trust sector recorded an increase of 3.0% in assets and a 23.7% ($2.6M) increase in profitability. The money services business sector grew by 19.1% and generated a 3.3% increase in profit. Growth in the insurance sector was reflected primarily in the international insurance sector; the number of insurers in this area increased by 3.6%.

The performance in the financial sector was buoyed by pre-COVID-19 optimism in the international community, led by continued economic recoveries in North America and Europe, the TCI's main trading partners. This optimism translated into strong economic performance at home with GDP growth rates of 8.9% and 7.6% in 2018 and 2019, respectively.

If the Commission was to assign a theme for the 2019/20 financial year, it would be 'consolidation'. The period was used to carefully build the Commission's regulatory capacity, strengthen relevant legislation, expand the use of technology,

1. *Capital adequacy ratio: capital as a percentage of risk weighted assets*

and enhance compliance with international standards.

The emphasis on regulatory capacity centred on recruiting appropriate expertise, training existing staff, and enhancing the Commission's Risk Based Supervisory Framework (RBS). Given the breadth of the Commission's regulatory/supervisory mandate[2] and available resources, a properly calibrated RBS is an operational imperative for the allocation of scarce resources. The RBS[3] continues to be refined based on risk, impact, and proportionality. The RBS, in combination with the Commission's recently developed Risk Tolerance Matrix, will guide its approach to regulation/supervision.

A key component of the Commission's 2019/20 work program was achieving greater regulatory consistency. This was pursued through the establishment and documentation of additional regulatory policies, the issuance of guidelines and advisories to regulated/supervised persons, collaboration with relevant industry working groups, and consultation with stakeholder groups. During the review period, the Commission developed a ladder of enforcement actions to ensure a systematic and tiered approach to taking enforcement action.

The focus of the Commission's legislative agenda was on supporting the introduction of an appropriate and much-needed Credit Union Ordinance, Insolvency Ordinance, and various required amendments to the Companies Ordinance. These new and amended pieces of legislation are expected to improve access to financial services, provide for the orderly winding up of companies, improve operational efficiency at the Companies Registry, and enhance compliance with international standards.

The Commission's broad mandate, the regulatory portion of which was cited above, can not be achieved without the efficient and effective use of technology. This reality, which was not lost on the Commission, was made even more evident as the Commission prepared for the recent COVID-19 pandemic lockdown. During the review period, the Commission enhanced existing and built new databases, and further expanded on the use of Kregistry for the online management of company registrations/incorporations. While still very much a work in progress, the Commission has expanded on the range of Company Registry services that can be accessed online. Complementing the increased use of technology was the continued hardening of the Commission's technology infrastructure against unauthorised access, improving ease of authorised access, and increasing system efficiency.

International compliance was reflected in ongoing work with several international standards setting bodies. The Commission worked with the Caribbean Financial Action Task Force (CFATF) on anti-money laundering (AML) and combating the financing of terrorism (CFT) standards; with the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes on the efficacy of legal and regulatory arrangements put in place for transparency and exchange of information; and with UK Foreign and Commonwealth Office on matters pertaining to the maintenance of beneficial ownership information.

The findings of the recent CFATF Mutual Evaluation of the TCI's AML/CFT framework, as detailed in its January 2020 report, concluded that while the TCI had made reasonable progress in introducing relevant legislation, there was need for improvement in the effective implementation of these measures. The issues raised in this report will form a key part of the Commission's work program over the next three years.

Consistent with the Commission's emphasis on risk aligned regulation, in January 2020 the regulation of company managers and agents was transferred to the AML Supervision Department in recognition of the fact that the primary risks in this sector are money laundering and terrorist financing. This restructuring should lead to a more risk appropriate targeted regulation of this sector.

2. *8,284 regulated/supervised entities*
3. *A copy is available on the Commission's website*

The 2019/20 financial year yielded positive results for the Commission. As the audited results reflect, the Commission recorded a surplus of $3.8M and had a Reserve Fund, established under Section 17(3) of the FSC Ordinance, of $10.6M.

COVID-19

The resilience of the financial system will be tested by the economic impact of COVID-19. The economic impact will be reflected in expected losses/reductions in income and increases in expenses for most individuals, businesses, and the jurisdiction. Reduced income is likely to be caused by a slowdown in economic activities due to efforts to slow the spread of the virus, while expenses are expected to increase because of required mitigation efforts.

Given the above scenario, in the short to medium-term, the Commission anticipates a contraction in the financial sector, a reduction in profitability, an increase in credit delinquency, a decline in liquidity, and a contraction in capital adequacy; growth is not anticipated in loans to the private sector. However, the pessimism of this projection should be viewed in the context of the current strength and resilience of the financial system. The Commission's analysis, including stress-testing results, suggests that the system can withstand these shocks in the medium-term. The pressure on the system is expected to continually ease over time as health authorities move towards securing a vaccination for the virus.

The Commission has revised its 2020/21 work program to focus on monitoring and responding to areas of vulnerability in the financial system. Accordingly, the Commission has increased the frequency and scope of its stress-testing, increased the frequency of the monitoring and analysis of liquidity and solvency, and introduced questionnaires and surveys around cybersecurity, technology, and business continuity. The Commission is also strengthening its understanding of the linkages and transmission mechanisms between macro-economic performance and financial stability.

Conclusion

The successes achieved during the 2019/20 financial year would not have been possible without the strong, consistent, and dedicated support of the staff of the Commission. I am very grateful for their continued support, especially in a year plagued by staff shortages and ever-changing demands. I join our Chairman in commending the entire team for their unshakeable commitment to the vision and objectives of the Commission.

The Commission is also very grateful for the support of His Excellency, Governor Nigel Dakin, the Hon Premier/Minister of Finance, Sharlene Cartwright-Robinson, the various agencies of Government, and the regulated/supervised persons and sectors. Success would not have been possible without your continued support.

I also wish to recognise the strong and effective support that the Commission continues to receive from the Board of Commissioners, under the chairmanship of Sir Errol Allen.

The 2020/21 financial year will, no doubt, present new challenges for the Commission and the financial services sector, but I am confident that, as we forge ahead, remaining committed to our mission of maintaining public confidence in the financial services industry, we will overcome any challenge we encounter.

Niguel Streete
Managing Director

3.0 BANK AND TRUST DEPARTMENT REPORT

3.1 Overview

The department continued to be responsible for the licensing[1] and regulation of banks, trust companies, money services businesses (MSBs), and credit unions[2], with preparatory plans being made to supervise investment dealers, advisors, and mutual funds.

During the period under review, the number of financial institutions regulated by the department declined to 19 with the surrender of one licence. There were six banks, nine trust companies and four money services businesses; two trust companies were in the process of voluntary liquidation and one bank has sought approval to change ownership[3].

The department continued to meet with potential applicants with an interest in establishing a financial institution in the Islands, both traditional and non-traditional forms. Some of the non-traditional potential applications were firms interested in offering FinTech products. The TCI can benefit from specialist legislation for the licensing and regulations of entities in the cybercurrency[4] and FinTech space.

The sectors supervised by the department showed steady growth during the 2019/20 financial year. Banks' profit continued to grow, despite limited lending opportunities and a five-year negative trend in assets growth. The trust sector's fiduciary activities grew, even as some market participants prepared to exit the sector. The MSBs saw a new entrant and had improved profitability and asset growth, while navigating the challenges and cost of de-risking[5]. Nevertheless, these sectors' resilience will be tested further in the upcoming financial year as they face the economic effects of the COVID-19 pandemic.

3.1.1 *Regulatory Activities During the Year*

The emphasis for the review period was on the transition to the risk-based supervisory (RBS) framework. The department began expanding its information set on licensees to facilitate risk assessment reviews under the framework. Improvements in processes such as enhancement to returns (reporting) templates were made, regulatory meetings were held with licensees and desk reviews continued as part of the regulatory and supervisory programme.

AML/CFT regulation (on and offsite examinations and remediation) of licensed entities continued to be another area of emphasis. AML/CFT onsite examinations focused on licensees' governance and oversight, and the effectiveness of controls to manage money laundering and terrorist financing risks.

Building staff capacity in regulation, particularly in risk-based supervision, was also high on the department's agenda to enhance the effectiveness of regulating the financial sector.

3.2 Banking Sector

3.2.1 *Capital Adequacy*

The banking sector remained adequately capitalised; all the banks maintained capital levels well above the 11.0% minimum statutory requirement. The sector's Capital Adequacy Ratio[6] (CAR) amounted to 30.3%, up 3.9

1 Bank licensing decisions are made by the Board of Commissioners on the recommendation of the department and the Commission's Licensing Committee.
2 As at 31st March 2020, there were no credit unions licensed by the Commission.
3 The Canadian Imperial Bank of Commerce (CIBC), the ultimate parent of CIBC-FCIB, made the decision to sell its ownership stake in First Caribbean International Bank in the Caribbean, which includes operation in the TCI. As a result, regulatory approval for the sale was sought; the Commission, in collaboration with other affected regulators throughout the region, is assessing the buyer (GNB Financial Group), to determine whether approval would be granted.
4 Cybercurrency is a digital or virtual currency used for trading and is gaining traction globally and regionally.
5 The WorldBank defines de-risking as "financial institutions terminating or restricting business relationships with remittance companies and smaller local banks in certain regions of the world."
6 The Capital Adequacy Ratio is the ratio of qualifying capital to risk-weighted assets. It mainly measures the adequacy of capital against the risk in a bank's asset portfolio.

percentage points because of increased capital and a contraction in risk-weighted assets.

The increased capital was mainly internally generated through profitable performance, which increased retained earnings, while the reduction in risk-weighted assets was attributed to a significant decline in placements (balances due to other financial institutions), heavily influenced by one bank. Chart 1 illustrates the banking sector's CAR level over the last five years.

3.2.2 *Asset Quality*

Total assets in the banking sector contracted by 7.5% to $2.2B. The contraction was mainly driven by one bank's reduction in its placements, which was also the main reason for the sector's 16.1% decline in this asset category. However, placements remained the largest asset class, 52.0% ($1.1B) of total assets; loans and advances followed, accounting for 40% ($867.3M); while investments stood at 3.9% ($83.6M).

All asset classes grew during the reporting period, except for placements and other assets. Investments increased by 15.9%, following the 32.3% decline the previous year, while loans had a negligible increase of 1%. Cash and cash equivalents had the most notable increase relative to previous periods, up 77.3%, due mainly to the sector increasing its cash holdings towards the end of the financial year in preparation for COVID-19. Nevertheless, the effects of COVID-19 did not materially impact the banking sector for the 2019/20 financial year. Chart 2 demonstrates the sector's assets trend over the last five years, cash and cash equivalent, fixed assets, and other assets are illustrated on the right axis.

As illustrated in Chart 3, non-performing loans (NPLs) continued to trend downward, declining by 7.6% over the period to $46.1M, and accounting for 5.3% of loans and advances (FYE 2018/19: 5.8%). Despite the fall in NPLs, provisioning remained relatively unchanged at $26.1M, accounting for 56.6% of NPLs, a 4.4 percentage points improvement from the previous year. The Commission noted that the adoption of the International Financial Reporting Standard 9 – Financial Instruments did not have a material financial impact on the sector.

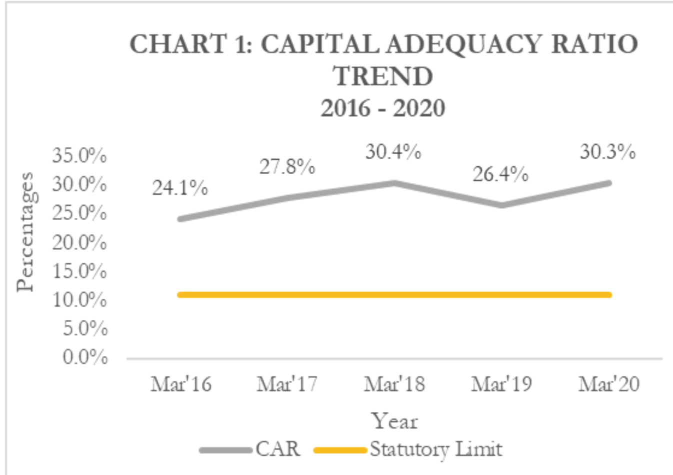


CHART 1: CAPITAL ADEQUACY RATIO TREND 2016 - 2020

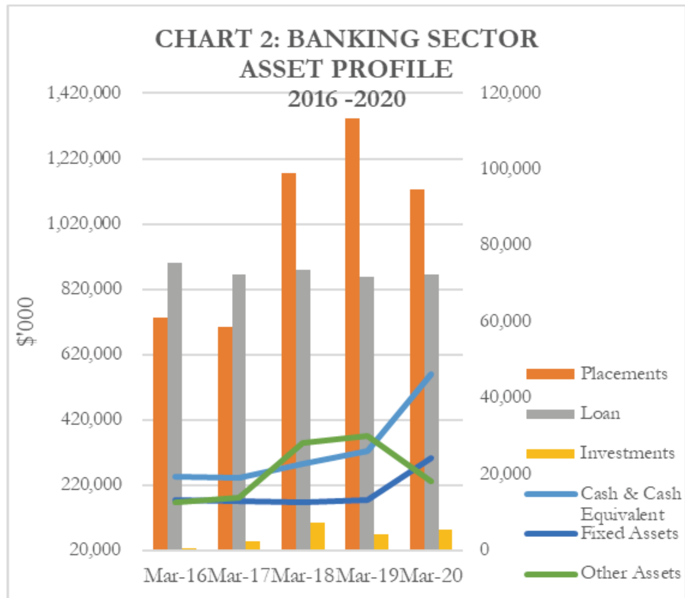


CHART 2: BANKING SECTOR ASSET PROFILE 2016 -2020

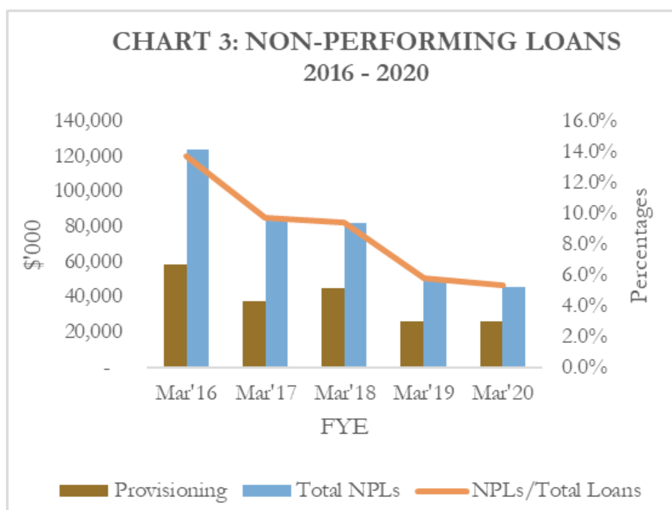


CHART 3: NON-PERFORMING LOANS 2016 - 2020

Concentration risk in the credit portfolio shifted slightly between the economic sectors. The NPLs in the personal, and construction and land development economic sectors were at similar levels in the previous financial year. However, as the real estate market rebounded during the financial year under review, the level of NPLs in the construction and land development sector fell, while nonperforming personal loans grew. The construction and land development economic sector accounted for 29.8% ($13.7M) of total NPLs, relative to 37.5% the previous year. On the other hand, non-performing personal loans increased to 43% ($19.8M) of total NPLs, 5.6 percentage points above the previous year's 37.4%.

Another notable indicator of improved loan quality was the significant reduction in the value of loans written-off during the period; the sector had a net write-off position (write-off vs recoveries) of $313K, relative to $10.7M for the previous financial year.

Credit risk in the sector was assessed as relatively stable over the period under review; however, the outlook was negative at the end of the period due largely to the potential impact of the COVID-19 pandemic. Similar to 2017 after the hurricanes, the retail banks once again offered relief to their customers with moratoriums and fee waivers to help mitigate the impact of COVID-19.

3.2.3 *Liquidity*

The banking sector continued to be adequately liquid throughout the 2019/20 financial year, maintaining liquidity levels well above the statutory requirement of 12.0% of deposit liabilities. The sector ended the financial year with a liquid asset ratio[7] of 65.4%. The sector's highly liquid position was also evident in the ratio of liquid assets to total assets of 53.6%, as banks held a significant portion of their assets in the form of deposits with financial institutions outside of the TCI (placements).

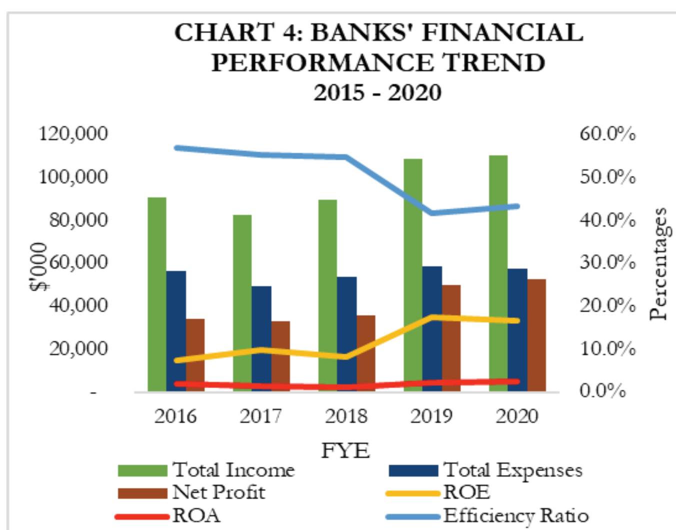
Deposit liabilities, comprising customers' deposits ($1.5B) and balances due to other financial institutions ($289.4M), amounted to $1.8B, a contraction of 10.7% when compared to the previous reporting period. This reduction was mainly due to a contraction in balances due to other financial institutions of 49.0% ($278.3M), while customers' deposits continued an upward trajectory, with a five-year average growth rate of 5.5%.

During the financial year, banks continued to enhance their liquidity risk management governance frameworks through the improvement of policies and stress-testing methodologies. This in turn strengthened the sector's resilience to economic shocks, which was evident in the banks preparedness for the initial impact of the COVID-19 pandemic.

The sector's liquidity risk outlook was assessed as stable in the short to medium-term, while the outlook was assessed as negative in the longer term if the pandemic continues for a longer period.

3.2.4 *Earnings*

The banking sector generated revenue of $110.2M during the 2019/20 financial year, an increase of 1.4% when compared to the previous period. This performance contributed to a five-year revenue growth rate of 6.8%; and for FYE 2019/2020, a profit margin of 47.6% ($52.5M), a return on assets of 2.4%, a return on equity of 16.6%, and with the increase in non-interest expenses, an efficiency ratio[8] of 43.3%.



The growth in revenue was reflected mainly

7 Liquid Asset Ratio – High Quality Liquid Assets (as is defined in the Commission's Guideline on liquidity Requirements for Banks in the Turks and Caicos Islands) as a percentage of deposit liabilities (customers' deposits and balances due to financial institutions).

8 Non-interest expenses as a percentage of total income, measuring the sector's cost management relative to revenue generated.

in an increase in income from investments, up 83.3% ($1.7M); other income increased 4.9% ($1.3M); and interest from placements grew by 2.1% ($438K). The sector's main revenue source, interest on loans, declined by 3.0% ($1.8M) to $58.7M, and accounted for 53.3% of the sector's revenue. The fall in the sector's interest income from lending was mainly due to one bank whose loan portfolio contracted over the period.

Total expenses in the banking sector declined by 1.6% ($950K) during the review period, due to a 24.8% ($3.3M) contraction in interest expenses, partly offset by a 5.1% ($2.3M) increase in non-interest expenses. The reduction in interest expenses was reflected in all categories of interest expense - deposits, borrowings, other financial liabilities. However, the main contributor to the decline was due to a significant reduction in borrowed funds by one bank – interest in this category declined by $1.8M relative to the previous financial year. Additionally, during the year under review, customers deposits declined, leading to the reduced interest expense on deposits; however, it rebounded in the final quarter of the financial year above the previous year's level. Interest charged[9] on these new deposits will be reflected in the coming year's accounts.

3.3 Trust Sector[10]

The trust sector's on balance sheet assets as at 31st December 2019 amounted to $4.5M, an increase of 3.0% when compared to the contraction of 46.1% during the previous year. Revenue, mainly earned from services offered, totalled $7.4M up 2.4% ($173KM), contributing to a 23.7% increase in profit to $2.6M, which correlated with the growth in value of assets under management. On average the trust sector earned 1% of the value of assets managed.

As illustrated in Charts 5 and 6, the trust sector's profitability is not normally correlated with its balance sheet position, due to the service nature of the trust business; accordingly, despite on-balance assets reducing, earnings trended upwards. Assets in the sector were heavily concentrated in cash and cash equivalent and accounts receivables available to facilitate clients' transactions and accounting for services rendered on credit.

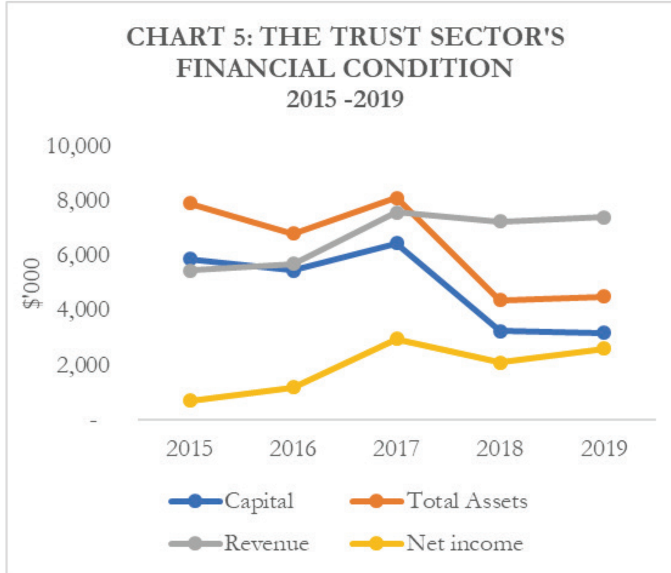


CHART 5: THE TRUST SECTOR'S FINANCIAL CONDITION 2015 -2019

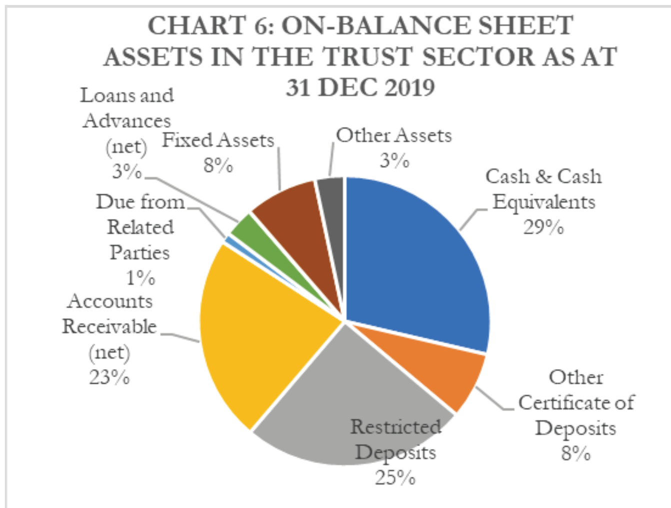


CHART 6: ON-BALANCE SHEET ASSETS IN THE TRUST SECTOR AS AT 31 DEC 2019

Despite concerns about a shrinking trust sector, some licensees catering to a niche market were able to improve operational efficiency and profitability. As a result, the value of assets under management grew by 10% to $725M as at 31st December 2019, representing 697 accounts. However, not all trust companies contributed to the sector's growth.

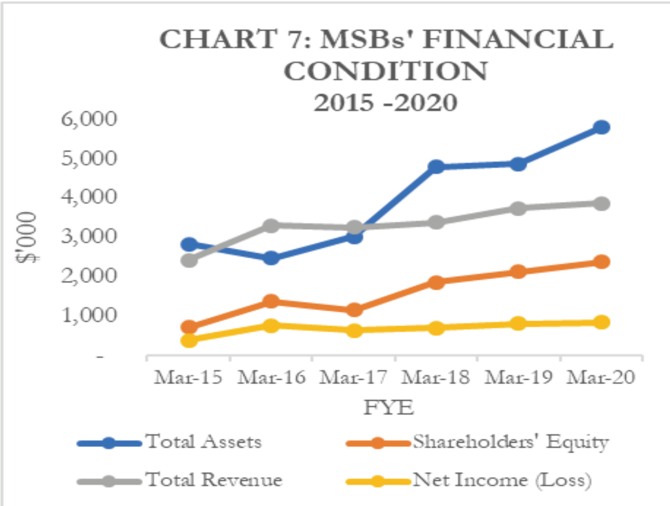
3.4 Money Services Businesses (MSBs)

The MSB sector continued to grow, adding

9 For information on interest rates and fee charged in the banking system, please visit the Commission's website: https://tcifsc.tc/bank-rates-and-charges/

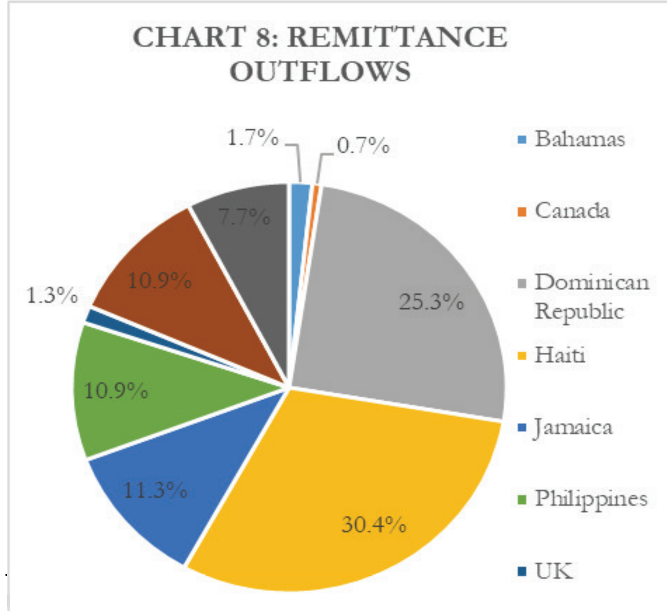
10 The following analysis on the trust sector represents the financial position of the sector as at December 2019 relative to December 2018, as the reporting structure does not provide for information as at March 2020. Additionally, the consolidated information does not include the financial data on one licensed entity.

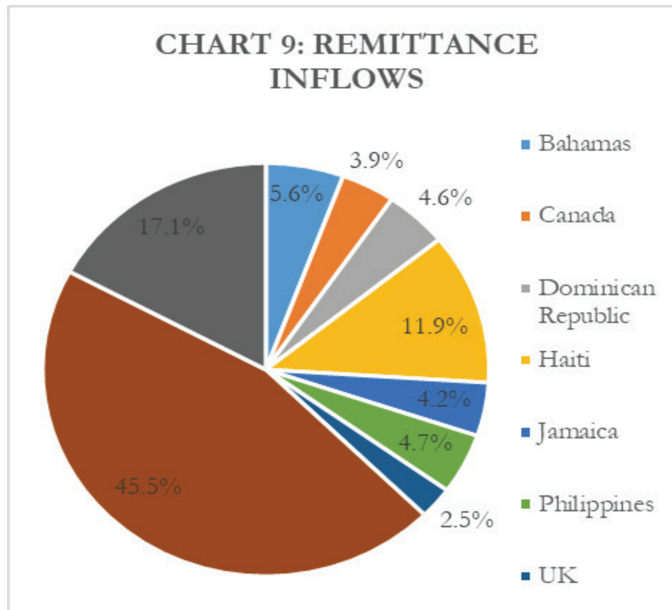
a new entrant[11] and enhancing its products, services, and operational efficiencies. The sector expanded over the last five years, except for a decline in earnings in the 2016/17 financial year, as illustrated in Chart 7.



Total assets grew 19.1% ($930K). Revenue continued its upward trajectory, up 3.0% and resulted in a 3.3% ($26.3K) increase in profit, despite increasing expenses. While the growth in the sector's asset base was mainly due to the new entrant, there were increases across the sector from all MSBs, ranging from 8.5% to 13.4%. The sector's profitable performance led to shareholders' value following the same upward trend as earnings, except for one licensee which had a contraction in shareholders' value and earnings trend, contrary to the sector's performance.

Total funds transmitted amounted to $136.5M, relatively unchanged when compared to the previous financial year; outflows accounted for 94.2% ($128.6M) and inflows 5.8% ($7.9M). Haiti and the Dominican Republic continued to be the main recipients of outbound remittances, comprising 55.6% ($71.5M) of the total outflows, relative to $74.1M remitted the previous period. The United States of America contributed the largest portion of the inflows to the TCI, 45.5% ($3.6M). Charts 8 and 9 show the percentages of remittance inflows and outflows by countries.





3.5 The Year Ahead

For the financial year under review, the sectors were not impacted by the pandemic even though it influenced some of the actions taken with respect to contingency planning in preparation of the pandemic. However, it is anticipated that as the duration of the pandemic continues, the effects will be reflected in the asset quality, liquidity, revenue, and capital levels for the sectors. Any economic hardship caused by the pandemic will have a knock-on effect on deposit levels, loan repayments and the demand for certain financial services and products. As a result, the department has adjusted its workplan to closely monitor performance in the sectors, with enhanced monitoring of capital, liquidity, and loan quality.

11 NCS ePayment Services.

3.6 Summary Select Financial Data

Select data for the banking sector relating to capital adequacy, asset quality, liquidity, and earnings, and for the money services business and the trust sectors for the 2019/20 financial year are set out in Table 1.

FINANCIAL DATA				
Description	Mar-19	Mar-20	Change	
	$ 000	$ 000	$ 000	%
BANKING SECTOR				
Capital Adequacy:				
Qualifying Capital*	308,957	331,610	22,653	7.3
Risk weighted Assets	1,168,295	1,093,065	-75,230	-6.4
Capital Adequacy Ratio (%)	26.4%	30.3%		
Asset Quality:				
Gross Assets*	2,342,098	2,165,641	-176,457	-7.5
Assets (net)*	2,316,068	2,139,542	-176,526	-7.6
Loans and advances (Gross)	858,780	867,258	8,478	1.0
Investments	72,145	83,598	11,453	15.9
Placements*	1,341,444	1,125,819	-215,625	-16.1
Non-performing Loans (NPLs)	49,882	46,076	-3,806	-7.6
Provisions for loan losses (PLLs)	26,030	26,099	69	0.3
NPLs/TL	5.8%	5.3%		
PLLSs/NPLs	52.2%	56.6%		
Liquidity:				
Liquid Assets	1,305,383	1,161,354	-144,029	-11.0
Customers Deposits	1,419,508	1,485,329	65,821	4.6
Due to other Financial Institutions	567,712	289,389	-278,323	-49.0
Liquid Asset Ratio (%)	65.7%	65.4%		
Earnings:				
Gross income	108,624	110,160	1,536	1.4
Net Profit	50,018	52,503	2,485	5.0
Interest Income	83,010	83,292	282	0.3
Expenses	58,606	57,657	-949	-1.6
Return on Assets (%)	2.2%	2.4%		
Return on Equity (%)	17.7%	16.6%		
MONEY SERVICES BUSINESS SECTOR				
Total Assets	4,869	5,799	930	19.1
Net Income	804	830	26	3.2
Outflows	128,962	128,605	-357	-0.3
Inflows	7,644	7,940	296	3.9
Return on Assets (%)	16.6%	15.6%		
Return on Equity (%)	40.3%	36.8%		
Description	**Dec-18**	**Dec-19**	**Change**	**Change**
	$ 000	**$ 000**	**$ 000**	**%**
TRUST SECTOR				
Total Assets	4,371	4,503	132	3.0
Cash & Cash Equivalents	1,310	1,291	-19	-1.5
Net Income*	2,110	2,610	500	23.7
Assets Under Management	659,603	724,991	65,388	9.9
*Indicates previous period data was revised.				

Table 1: Summary of Statistics

4.0 INSURANCE DEPARTMENT REPORT

4.1 Overview and General Discussion

The Turks and Caicos Islands have two categories of insurers: i) international insurers that are only authorised to write non-TCI risk, and ii) domestic insurers that can write both local and foreign risk. Given the structure of the sector, the Insurance Department has two units: i) the International Insurance Unit (IIU), which operates from Grand Turk, and ii) the Domestic Insurance Unit (DIU), which operates from Providenciales.

As at 31st March 2020, the department regulated 8,119 (7,835 in 2019) licensees. As can be seen from Table 2, the insurance sector was dominated, in number, by international insurers, primarily Producer Owned Reinsurance Companies (PORCs[12]).

As at 31st March 2020, there were 8,071 international insurers operating from the TCI, a 3.6% increase when compared to the previous period. Growth in the sector was tempered by the cancellation and/or surrender of 228 PORC and four non-domestic insurance licences. Table 3 shows the movement in the number of licensees in the insurance sector, broken down by class and type in respect of licensing activity for the year under review.

The number of insurance intermediaries in the TCI increased to 29 during the review period, with the licensing of three insurance agents. Table 2 provides details on changes in the number of licensees during the review period.

4.2 Regulatory Activities during the Year

During the year, the department issued a Regulatory Advisory on documents to be submitted to confirm/verify the address of relevant persons involved with insurance licensees and applicants. Additionally, the Commission, through the department, established internal procedures for processing applications involving officers and owners with convictions.

As part of its efforts to expand the use of technology, the department worked with the IT Department to establish the specifications for an electronic database to receive, store, process, analyse and disseminate information relating to the regulation of the insurance sector. The specifications provide for the database to be accessible by clients and to be linked to other

Licenses	2020	2019	2018	2017	2016
Reinsurers (PORCs)					
Credit Life	7,222	6,967	6,725	6,404	6,391
Non- Credit Life	775	749	609	617	538
Captives	67	67	69	65	66
Insurance Managers	7	7	7	7	7
International Insurance Licensees	**8,071**	**7,790**	**7,410**	**7,093**	**7,002**
Domestic Insurers	19	19	19	19	19
Insurance Brokers	11	11	11	11	13
Insurance Agents	10	7	5	5	5
Insurance Sub-Agents	8	8	10	10	8
Domestic Insurance Licensees	**48**	**45**	**45**	**45**	**45**
Total Insurance Licensees	**8,119**	**7,835**	**7,455**	**7,138**	**7,047**

Table 2: Insurance Licensees

12 PORCs are small reinsurance companies that reinsure specialised related risk.

Particulars	Total	Credit Life	Non-Credit Life	Non-Domestic Insurers
New licenses	513	459	50	4
Surrenders/Cancellations	(232)	(204)	(24)	(4)
Net Movement during the year	281	255	26	0

Table 3: Movement in the number of licensees in the International Sector

databases in use at the Commission. The design specifications were supported by a request for proposal to develop this database for the Commission.

The department continued to put measures in place to reduce the processing time for PORC applications. To allow for dedicated focus on the licensing and regulation of PORCs, effective January 2020, all other insurance regulatory matters were transferred from Grand Turk to Providenciales for the attention of the DIU.

On the international corporation front, the department participated in various surveys during the review period. The surveys were conducted by i) AM Best on the insurance marketplace in the Caribbean; ii) Caribbean Association of Insurance Regulators on the implementation of IFRS 17 in the Caribbean; and iii) the Group of International Insurance Centre Supervisors on supervision of insurance managers.

4.2.1 *Domestic Insurance Unit (DIU)*

Two out of the 19 domestic insurers were incorporated in TCI, and two of the 17 branches of insurer had established physical presence in the TCI; the remaining branches operated through assigned licensed brokers or agents. Consequently, the management and control of most of the insurers operating in the TCI were conducted outside of the jurisdiction. Taking the uniqueness of the market into consideration, the regulatory framework focuses on strong collaboration with the foreign home supervisors. As part of its prudential supervision, the department ensured that insurers were in compliance with the requirements of Section 8(3) of the Insurance Ordinance, which requires that sufficient funds, in the form of cash and or investments, are held in the TCI to match current liabilities, life insurance funds and annuity funds. Additionally, insurers were required to maintain the minimum solvency margin as a branch and as a legal entity. Based on the department's assessment of information submitted as at 31st December 2019, four domestic insurers were assigned a moderate risk rating; all other domestic insurers companies were rated as low risk. Areas of non-compliance identified during the off-site risk assessment were being addressed.

Table 4 provides a synopsis of the major regulatory activities carried out over the last five review periods.

The department carried out an assessment of the audited financial statements submitted by brokers for the 2018 financial year; the consolidated data was posted on the Commission's website. During the 2018 financial year, brokers' aggregate cash and deposit holdings declined by 45.7% to $8.4M, influencing a 71.5% decline in accounts payable to $4.1M. The reductions in cash and accounts payable were due to the remittance of claims payments associated with the passage of Hurricane Irma.

Activity	2019/20	2018/19	2017/18	2016/17	2015/16
Licenses Issued	4	2	1	2	2
Onsite Examinations	0	1	7	4	4
Revocation/ Surrender of licenses	1	2	1	2	2
Meetings & Discussions Held	8	7	6	6	24

Table 4: Regulatory Activities: Domestic Insurance Sector

The regulatory framework was further enhanced by continued engagement with other insurance regulators. The Commission participated in College of Regulators meetings with the Central Bank of Trinidad and Tobago. The meetings were held to discuss insurance companies operating in the TCI, whose parent companies are incorporated in Trinidad and Tobago.

4.2.2 *International Insurance*

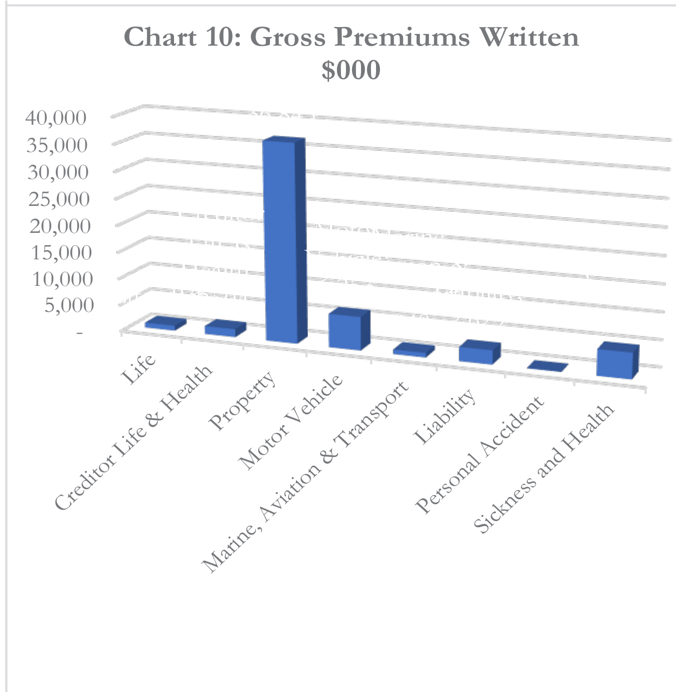
During the review period, the Commission, through the department, continued its active engagement with the international insurance sector. A key aspect of this engagement was the work of the PORC Working Group, which continued to collaborate on issues affecting the PORC sector. Three PORC Working Group meetings were held during the period; the major issues discussed were a proposal for a single licence for PORCs and amendments to section 9 of the Insurance Ordinance to ensure compliance with the Ordinance. Additionally, the Commission hosted a meeting in July 2019 with members of the local PORC industry and their US intermediaries to discuss issues affecting the PORC industry and emerging risk, locally and internationally.

The international insurance industry is significantly affected by factors external to the TCI, such as changes in legislation and market conditions in the United States of America. While the department was not aware of any foreign legislative or regulatory changes that might impact the attractiveness of the TCI as a domicile for international insurers, it continued to closely monitor the impact of COVID-19 on market conditions in the USA which might have a negative impact on the international insurance sector.

To assist with the monitoring of insurance business carried on in and from the TCI, the department introduced an annual return for insurance managers to provide the Commission with additional information. The new return came into effect on 1st January 2020, with reports to be submitted by 31st March each year. The information received will allow the department to assess the degree of risk in the international insurers operations, and determine the allocation of supervisory resources based on the level of risk identified.

4.3 Financial and Statistical Review of the Domestic Insurance Sector

The domestic insurance sector comprised insurers (locally incorporated and branches of foreign insurance companies), insurance brokers, insurance agents and insurance sub-agents. A significant percentage of the domestic insurance business was written through insurance brokers. As shown in Chart 10, property continued to be the dominant class (by value) of business written in the TCI. However, it should be noted that property was significantly reinsured.



Gross premiums written by the domestic sector during the 2019/2020 financial year decreased by 6.0% to $53.8M when compared to the prior period. This contraction was reflected primarily in a decrease in property insurance, as a major property insurer ceased underwriting risk in the TCI as it prepared to exit the TCI market. Life insurance business in the TCI was very small, with $2.4M in premiums collected during the period

There was a significant decline in select balance sheet indicators compared to the previous year. This represents a further contraction of the market to its pre-Hurricane Irma and Maria 2017 level. Insurers continued to settle insured losses

Categories	31 March 2020 ($M)	31 March 2019 ($M)	31 March 2018 ($M)
Total insurance liabilities	36.1	53.1	151.1
Reinsurers' share of insurance liabilities	23.2	39.3	141.9

Table 5: General Insurance

arising from hurricanes from two years ago. The reduction in outstanding claims, coupled with no significant losses during the year under review, contributed to the 41% reduction in receivables from reinsurers. A snapshot of insurance liabilities for the general insurance sub-sector since the passage of the hurricanes can be seen in table 5.

Chart 11 shows that, if the effects of the hurricanes were ignored, the growth in the domestic insurance sector compared favourably to 2017 and 2016. Chart 12 shows that cash and deposits, the largest asset category, amounted to $32.8 M and represented 38.2% of total assets.

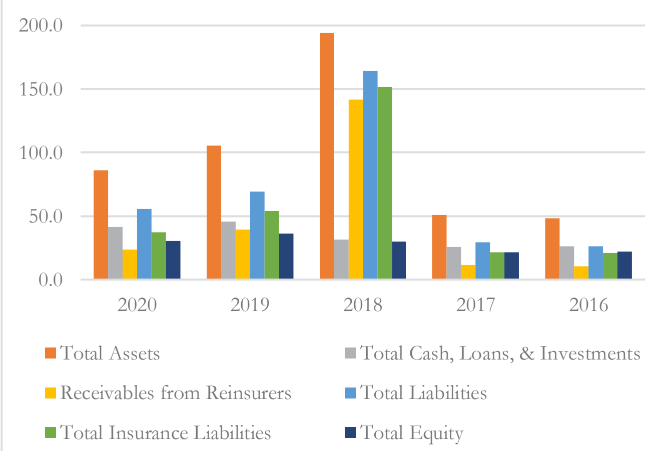


Chart 11: Select Insurance Indicators Millions (USD)

4.4 Legislative Agenda

The department continued to work with the Attorney General's Chambers to develop regulations in support of the Domestic Insurance Ordinance; regulations required for the Ordinance to become operational. The Ordinance is expected to establish new, and strengthen existing, protections for policyholders, and generally enhance the regulation of domestic insurance business in the TCI. The coming-into-effect of the Domestic Insurance Ordinance will repeal certain sections of the current Insurance Ordinance. The current Insurance Ordinance (with repealed sections) will provide for the regulation of the international insurance sector until an International Insurance Ordinance is passed.

A domestic insurance working group was formed to facilitate discussions on the requirements for brokers and agents. This was aimed at regularising the use of brokers and agents in the Islands, which would result in brokers being able to purchase insurance from all licensed insurers, instead of the current practice of brokers acting as agents for specific insurers. The collaboration gave rise to a proposed amendment to the Insurance Ordinance to provide for two

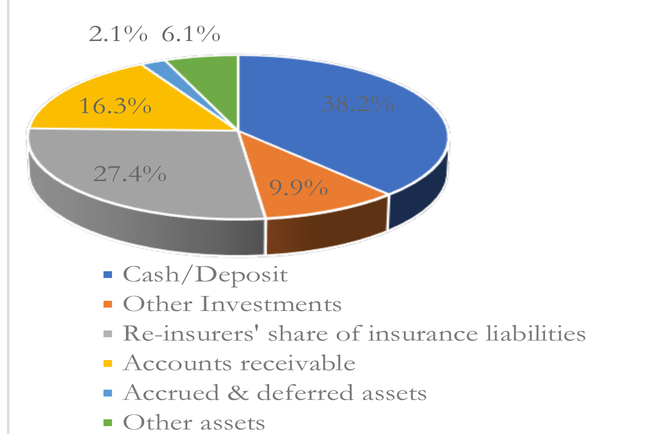


Chart 12: Insurance sector assets as at 31 Ja 2020

categories of insurance agents: an agent with only one principal, and an agent with multiple principals.

4.5 CFATF Mutual Evaluation

The major relevant finding of the CFATF Mutual Evaluation of the TCI, published in January 2020, was that the jurisdiction's medium-low risk rating for the international insurers was not consistent with the general level of risk associated with TCI as an international financial centre, and the fact that the majority of insurance companies involved foreign clients.

The report recommended that a risk assessment be conducted on the international insurance sector to classify its risk and inform the regulation of the section. This risk assessment will be conducted during the next financial year.

4.6 Looking Ahead

4.6.1 *Regulatory Activities for 2020/2021*

In addition to normal regulatory activities, the following programs will be implemented during the 2020/21 period:

i) Establish programs and workflows to allow for the electronic acceptance and processing of insurance and other regulatory applications.

ii) Participate in a risk assessment of the international insurance sector.

iii) Publish aggregate financial statistics for the sector from the revised annual compliance form for international insurers. This will be the first time that statistics will be published for the international insurance sector.

iv) The Commission, through the department, will seek to expand the classes of insurers and insurance intermediaries that are licensed to operate in and/or from the TCI. This amendment will allow for a more nuanced regulatory framework based on the risk profile of the licensee.

v) The department will commence Phase II of the Risk Based Supervision framework. This will include a second pilot project with two general insurers.

4.6.2 *COVID-19 Implications for the Sector*

While it is difficult to determine at this time the full impact of COVID-19 on insurers, it is anticipated that the impact will be reflected in investment losses, and to a lesser extent in increases in health claims. However, any increases in health claims may be partially offset by the postponement of non-urgent medical procedures. It is also envisioned that there may be a general reduction in claims arising from motor vehicle accidents. However, of concern is a potential increase in delinquency in the payment of premiums and/or cancellations of insurance policies due to a contraction in economic activities.

The Commission continued to engage with the sector to gauge the impact COVID-19 on business continuity. The Commission provided strong support for the passage of legislation to allow for annual insurance fees to be paid on or before 30th June 2020, instead of the statutorily due date of 31st March. Approval was also granted to insurers, on need basis, to file audited financial statements beyond the additional three months extension granted.

5.0 COMPANY MANAGERS AND INVESTMENTS DEPARTMENT REPORT

5.1 Overview

The Company Managers and Investment Department, encouraged by the positive feedback received on its work during the CFATF Mutual Evaluation on-site visit in 2018, embraced the opportunity to continue to enthusiastically support the Commission's mandate to effectively supervise and monitor relevant licensees for improved risk management and regulatory compliance.

The supervisory approach included an aggressive on-site examination compliance program to determine the extent to which licensees understood the risks faced by their businesses/sectors and the nature and extent of required regulatory guidance.

5.1.1 *Company Managers*

Nine company managers (25%) were examined during the reporting period. The findings of these onsite examinations indicated general weakness in licensees' risk management frameworks, notably the conduct of effective business risk assessments. In response to these findings, and as part of the department's work program, guidance for licensees on preparation of business risk assessments was commissioned. This work was well advanced at the end of the financial year under review.

At March 2019, while only 31% of company managers/agents qualified for the renewal of their 2019/2020 licenses without conditions, this compared favourably to the 12% as at March 2018. The number of renewals improved during the period, however, the low numbers at renewal date (1st April 2019) underscored an ongoing concern regarding the timeliness of regulatory reporting.

5.1.2 *Investment Business*

The number of investment businesses increased with the addition of one licensed mutual fund operator, even as the activity of certain exempt mutual funds appeared to be slowing. Local banks continued to account for 50% of sector participants. Investment businesses were generally responsive to the Commission and this was also evident in the timeliness of the submission of their regulatory reporting.

There was renewed effort to advance the proposed amendment to the Investment Dealer (Licensing) Ordinance to establish a separate licensing and regulatory regime for Investment Advisers, which are considered to have a different risk profile from Investment Dealers.

As at 31st March 2020, the total value of investment under management was reported as US$1,072M, representing a 4.0% ($43.0M) decrease when compared to the previous year. The lower portfolio values were the result of withdrawal of assets due to COVID-19. Investment dealings and mutual funds' portfolios decreased by 4.0% ($38.0M) and 2.0% ($5.0M) respectively over the period.

5.1.3 *Licensees*

The number of licensees regulated by the department increased by two to 55 during the review period. This reflected the departure of one company manager and the addition of one mutual fund (MF), one MF administrators, and one fund manager, see table 6.

5.2 Risk Management

Consistent with the Commission's supervisory approach, company managers and investment businesses were required to demonstrate an understanding of their inherent and residual risks through the implementation of appropriately-developed business risk assessments and risk-aligned internal controls, processes and procedures, designed to mitigate and manage identified risks.

A growing number of licensees have outsourced

Type of Licensee	Licensees at 31/3/2019	Licensees at 31/3/2020
Company Management/Agent	36	35
Mutual Funds (MF)	4	5
Exempt Mutual Funds	4	4
MF Administrators	3	4
Investment Dealers/Advisers/Fund Manager	6	7
Total	**53**	**55**

Table 6 Licensees by Type

their AML/CFT compliance functions to allow for a more dedicated focus on remediating their AML/CFT risk. The Commission has identified, through its on and off-site reviews, that lack of staff training has impacted the effectiveness of licensees' risk management framework; licensees are encouraged to ensure that relevant staff receive appropriate AML/CFT training.

The Commission's Fit and Proper Guidelines were updated in January 2020 to provide greater details on the criteria that would be applied when considering the fitness (technical competence) and propriety (reputation) of persons who are licensed, or wish to be licensed, by the Commission.

5.3 Regulatory Activities

During the review period, two regulatory meetings were held with licensees to clarify the Commission's expectations for satisfying certain regulatory requirements. In response to directives issued as part of on-site examinations, the Commission continued ongoing engagements with licensees as they worked through their individual remediation action plans.

5.4 Enforcement Actions

The findings in both the on-site and off-site examinations resulted in two licensees being issued Notices of Intention to Take Enforcement Action (NIDA) for breaches of the conditions of their licenses.

5.5 Legislative Agenda

The proposed amendments to the Investment Dealer legislation will remain part of the Commission's legislative agenda for 2020/2021. The Ordinance provides for the licensing and supervision of Investment Dealers and Investment Advisers but there is no distinction in the licensing and regulatory requirements, which the industry argues is inequitable. The proposed amendment seeks to address this.

5.6 2020/2021 Workplan

The 2020/21 workplan includes the development of supervisory guidance for the investment business sector, including a prudential regulatory framework for investment dealers. The guidance will take account of the Commission's obligations as a signatory to: (a) the International Organisation of Securities Commissions' (IOSCO) Memorandum of Understanding; and (b) consider the Financial Action Task Force's (FATF) guidance on the AML/CFT risk-based approach for the Securities Sector, as may be appropriate to participants in this sector.

It is anticipated that, as part of this new supervisory approach, reporting from the sector would be significantly enhanced.

6.0 AML SUPERVISION DEPARTMENT REPORT

6.1 Overview

The AML Supervision Department is responsible for the regulation of risks connected to money laundering, and the financing of terrorism and weapons of mass destruction. Its regulatory/ supervisory mandate extends to all financial institutions, corporate service providers[13], non-profit organisations, and designated non-financial businesses and professionals. Its operations are guided by a national legislative framework[14] which generally seeks to establish a risk-based approach (RBA) to risk management by requiring relevant persons – licensees and registrants – to prepare documented risk assessments on their operations and that of the entities they represent.

6.2 CFATF's IV Round Mutual Evaluation

The TCI is a member of the Caribbean Financial Action Task Force (CFATF), an organisation of 25 states in the Caribbean, Central and South America, which have agreed to implement common counter-measures to address money laundering and terrorist financing. The CFATF's Mutual Evaluation Report (MER) on the TCI was published in January 2020. This was a report on the TCI's compliance with the FATF Recommendations. The MER summarised TCI's assessment ratings in two categories:

a) Technical compliance with the FATF 40 Recommendations, which principally assessed the relevant legal and institutional frameworks in the TCI, and the powers and procedures of the competent authorities in implementing the technical requirements of the recommendations. The TCI was rated Compliant with 15 (ie met standards) recommendations, Largely Compliant with nine (ie minor shortcomings), and Partially Compliant with 16 (ie moderate shortcomings.)

b) Effectiveness of the implementation of the FATF Recommendations and whether the TCI's legal and institutional framework was producing expected results. Of the 11 Immediate Outcomes, six were rated a Moderate level of effectiveness and five were rated a Low level of effectiveness.

The Commission and the department have designed their respective work programs over the next three years around the findings of the CFATF assessment. The department will be applying the principles of risk-based supervision in the re-assessment of the ML/TF risks of each of the three groups of entities it regulates or supervises. This includes updating registrants' files to ensure that more accurate risk rates are assigned, allowing for a more targeted and effective use of department resources. More onsite examinations will also be conducted over the referenced three-year period.

6.3 Regulated and Supervised Sectors

As of 31st March 2020, the department regulated or supervised 436 entities across the following sectors, see table 7.

The registration of NPOs continues to grow at a

Sector	Responsibility	Nos	%
Company Managers	Regulator	33	8%
Company Agents	Regulator	2	1%
Designated Non-Financial Businesses and Professionals	Supervisor	169	38%
Non-Profit Organisations	Supervisor	232	53%

Table 7 Entities Regulated by the Department

13 The department assumed regulatory responsibilities for corporate service providers (company managers and agents) in January 2020.
14 Available on the Commission's website.

steady rate, with 212 registered as at 31st March 2019.

6.3.1 *Corporate Service Providers (CSPs)*

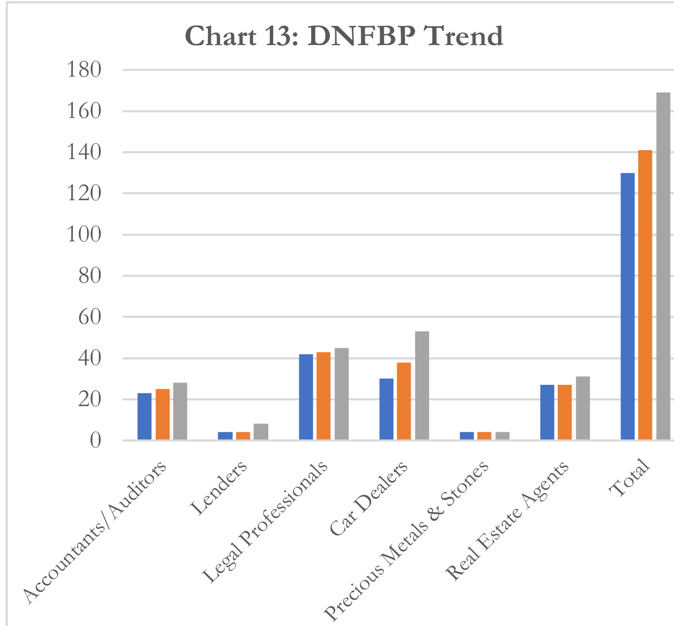
On 1st January 2020, the regulation of CSPs (Company Managers and Agents) was transferred from Company Managers and Investments Department located in Grand Turk to AMLSD in Providenciales. This strategic decision was to align the core risk of the sector (ML/TF/P) to the relevant department within the Commission, and to forge a stronger collaborative relationship between Company Managers and Agents and AMLSD.

Based on the Commission's assessment, supported by the findings of the MER, the primary regulatory concerns in this sector were the adequacy of: i) internal controls around client onboarding; ii) information on key personnel and the activities of represented clients, especially introduced business; iii) transaction monitoring and records; and iv) client risk assessments. The analysis and management of risk associated with the financing of terrorism and weapons of mass destruction continued to be under-represented in CSPs' business risk assessments.

The department commenced a critical assessment of each CSP to objectively assess the effectiveness of their risk management framework. This assessment will be aided by the conduct of additional onsite examinations and the desk-based review of the annual supervisory questionnaires. During the reporting period, onsite examinations were conducted on nine Company Managers and Agents, with one Company Management licence revoked.

6.3.2 *DNFBP Sector*

The registration of Designated Non-Financial Businesses and Professionals (DNFBP)[15] has grown steadily over the last three years (2018-2020). Car Dealerships represents the largest segment of that group, accounting for 30%, followed by Legal Professionals at 27%. Dealers in Precious Metals and Stones remains unchanged at four registered entities in total. Chart 13 above



illustrates the trend.

The department's supervisory effort with this group centred on follow-up supervisory interventions, stemming from two thematic reviews[16] of legal professionals and real estate agents. The department continued to work with these registrants to strengthen their onboarding and client monitoring risk management frameworks.

In May 2019, the department conducted a half-day seminar in Providenciales targeting High Value Dealers, focusing on the ML/TF risks in high value goods including precious metals and stones, supervisory expectations, and the mechanism for reporting suspicious activity.

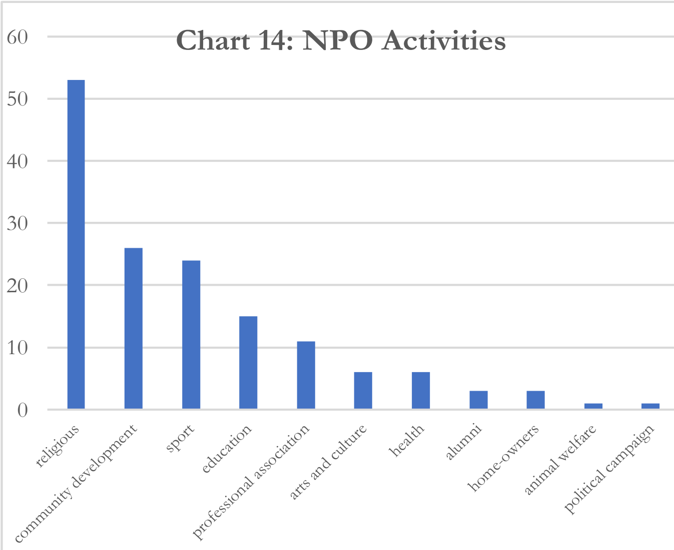
6.3.3 *Non-Profit Organizations*

The registration of Non-Profit Organisations grew at a steady rate. By the end of the reporting period, 232 NPOs were registered and under the supervision of AMLSD. Chart 14 illustrates the composition of the sector as at 31st March 2020.

In May 2019, the department held a workshop with NPO Controllers to provide awareness of risks faced by the sector, including a revised approach to determining "Fit and Proper" status of NPO Controllers.

15 This includes legal professionals (lawyers), real estate agents, accountants, dealers in high values assets (car dealers and dealers in precious metals), and microfinance.

16 A cross-sector sample-based review of a particular risk category.



In October 2019, triggered by the CFATF Mutual Evaluation Report findings, the department commenced its periodic review of information held on NPOs. The review was designed to gather updated and broader information on NPOs. The updated information will allow the Commission to, i) identify NPOs that are eligible for exemption from supervision, ii) form a more accurate assessment of the sector's ML/TF risk and vulnerabilities, and iii) guide the allocation of regulatory resources.

6.4 Supervisory Activities- Onsite Examinations

During the reporting period, AML/CFT on-site exams were carried out on nine CSPs and two Money-Service Businesses. Additionally, the department supported two AML/CFT examinations conducted by the Bank and Trust Department.

6.5 Sanctions Management

Triggered by a priority recommendation in the MER, the department developed and deployed a communication strategy to promptly disseminate sanction notices issued by the UK Office of Financial Sanctions Implementation (UK OFSI). Within 24 hours of receipt of sanction notices from Attorney General's Chambers, the notices were emailed to all regulated/supervised persons and posted on the Commission's website. During the review period, the department designed and circulated a questionnaire to all regulated/supervised persons to gauge their understanding of and response to sanctions notices. As at the end of the reporting period, data was being collated and analysed to further guide the department's sanctions notices outreach to stakeholders.

6.6 Staff Resourcing

The department continued to operate with four members of staff and a Director. The staffing needs of the department continued to be evaluated to ensure that resources were appropriately aligned to its expanding mandate.

7.0 LEGAL AND ENFORCEMENT UNIT REPORT

7.1 Overview

The Legal Unit, which continued to fulfil its mandate to support the Commission, has seen some improvement in productivity and efficiency during the review period. The catalyst for the increased productivity and efficiency was the addition to the unit of a Legal Officer in September 2019, increasing the unit's staff complement to two officers. Given the additional personnel, the unit took on further responsibilities under the Insolvency Ordinance; the unit administered the Commission's responsibilities for the Office of the Official Assignee (supervisor of Insolvency Practitioners and liquidator of last resort) under the Insolvency Ordinance.

The unit participated in the Commission's internship programme in July and August 2019 by hosting a law student who was exposed to regulatory legal issues and who assisted with drafting, research, and enforcement action.

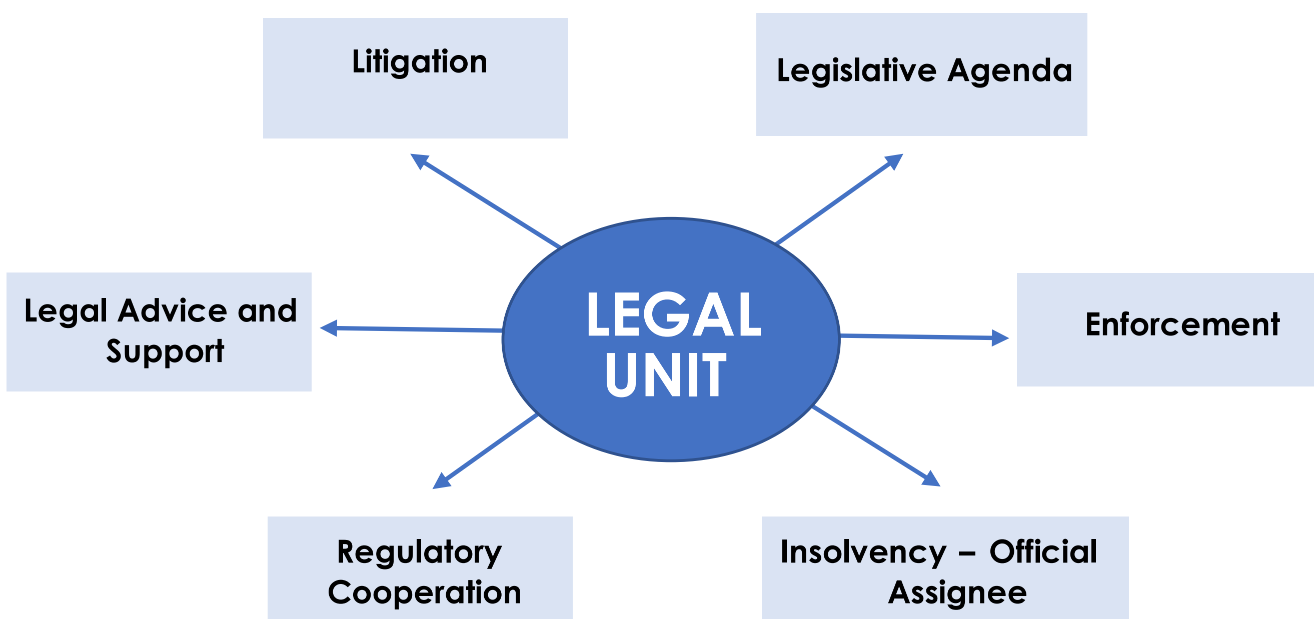
The unit remained responsible for the following general functions:

7.2 General Legal Support

The unit maintained strong and cooperative relationships with other departments within the Commission, providing them with appropriate legal support, as required. The unit also took on a quasi-compliance function for the Commission in providing legal advice, interpretation of legislation, and operating as a sounding-board on proposed policy developments to ensure that the operations of each department did not contravene any laws. In that light, the unit assisted with the development of regulatory policies, such as, updating of the Fit and Proper Guidelines and the Commission's Employee Handbook.

The unit provided legal and policy advice on issues such as the possibility of allowing TCI licensed insurers to insure cannabis (and related products, plants and machinery) in jurisdictions where it was legal. In addition, assistance was provided to departments with respect to various international standard setters' (ie CFATF, EU Global Forum, GIFICS, UK FSC) questionnaires on compliance.

The unit continued to establish itself as the Commission's legal advisor and has seen an increase in reliance upon its counsel from the



various departments, both regulatory and non-regulatory.

7.3 Legislative Agenda

The unit continued to enjoy a strong working relationship with the Attorney General's Chambers. During the review period, the following new pieces of legislation or legislative amendments came into operation.

i) ***Credit Union Ordinance*** and subsidiary legislation – new regulatory and licensing regime for Credit Unions.

ii) ***Insolvency Ordinance*** and subsidiary legislation – new supervisory and licensing regime for Insolvency Practitioners.

iii) ***Emergency Powers (COVID-19) (Financial Services) Regulations 2020*** – to facilitate an extension for the payment of licence and other fees because of COVID-19.

iv) ***Various Companies Ordinance amendments*** – which included an extension of the transition period for associations not-for-profit to continue under the ordinance, fee amendments, correction of typographical errors and the removal of reference to 'international' companies. The Companies and Limited Partnerships (Economic Substance) Ordinance repealed the concept of 'international' companies by establishing only one type of company in the TCI.

The following Bills were approved by Cabinet for drafting which would commence in the 2020/21 financial period:

i) ***International Insurance Bill*** – to improve, modernise and facilitate the licensing and regulation of international insurers and intermediaries. Drafting of the legislation should commence in the first half of the next reporting period.

ii) ***Financial Services Resolution Bill*** – to introduce a regime for the resolution of distressed financial institutions. Drafting of the legislation should commence in the first half of the next reporting period.

iii) ***Business Names Bill*** – to update and modernise the business names registration regime for relevant persons and entities.

The details with respect to other legislation worked on during the reporting period, which will continue in 2020/21, are set out in Table 8 below:

Legislation	Purpose	Status
Domestic Insurance Bill and draft Regulations	Establishment of new domestic insurance legislative regime	Updates and internal consultation completed.
Business Licensing Amendment Order	Seeking approval for the exemption of a business licence for licensed Insolvency Practitioners	In progress
Insurance Amendment Bill and draft Regulations	Amendments in respect to Section 9 (Producer Owned Reinsurance Companies - PORCs)	Updates and internal consultation completed
Investment Dealers Licensing Ordinance	Seeking approval to amend the Investment Dealers Licensing Ordinance to establish separate licensing and regulatory regimes for Investment Dealers and Investment Advisors	In progress
Insolvency (Amendment) Bill	Seeking approval for drafting amendments to rectify anomalies and lacunas 1. By clarifying that a person only acts as an insolvency practitioner when acting under the Insolvency Ordinance 2. By clarifying the definition of 'insolvency proceedings' 3. By clarifying that the Official Assignee has right of audience in the Court, whether or not a party to insolvency proceedings	In progress

Legislation	Purpose	Status
Money Transmitters Ordinance	Consideration for proposed amendments to modernise the regulatory regime for money transmitters 1. Regime for different classes of licence 2. Bring under the MTO regime modern types of money transmission, eg pre-paid cards, non-bank ATMs, mobile payments 3. Providing for a more realistic capital requirement regime for licensees. 4. Standardising reporting requirements appropriate for each type of licence which will facilitate improved regulation of the sector 5. Modernising of terms and definitions	In progress
Company Managers (Licensing) Ordinance	Consideration for proposed amendments to update and modernise the regulatory regime for company managers	In progress
Trade Marks Ordinance	Consideration for proposed amendments to ensure that the trademark rules are properly aligned with the Ordinance. Further, to review and update the Trade Marks Ordinance	In progress
Companies Ordinance	Various Fee Amendments including 1. Establishment of an avenue for associations not-for-profit to convert under the Companies Ordinance 2. Introduction of an administrative penalty for filing Beneficial Ownership information late 3. Introduction of a fee for filing paper documents with the Registry where electronic filing is available 4. Exemption for captive insurers from requiring a licensed insolvency practitioner for voluntary liquidations	In progress
Stamp Duty Ordinance	Due to the abolition of 'international' companies there is a proposed amendment to abolish 1. Stamp duty of 1% for the registration of a mortgage or debenture for companies 2. Stamp duty of 0.2% for every $100 on the value of any transferred stock	In progress

Table 8: Legislative Agenda

7.4 Enforcement Action

Table 9 summaries the enforcement actions taken in 2019/20 as compared to 2018/19.

The unit improved its efficiency in providing support to regulatory departments wishing to initiate enforcement actions. To achieve this, new internal reporting and tracking policies and procedures were introduced, such as a formal template for regulatory departments to initiate the process with the Legal Unit, and the establishment of a database to assist with tracking actions. Work on improving the database will continue in 2020/21.

7.5 Litigation

7.5.1 *Guideline for Receipt of Legal Process*

The Legal Unit established internal policy guidelines to train and guide relevant staff on the procedure for receiving and processing legal documents submitted to the Commission. That policy is designed to reduce the time of

Enforcement/Supervisory Action	Bank & Trusts	Insurance	Company Managers	Total 2019/20	Total 2018/19
Notice of Intention to take Disciplinary Action	4	28	1	**33**	**18**
Notice of Intention to Revoke	-	2	-	**2**	**-**
Notice of Revocation	-	2	1	**3**	**-**
Directive	5	16	2	**23**	**13**
Notice of Intention to Issue Public Statement	-	-	1	**1**	**-**
Public Statement	-	-	1	**1**	**-**
Penalty Notice	4	32	1	**37**	**18**
Notice to Produce	3	-	10	**13**	**1**
TOTAL	**16**	**80**	**17**	**113**	**50**

Table 9: Enforcement Actions

transit between recipient and the Legal Unit.

7.5.2 *Company Restoration*

Support was provided for the restoration of companies struck and dissolved from the Companies Register under the old Companies Ordinance. In many cases the Commission consented to the restoration and the matter was resolved by Consent Order issued by the Court, which eliminated the need for Court appearances. However, there were cases, which came to the Commission in February and March 2020, in which the Commission was not able to consent to the restoration. In those cases (as at the end of the reporting period), the Commission was awaiting further details and particulars or formal submissions from the other parties.

7.5.3 *General Litigation*

Other than the above restorations, the Commission and Registrar of Companies were named as respondents in two legal matters, both of which have been 'placed on hold' for different reasons. The first matter was a Judicial Review action against the decision of the Registrar of Companies to restore a company to the Register. The second matter involved an Insolvency Practitioner seeking guidance and clarification on issues within the Insolvency Ordinance. After meeting with the applicant, the Commission and the Attorney General's Chambers agreed that the law was not clear and undertook to amend the law for clarity. While the amendment continued to be pending, it is anticipated that it should be complete in the first quarter of the 2020/21 financial year.

7.6 Regulatory Co-operation

As part of its mandate to support and facilitate regulatory cooperation pursuant to the Commission's duty under the Financial Services Commission Ordinance, the unit provided relevant assistance to domestic and international authorities, including: the Integrity Commission, Special Investigation and Prosecution Team (SIPT), USA Securities and Exchange Commission, Ontario Securities Commission, and the Irish Garda National Economic Bureau. Table 10 sets out the regulatory co-operation during the year.

7.7 Official Assignee

During the review period, the Insolvency Ordinance and its subsidiary legislation came into

Regulatory Co-operation	
Domestic	97
International	5
TOTAL	**102**

Table 10: Regulatory Co-operation

operation. That Ordinance placed additional statutory responsibilities on the Commission which became responsible for the licensing and supervision of Insolvency Practitioners, and the Office of the Official Assignee. The Official Assignee developed a licensing regime for Insolvency Practitioners, and during the period six Insolvency Practitioner licences were issued. In addition, the Official Assignee commenced work to understand the responsibilities of the office and to develop relevant approved forms required under the Ordinance. Work on approved forms will continue in the next reporting period. It is uncertain what effects the COVID-19 shutdown may have on the local economy; however, if it lasts for an extended period, it is likely that there may be an increase in insolvency work both for Insolvency Practitioners and the Official Assignee. This may also result in an increase in the number of insolvency practitioner applications in the next period, and an even closer working relationships between the Official Assignee and Insolvency Practitioners.

7.8 Risk Management

In performing its duties, the Legal Unit was cognisant of the need to take steps to manage and mitigate the legal risks of the Commission. The unit took various administrative steps to improve management and efficiency of various aspects of its operations with a view to reducing identified legal risks.

The establishment of a new enforcement approval process, accompanied by the newly established Enforcement Database, allowed the unit to more efficiently manage enforcement actions. The new procedures provided the unit with adequate and relevant information in a consolidated format to facilitate the provision of appropriate and timely advice on enforcement actions against offending licensees.

The unit also commissioned a Co-operation Database. Together with the Commission's established co-operation policy, the unit has improved the service and response time to both domestic and overseas authorities. This has reduced the Commission's risk of not providing appropriate assistance on a timely basis.

The unit continued to mitigate the risk of providing inappropriate legal advice which may have resulted in litigation. In mitigating this risk, the unit's legal opinions were informed by legal research supported by specialist databases and, where necessary, reviews by external Legal Counsel. The unit was also able to benefit from the support and advice of the Deputy Managing Director and the Assistant Registrar III, both of whom are trained lawyers.

7.9 Secretariat

The Legal and Enforcement Consultant continued to serve the Board of Commissioners as its Secretary by providing general secretariat, governance, and legal advice as was appropriate.

7.10 COVID-19

The reporting period closed with the unprecedented shutdown of the local and international economies due to the COVID-19 pandemic. The unit took steps to continue 'operating from home' commencing late March 2020. The 'work from home' order was scheduled to continue into the next reporting period.

8.0 REGISTRY REPORT

8.1 Overview

The Registry's[17] primary functions are the registration/incorporation of companies, and the registration of trademarks, patents, limited partnerships, and business names. As at 31st March 2020, the Registry administered the following pieces of legislation:

i) Companies Ordinance 2017

ii) Limited Partnership Ordinance

iii) Trademarks Ordinance

iv) Patents Ordinance

v) Business Names (Registration) Ordinance

8.2 Companies

8.2.1 *Incorporations and Registrations*

The number of companies incorporated/ registered during the 2019/20 financial year fell to a low of 966, a contraction of 22.8% (286) when compared to the previous year. Influencing this contraction was a reduction of 210 in the number of Producer Owned Reinsurance Companies (PORCs) incorporated. While there was a decline in incorporations/ registrations, the number of companies on the register remained relatively unchanged, as the number of companies struck or pending strike off was lower than the prior year.

Table 11 provides a summary of the total number of companies[18] and partnerships as at March 2016 to March 2020.

8.2.2 *Court Restoration of Companies*

The Companies Ordinance 2017 reduced the period during which a struck or dissolved company can be restored by the Registrar from five years to one year, while extending the period during which it can be restored by the Court from five years to 20 years. The company can be restored based on an application from a member, creditor or interested party. Once restored by the Registrar or the Court, the company is deemed never to have been struck or dissolved.

During the review period, the Registry received 16 applications, one less than the previous year, for companies to be restored via the Court. Most of these applications were for companies struck over five years. All companies were restored following completion of the judicial and administrative processes.

8.2.3 *Registration of Charges*

While the former Companies Ordinance provided for the registration of charges, these provisions never came into operation

DESCRIPTION	YEAR				
Companies	**Mar-16**	**Mar-17**	**Mar-18**	**Mar-19**	**Mar-20**
Companies (other than NPC or PCC)	15,613	15,673	16,381	15,995	16,057
Protected Cells (PCC)	2	2	2	3	3
Non-profit (NPC)	119	122	129	131	139
Foreign	67	72	77	77	78
Total Companies	**15,801**	**15,869**	**16,589**	**16,206**	**16,277**
Limited Partnerships	**63**	**65**	**70**	**71**	**70**
Total Companies & Limited Partnerships	**15,864**	**15,934**	**16,659**	**16,277**	**16,347**

Table 11: Companies/Partnerships at Year End 2016-2020

17 The Registry includes the Companies, Patents, Trademarks, Business Names and Beneficial Ownership Registries.
18 Section 27 of the Companies and Limited Partnerships (Economic Substance) Ordinance, which came into force in December 2018, discontinued international companies with effect from 1st July 2019.

before the Ordinance was repealed. The relevant provisions are operational under the Companies Ordinance 2017. During the review period, 68 charges were registered, compared to four during the previous period.

8.3 Trademarks

During the review period, 459 trademarks were registered compared to 410 during the 2018/19 financial year. Registration of patents declined, moving from 16 in the previous year to 13 during the 2019/2020 financial year.

8.4 Business Names

The number of new business names registered during the year increased to 1,498 compared to 1,292 in the previous financial year.

8.5 KRegistry

During the review period, the Registry continued to expand the use of technology to improve service delivery, enhance customer experience and increase efficiency. In December 2019, the Registry began facilitating the following activities online via the KRegistry operating system:

i) Filing of Notice of First Appointment and Change of Director

ii) Filing of Notice of First Member and Change of Member

iii) Filing of Notice of Appointment of Registered Agent

iv) Filing of Notice of Change of Registered Office.

v) Application for Registration of Charges

In March 2020, the online services were expanded to include the online incorporation of companies via KRegistry.

The Registry continues to be disappointed that only 23 of the 35 Corporate Service Providers used the online system over the last two financial years.

8.6 Plans/Initiatives

The following is an update on the plans/initiatives from the last reporting period:

i) Allow Corporate Service Providers full access to all documents filed in respect of companies they represent. ***In process, access still limited in some areas***.

ii) Provide access, via the KRegistry website, to anyone wishing to authenticate any public document filed with the Registry. ***Nearing completion.***

iii) Companies Ordinance 2017: amend the Ordinance to address beneficial ownership requirements based on the FATF standards. ***Going through the legislative process***.

iv) Business Names (Registration) Ordinance: remove reference to the repealed Companies Ordinance and ensure that there are no conflicts with the Companies Ordinance 2017. ***Going through the legislative process.***

v) Limited Partnerships Ordinance: remove reference to the repealed Companies Ordinance, ensure that there are no conflicts with the Companies Ordinance 2017, and update the Ordinance to address beneficial ownership requirements in accordance with international (particularly FATF) standards. ***Going through the legislative process.***

vi) Trademark rules: issue rules based on the new Trademarks Ordinance. ***Ongoing and in process***.

The Registry anticipates completing items i) and ii) by the end of the 2020/21 financial year. However, it is difficult to estimate a time for completion of the other items which are dependent on the schedule of the relevant policy-making agencies.

In addition, the Registry plans to establish a focus group comprising the KRegistry developers, KRegistry users, and Registry staff to assist with the continued development of the online company registration platform. The Registry also intends to acquire an online platform for registration of trademarks and patents.
The Registry remains extremely grateful for the support received from registry users and staff during the review period.

9.0 INFORMATION TECHNOLOGY DEPARTMENT

9.1 Overview and General Discussions

The Information Technology (IT) Department continues to build a reliable, secure, and comprehensive technology infrastructure, while establishing and maintaining an effective operational environment for the Commission to achieve its strategic objectives. The department endeavours to learn and apply new concepts and techniques regularly to improve the services and enhance data protection and security.

9.2 IT Initiatives 2019-2020

Various initiatives were taken during the review period to improve systems and/or security of documents and data.

9.2.1 *Automating Systems*

During the year, the Commission made great strides in implementing inter-operable technologies to increase productivity and assist users. Workflows were implemented in all newly developed systems, streamlining, and automating business processes.

9.2.2 *Mail Tracking System*

In an effort to go paperless, the department developed a Mail Tracking System. This system allows all paper mail to be scanned into the system and alerts the recipient of the mail. This system will help to eliminate mail being misplaced by ensuring that it is received by the intended recipient.

9.2.3 *Department Sites*

The department developed intranet sites for departments within the Commission. The sites allow departments to:

i) Share information amongst the team
ii) Strengthen collaboration
iii) Streamline processes

9.2.4 *Leave Management System*

Work commenced on a leave management system for the HRA Department. This system will eliminate the tedious work involved in leave administration and employee follow-ups, saving time. The Leave Management System streamlines all leave request – tracking, approving, and managing the request electronically – enforcing consistency and improving transparency.

The system will be completed by the next financial year.

9.3 Databases

Given the critical role of adequate, secure, and appropriate databases for departments' needs and that of the Commission as a whole, the IT Department commenced a review of the various databases and, in some cases, started overseeing actual development work. Work was started in respect to the following databases:

i) Trademarks Database
ii) Enforcement Action Database
iii) Cooperation Database

These are expected to be completed in the next financial year.

9.4 Policies

In line with IT Governance, the department continued to build on its policies and procedures with the development of an Asset Management Policy and updating the Disaster Recovery Plan. An overall review is taking place to ensure that the IT Policies and Procedures Framework is aligned with the Commission's strategies and objectives.

9.5 IT Systems Monitoring Enhancement

A complete review was undertaken of the network infrastructure and load balancing of services to minimise disruptions and provide optimal service. To this end, a Network Monitoring Tool was implemented, which will provide prompt notification when applications go down or when performance begins to deteriorate.

With the introduction of this tool, the Commission has begun to see substantial improvement in IT service performance, security, scalability, and resource availability.

10.0 HUMAN RESOURCES AND ADMINISTRATION DEPARTMENT REPORT

10.1 Overview

During the year under review, the department undertook key initiatives relating to administration, recruitment, employee orientation, and training and development of staff, with the primary focus on staff well-being.

One of the primary goals of the department is maintaining an environment where staff can grow and achieve their full potential through programs aimed at building capacity and supporting personal development and promoting job satisfaction; all with the over-arching objective of improving productivity. The goal is to provide a workplace culture that supports and promotes a high level of employee commitment and productivity.

During the review period, an Office Manager with human resources experience joined the department's Grand Turk team. This brought the department to its full complement.

10.2 Staffing

The Commission had permanent and temporary staff across regulatory, administrative, and operational departments, and a small executive core. As at 31st March 2020, the Commission had a staff complement of 75. The regulatory departments accounted for 34% of all staff; administration, 17 %; operations, 45% and executive core, 4%.

Table 12 provides a breakdown of the Commission's staff complement by department over the last three years.

10.3 Recruitment

The department is committed to attracting and retaining a talented and diverse workforce. One key strategy to accomplish this is to identify the competencies needed currently and in the future. This involved the department coordinating closely with Heads of Department to identify their staffing needs, and managing

Departments	2018	2019	2020
AML Supervision	4	5	5
Bank and Trust	5	6	7
Company Management	3	3	0[20]
Company Registry	23	29	28
Finance	5	4	4
Human Resource & Admin	7	7	8
Information Technology	8	8	8
Insurance	6	7	9
Legal	1	1	2
Policy	1	1	1
Executive Core	2	2	3[21]
Total Staff Complement	**65**	**73**	**75**

Table 12: Staff Complement by Department

20 Responsibilities transferred to the AML Supervision Department
21 Responsible for the regulation of investment dealers

the process to balance recruitment efforts between replacements and new positions.

10.4 Training

The Commission remains a consistent advocate for coaching, training, and mentoring of employees. A wide range of external training opportunities was offered to all employees to assist in building their professional competencies, increase their job knowledge and improve their skillset to better contribute to the work of the Commission. During the period, staff were exposed to the training detailed in table 13.

In addition to external training, departments continued to provide in-house training designed to target specific areas. These trainings included FSI Connect, FSI-IASIS, Microsoft 365 and cross training of various roles within departments. The HRA department also held orientation training for new staff.

Description of Training	Departments Receiving Training
Effective Communication for Supervisors	AML Supervision
Effective Implementation of FATF Recommendation on Terrorist Financing	AML Supervision/Company Management
Risk Based Assessment	AML Supervision, Bank and Trust, Insurance, Company Management
Reducing the Negative Impact of the Loss of Correspondent Banking relationships in the Caribbean: The supervisors and Financial Institutions Role	Bank and Trust
2019 OCC FTA Problem Bank Supervision School for Foreign Banking Supervisors	Bank and Trust
International Financial Reporting Standards Training Update	Finance
Caribbean Group of Securities Regulators- Cyber Securities	Bank and Trust
Annual Conference of the Caribbean Group of Banking Supervisors	Bank and Trust
Liquidity Risk Assessment Training	Bank and Trust
CARTAC/ Bank of Jamaica Conference	Bank and Trust
International Association of Commercial Administration 43rd Annual Conference	Companies Registry
Overseas Territory Technical Group (Registration of Beneficial Ownership)	Companies Registry
Attorney General's Chambers - Decision Making and Discipline in the Public Sector	Legal; Human Resources and Administration
Human Resources International Conference	Human Resources and Administration
Public Procurement Training Program	Human Resources and Administration
Executive Leadership Training	Human Resources and Administration
Securing Windows Server2016 Training	Information Technology
Networking with Windows Server	Information Technology
SharePoint Fest – Office 365	Information Technology
Fundamentals of a windows Server Infrastructure	Information Technology
Oracle Database 12 C SQL Fundamentals	Information Technology
Capacity Building for Insurance Supervisors Leveraging Actuarial Skills	Insurance
Annual Seminar & AGM International Insurance	Insurance
Problem Bank Supervision School	Bank and Trust
Coaching and Mentoring Training	All Department (Directors/Supervisors)
Fire Safety Training	Representatives from each Department

Table 13: Training Facilitated in 2019-2020

10.5 Performance Enhancement

During the review period, the department conducted training for supervisors and managers on effective performance management. The focus of this training was on the importance of continuous evaluation of staff throughout the year; acknowledgment of staff accomplishments; review of job satisfaction; and the involvement of staff in setting goals for improved performance.

10.6 Staff Support Programme

10.6.1 *Education Assistance Programme*

In addition to Commission-initiated training for staff, as determined by their department or development plan, during the review period the Commission provided financial support to five staff members in their pursuit of staff-initiated academic and/or professional qualifications with relevance to the work of the Commission. These staff members were drawn from the IT, AML Supervision, Legal, and Human Resources and Administration Departments.

10.6.2 *Succession Plan*

The department continued to actively support the implementation of the Commission's Succession Plan with the objective of ensuring that the Commission is always adequately resourced in a changing labour market. The plan involves an understudy program which should create opportunities for advancement for talented staff.

10.6.3 *Employee Recognition Programme*

The department continued to administer the Commission's Employee Recognition Program, which was started in June 2019. The program recognises staff, nominated by their peers, for outstanding performance. Staff from the HRA and Finance Departments were recognised and rewarded during the review period. The program, which ran semi-annually, is to be expanded to quarterly.

10.6.4 *Internship Programme*

While advertising for interns in the IT Department and the Legal Unit, the Commission's internship program was only able to attract one intern in the Legal Unit in 2019. The Internship Program is open to students who have completed at least the second year Bachelor of Science (BSc) programs or its equivalence.

10.7 Community Activity

10.7.1 *Outreach*

The department continued to participate in the TCIG Annual Job Readiness Program which focused on prospective graduates at the HJ Robinson High School.

10.7.2 *Sponsors/Donations*

The Commission provided financial support to the following institutions and Non-Profit Organizations:

i) National Cancer Society: Cancer Walk and Breast Cancer Luncheon

ii) The Rugby Club for airfare to attend international competition

iii) Sponsor of valedictorian, salutatorian and second place graduate awards of the HJ Robinson High School

iv) HJ Robinson High School - donation in aid of the welfare department

v) Church of God of Prophecy – 50th anniversary celebration

vi) FCIB Walk for the Cure – Silver Sponsor

vii) TCI Community College –25th Anniversary Souvenir Booklet

11.0 FINANCE DEPARTMENT REPORT

11.1 Financial and Risk Management Systems Reviews

Having reported on the risk management system within the Commission in the prior year, the department sought to test one element of that system regarding data management. As such, a review of some procedures within the Registry was carried out during the last quarter of the review period. Coming out of that review, additional recommendations were made to enhance the management and efficiency of the database with information on companies and associated fees paid.

In relation to the important international financial reporting standards reported on in the previous period, staff in the department were provided with targeted training to better equip them to perform their duties and broaden their general knowledge. Exposure was provided in the areas of accounting for financial assets in keeping with the applicable business model under IFRS 9; accounting for revenues using the five-step approach under IFRS 15; and accounting for right of use assets under IFRS 16 (the lease standard). In addition to the technical exposure to the areas set out above, staff were exposed to the reporting process through being asked to assist with preparing the monthly financial report to management and providing explanation of variances.

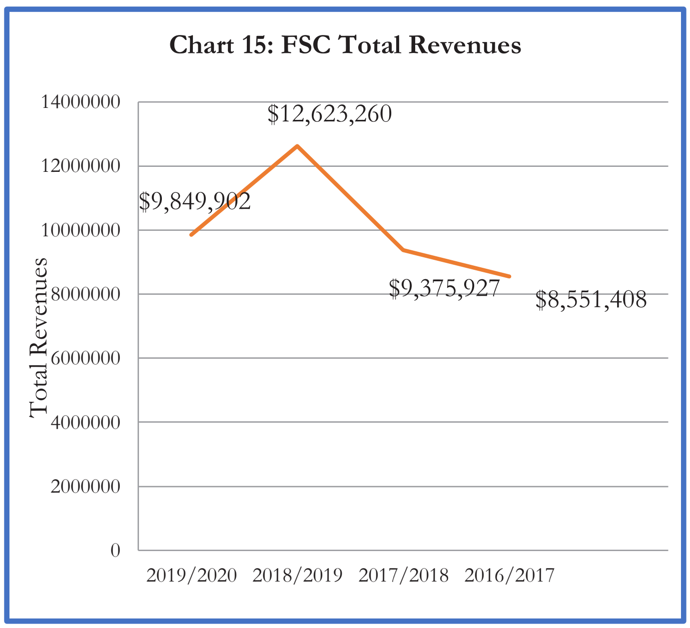
11.2 Financial Performance Review

11.2.1 *Revenue*

The Commission recorded total revenue[22] of \$9.8M for the financial year 2019/20, compared to \$12.6M for 2018/19; \$9.4M for 2017/18; and \$8.6M for 2016/17. Revenue for the current financial year declined by 22% when compared to 2018/19. This reduction was influenced by a 42% contraction in annual renewal fees in the Registry. The reduction was largely the result of a change in the filing deadline for former international companies, which moved from 31st March to 30th June. The change was enacted in September 2019. This meant that a relatively large portion of revenue came due in the subsequent financial year. This change resulted in an approximately \$2.0M reduction in the revenue base for the current reporting period. Land share transfer duty, another major revenue category, recorded a 22% reduction when compared to the prior period. As this source is unpredictable, it is difficult to determine the cause of increases or decreases.

Over the period 2016/17 to 2019/20, there was general fluctuation in the revenue, with a mostly positive upward bias in the range of 2% to 35% year over year. However, for the reasons cited above, 2019/20 broke this trend.

Chart 15 shows the trend in total revenue over the comparative period 2016/17 to 2019/20.



The data continues to show the Registry as being the largest contributor to the Commission's revenue base. For the year under review, it contributed 71% of total revenue, down from

22 Revenue from all sources, including land share transfer duty and sundry fees

80% in the prior year. This reduction was largely due to the changes in the filing dates for a category of companies.

Insurance's contribution to total revenue increased to 17.0% in the current reporting period, relative to 13% in 2018/19. This larger share of the Commission's revenue was reflective of the reduced contribution of the Registry, rather than a material increase in revenue from insurance. However, it should be noted that there is a correlation between the revenue streams of the Registry and insurance as new insurers must first be registered or incorporated with the Registry.

Banks and trusts contributed 6.0% of total revenue, up from 5% in 2018/19. The increase in contribution was due to the downward contribution from the Registry. There was a decline in bank fees when compared to the prior year. The contraction was caused by fluctuations in the asset base of the banking sector as fees are calculated as a percentage to total assets.

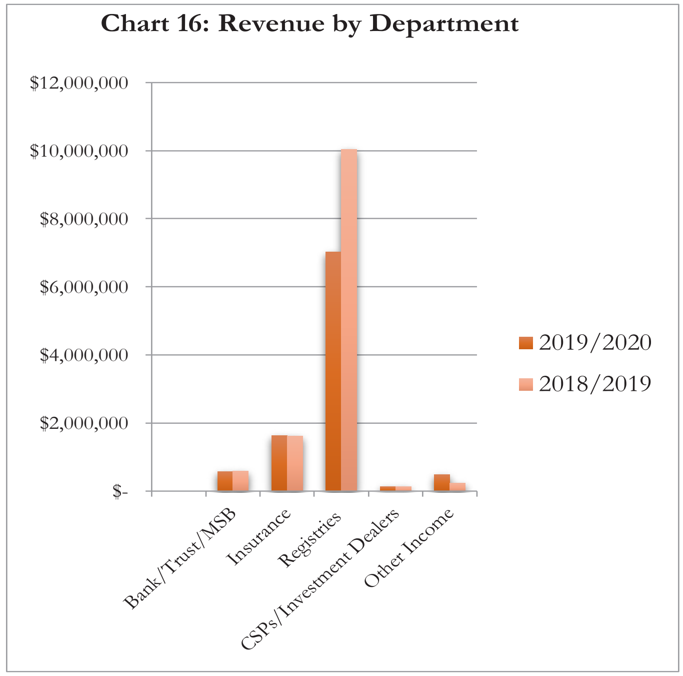
Company management contribution remained flat at 1%.

Other revenue comprised interest income, penalty fees imposed for breaches of regulatory ordinances or failure to file company returns on time, and miscellaneous fees. Penalty fees made up most of this category.

Chart 16 and Table 14 provide graphical and tabular comparison of the revenues returned by the departments.

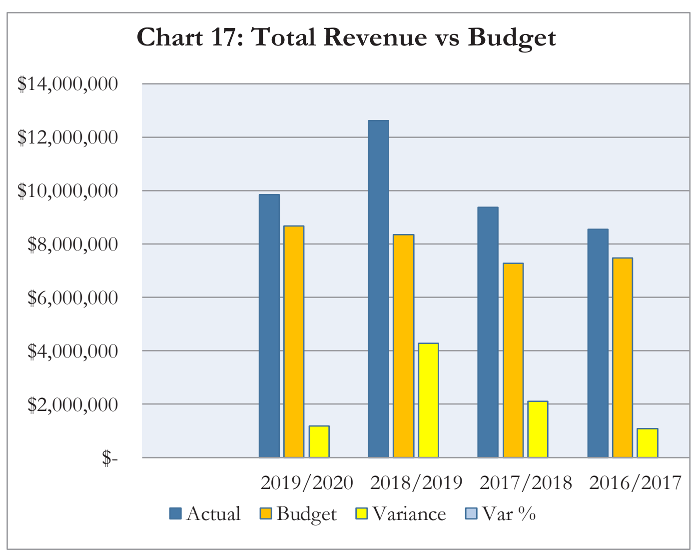
Table 14 shows that overall Registry fees contracted by 30%, due to a combination of a fall in land share transfer duty and a decline in annual filing fees, occasioned by a change in the filing requirement for the category of companies formerly classified as international companies. The banking sector's contribution declined by 2% and company managers' declined by 1%. The only core division which recorded any growth was the insurance division, a growth rate of 1%.

In absolute value terms, the Registry collected



$7.0M of the total revenue of $9.85M.

As shown in chart 17, the Commission outperformed its budget targets over the last four years. The actual performance against the budget returned a positive 14% variance for 2019/2020. This positive variance was reflected in a 112% above target performance in land share transfer duty collections, which offset the weak performance in the annual renewal fees category. The positive variances between 2019/20 to 2016/17, except for 2016/2017, were largely attributable to the overperformance from land share transfer duties. The positive variance in 2016/17 was attributable to overperformance in trademarks, business names and sundry fee collections.



Revenue by Department	2019/20 $	2018/19 $	Change Yr/Yr	% Share of Total Revenue 2019/20	% Share of Total Revenue 2018/19
Banks, Trust and Money Transmitters	578,425	589,574	-2%	6%	5%
Insurance	1,629,296	1,619,740	1%	17%	13%
Registries	7,022,392	10,045,242	-30%	71%	80%
Company Managers and Investments	136,200	136,950	-1%	1%	1%
Other Income	483,588	231,755	109%	5%	2%
Total Revenue	**9,849,902**	**12,623,260**	**-22%**	**100%**	**100%**

Table 14 Revenue by Department and Growth Rates 2017/2018 to 2018/2019

11.2.2 *Factors Influencing the Growth in Revenues*

In prior reporting periods, incorporation fees for domestic and international companies were $150 and $300, respectively. During the current reporting period, all companies were classified as *Turks and Caicos Companies* with a filing fee of $200. Further, fees in relation to annual company filings and penalties for late payments under the Companies Ordinance are now time-bound, rather than set amounts per annum.

11.2.3 *Expenditure*

Table 15 reflects key data relating to expenditure for the current reporting period and select prior periods. Total expenditure for the review period was $6M, an increase of 5% over the prior period, or 11% over the comparative 3-year period shown. The increase was driven largely by a 12% increase in staff costs over the 3-year period. The Commission had positive variance on its expenditure target of $7.195M for the year due to several vacant positions.

Staff costs increased by 8.6% over the prior period (2018/19), with a 12% increase over the 3-year period. The increase over the longer period was due to increases in salaries arising from a salary re-alignment exercise which took place in the third quarter of 2018/2019. The 5% increase in staff cost in the 2019/2020 period was due largely to the full-year effect of the increases granted part way in 2018/2019.

Professional fees declined over the 3-year period, reflecting an increased focus on leveraging internal expertise to carry out certain tasks, i.e. eliminating the use of consultants for onsite examinations. However, costs in relation to travel, communication, subscriptions and training have increased, reflecting measures to train and equip the staff, and providing them with related resources, to undertake the myriad of assignments with which the Commission is tasked. However, for the year under review, the level of training undertaken was impacted by staffing issues; only 45% of the $182,080 training budget was utilised. The level of interest from staff in educational assistance was moderate.

Select Expenditure Categories	2019/20 $	2018/19 $	2017/18 $	Change %
Staff Costs	3,772,215	3,472,631	3,381,372	12%
Professional & Consultancy Fees	15,643	57,453	195,351	-92%
Travel Costs	193,476	151,306	106,783	81%
Communication	130,847	113,116	106,253	23%
Subscriptions and Contributions	119,532	89,067	75,100	59%
Training Costs	81,861	26,875	44,629	83%
Total Expenditure	**$6,066,657**	**$5,704,283**	**$5,465,626**	**11%**

Table 15: Select Expenditure Items - Percentages are three Year Changes

11.2.4 *Assets and Liabilities, and Reserve Funds*

Total assets, net of fixed and intangible assets, increased by 14% during the period, up from 9% in the prior period and amounting to $15.4M and $13.5M, respectively. This was reflected largely in an increase in term deposits from net surplus generated during the year.

Cash, cash equivalents and other interest-bearing assets accounted for 94% of total specified assets[23], down from 95% in the previous period. Investment holdings continued to reflect a mix of local certificates of deposit and foreign treasury bonds of the highest ratings. Treasury bonds accounted for 11% of investments, down from 12% in the prior period. This reflected the Commission's strategy to invest in shorter dated instruments (cash and cash equivalents) as opposed to longer dated treasury bonds.

Other than cash and cash equivalents[24], trade receivable constituted the other major financial asset of the Commission. During the review year, there was a 61% increase in receivables, due largely to non-payment of licensee fee amounts specified to be paid on or before the financial year end. This might have been caused in part by the lockdown, which occurred towards the end of the financial year. Measures will have to be considered to enhance the management of receivables. In keeping with IFRS 9, expected credit losses were recognized and the value of receivables reported is net of those credit losses.

The Commission's liabilities were largely in respect of amounts due to the Turks and Caicos Islands Government (TCIG), and accrued expenses (primarily owed to suppliers, accrued employment benefits and statutory deductions). The Commission had an operating surplus of $3.8M, of which $3.4M was transferrable to TCIG. At the end of the financial year $1.76M was due to TCIG.

The Reserve Fund established by Section 17(3) of the FSC Ordinance stood at $7.2M at the end of the reporting period. There were other reserves amounts, especially those established to address capital expenditure projects. Those projects had not yet gotten underway.

11.3 Looking Ahead

If the COVID-19 pandemic continues throughout the next financial year, it is likely to have a negative impact on the Commission's revenue. The pandemic is likely to affect the operation of local small businesses which operate through business names; business names registration represents 2% of total revenue. The other revenue source is largely non-domestic companies with generally broader operations, and as such, those entities may be more resilient to the crisis and would have a higher probability of retaining their operations. Further, our assessment is that licensed entities are more inclined to continue to pay their fees as they need a licence to operate. A significant portion of the entities are licensed; as such, the impact on revenue is expected to be contained.

23 Total assets excluding fixed and intangible assets
24 Term deposits and held to maturity investments

SECTION B

STATEMENT ON INTERNAL CONTROL AND CONSOLIDATED FINANCIAL STATEMENTS

Financial Services Commission
Board of Commissioners Statement on Internal Control 2019/2020
Issued Pursuant to Regulation 145(5) of the Public Finance Management Regulations 2012

Scope and Responsibility

The Board of Commissioners is responsible for oversight of the Commission and for ensuring that it has a strong risk management and internal control function.

The Board has established an Audit and Risk Management Committee (ARMC). This Committee carries out certain oversight functions and provides guidance to the Board on areas which include: the internal control environment; risk management framework (systems and controls); compliance with statutory financial obligations and relevant board-approved policies; the annual financial statements and annual report; and review of the performance of the external auditors and management of the work of the internal auditor.

The Managing Director is responsible for managing the daily control environment to eliminate or mitigate risks in the Commission's operations. Management is responsible for ensuring that all employees understand the requirements for, and their roles in, maintaining a strong and effective internal control environment, and for ensuring adherence to all controls.

Purpose of Systems of Internal Control

The overall objective of establishing risk management and control systems is to ensure that risks are minimised and that the Commission's assets are protected. The internal control process is designed to provide reasonable assurance over the reliability of the financial reporting process, and compliance with legislation, regulations, and accounting policies. Internal control is part of the system for managing risks throughout the organisation. To that end, procedures are established to identify, measure, monitor, report and manage risks, with the objective to minimise or avoid losses and/or to maximise opportunities.

Risk and Control Framework

The Commission has in place a Risk Management Framework. The risk framework has the following features: (1) the identification of stakeholders in the risk management process; (2) indications of how risks may be identified; (3) procedures for assessing, ranking and the ownership of those risks (4) establishment and use of risk registers; (5) identification of taxonomy of risks; and (6) risk reporting. The '*three lines of defence*' model for managing operational risks is set out under the Commission's risk management framework. Further, the framework is reinforced by other control mechanism such as an *Internal Control Statement,* which addresses issues of segregation of duties, limits on control, custody of assets, forced leave policy and training. Finally, there exists a *Fraud Risk Policy*. In addition, departments are required to document their business processes and the related procedures. Board approved documents set out the Commission's strategies for managing risk (including stipulating a generally low risk appetite) and the expectations for staff with respect to confidentiality and ethical standards.

Capacity to Handle Risk

The Commission's capacity to manage risk continues to be enhanced. Work continues on the development and use of key risk indicators (KRIs), particularly with respect to the IT function. The concept that risk is central has now been integrated across the Commission with departments being directed to be risk-focused in approach, and on a monthly basis to report on risks which arise in the department, stating how they are being, or will be, managed. Thus, operational and regulatory risks are being co-opted into an Enterprise Wide Risk Management. The Board continued to be central in this process and has issued instructions for the review and updating of the Commission's Code of Conduct. This Code will set out or further enhance the standards to which staff are required to adhere, which should minimise operational risks for the Commission. This Code is expected to be finalised in the next financial year.

There are processes to safeguard and manage the Commission's capital (reserve) fund.

Review of Effectiveness

The effectiveness of the risk and control framework is assessed based on its success in reducing/mitigating existing risks and in identifying new risks in a timely manner to facilitate corrective actions.

Focused assessment work carried out by the Finance Function with respect to data management produced specific recommendations for improving efficiency in operations, timely data verification and data aggregation. These areas impact data reporting, which is an important element of an effective risk management system.

There were no operational losses reported during the year that impacted the Reserve Fund. Financial risks (credit and market) were not deemed to be high, based on the values and counter parties involved.

The Board considered the risk and control frameworks to have been largely effective during the financial year 2019-2020.

Board of Commissioners
Financial Services Commission
15 August 2020

Consolidated Financial Statements of

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Year ended March 31, 2020

TURKS AND CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION

Consolidated Financial Statements

Year ended March 31, 2020

KPMG Ltd.
KPMG Building
18 The Village at Grace Bay
PO Box 357
Providenciales
Turks and Caicos Islands, BWI
Telephone: 649 946 4613, Fax: 649 946 4619

INDEPENDENT AUDITORS' REPORT

To the Directors of the Turks and Caicos Islands Financial Services Commission:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the Turks and Caicos Islands Financial Services Commission and its subsidiary (together "the FSC"), which comprise the consolidated statement of financial position as at March 31, 2020, the consolidated statements of revenue, expenditures and other comprehensive income, changes in reserves and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the FSC as at March 31, 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the FSC's internal control.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements, continued

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the FSC's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the FSC to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the FSC to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the FSC audit. We remain solely responsible for our audit opinion.

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

Report on Other Legal and Regulatory Requirements

In accordance with the Turks and Caicos Islands' Financial Services Commission Ordinance (2007) (as amended) (hereafter referred to as "the Ordinance"), we also report the following:

- We have obtained all the information and explanations we consider necessary for the purposes of our audit.
- In our opinion, the FSC has complied with its obligations under section 21 of the Ordinance.

Report on Other Legal and Regulatory Requirements, continued

- In our opinion, the FSC's consolidated financial statements are in agreement with its financial records and give a true and fair view of the consolidated financial position of the FSC as at March 31, 2020 and of its consolidated financial performance and its consolidated cash flows for the year then ended.
- In our opinion, the FSC has discharged with diligence its obligations in relation to the collection of its revenues and the Turks and Caicos Islands (TCI) Government's revenues.

Intended Use of Report

This report is intended solely for the information and use of the Governor of TCI and the board of directors of the FSC and should not be relied on by anyone other than these specified parties.

KPMG Ltd.

Chartered Accountants

Providenciales, Turks and Caicos Islands

September 1, 2020

TURKS AND CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION

Consolidated Statement of Financial Position

At March 31, 2020
with comparative figures at March 31, 2019

		2020	2019
Assets			
Current assets:			
Cash and cash equivalents (note 5)	US$	10,657,617	11,076,890
Term deposit (note 6)		2,321,084	316,329
Accounts receivable, net (note 7)		661,113	410,124
Due from employees (note 8)		121,905	111,239
Current portion of held-to-maturity investments (note 9)		1,552,699	999,631
Prepayments and other receivables (note 10)		134,082	145,697
		15,448,500	13,059,910
Non-current assets:			
Held-to-maturity investments (note 9)		–	501,983
Right-of-use-asset (note 11)		327,401	–
Intangible assets (note 12)		217,587	267,845
Property and equipment (note 13)		1,515,253	1,659,697
		2,060,241	2,429,525
	US$	17,508,741	15,489,435
Liabilities and Reserves			
Current liabilities:			
Accounts payable and accrued expenses (note 14)	US$	397,542	593,057
Due to TCIG (note 15)		1,764,745	430,879
Current portion of deferred income (note 16)		1,899,474	1,714,791
Current portion of lease liability (note 17)		198,621	–
		4,260,382	2,738,727
Non-current liabilities:			
Non-current portion of deferred income (note 16)		228,385	226,077
Non-current portion of lease liability (note 17)		140,908	–
		369,293	226,077
		4,629,675	2,964,804
Reserves:			
Reserve fund (note 30)		10,577,371	10,222,936
Capital reserve fund (note 15)		1,345,689	1,345,689
Retained surplus (note 18)		956,006	956,006
		12,879,066	12,524,631
	US$	17,508,741	15,489,435

The accompanying notes are an integral part of these consolidated financial statements.

These consolidated financial statements were approved on behalf of the Board of Commissioners on September _______, 2020 by the following:

David J. Oakden Commissioner — David Oakden

__________ Managing Director — Niguel Streete

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TURKS AND CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION
Consolidated Statement of Revenue, Expenditures and Other Comprehensive Income

Year ended March 31, 2020
with comparative figures for year ended March 31, 2019

		2020	2019
Revenue:			
Fees and charges (note 19)	US$	9,719,574	12,405,865
Interest income		83,024	82,622
Other income		47,304	89,630
Government grants		–	45,143
		9,849,902	12,623,260
Expenditures:			
Staff costs (note 20)		(3,772,215)	(3,472,631)
Depreciation of property and equipment (note 13)		(234,839)	(240,137)
Depreciation of right-of-use asset (note 11)		(196,440)	–
Travel and subsistence (note 21)		(193,476)	(151,306)
Impairment loss on accounts receivable (note 7)		(163,087)	(143,766)
Office expenses (note 22)		(156,383)	(148,718)
Communication (note 23)		(130,847)	(113,116)
Commissioners fees and expenses (note 24)		(129,992)	(133,643)
Subscriptions and contributions		(119,532)	(89,067)
Local hosting and entertainment		(106,782)	(108,443)
Repairs and maintenance		(103,709)	(127,061)
Utilities		(101,281)	(100,397)
Insurance		(96,708)	(90,291)
Audit and accounting		(86,250)	(101,875)
Training (note 25)		(81,861)	(26,875)
Amortisation of intangible assets (note 12)		(76,333)	(119,821)
Security		(69,985)	(51,959)
Advertising		(60,329)	(61,084)
Other operating expenses (note 26)		(55,961)	(65,015)
Kregistry license annual fee		(49,475)	(54,000)
Rental of buildings		(33,841)	(247,625)
Finance charge		(31,688)	–
Professional and consultancy fees (note 27)		(15,643)	(57,453)
		(6,066,657)	(5,704,283)
Surplus before other comprehensive income		3,783,245	6,918,977
Other comprehensive income		–	–
Net surplus for year	US$	3,783,245	6,918,977
Net surplus for year transferred to:			
Reserve fund	US$	354,435	3,381,700
Capital reserve fund		–	37,277
TCIG (note 15)		3,428,810	3,500,000
	US$	3,783,245	6,918,977

The accompanying notes are an integral part of these consolidated financial statements.

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TURKS AND CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION
Consolidated Statement of Changes in Reserves

Year ended March 31, 2020
with comparative figures for year ended March 31, 2019

	Reserve fund	Capital reserve fund	Retained surplus	Total
	US$	US$	US$	US$
Balance at April 1, 2018	6,841,236	1,308,412	956,006	9,105,654
Net surplus for year	6,918,977	–	–	6,918,977
Reserve fund transferred to amount due to TCIG (note 15)	(3,500,000)	–	–	(3,500,000)
Capital reserve fund (note 15)	(37,277)	37,277	–	–
Balance at March 31, 2019	10,222,936	1,345,689	956,006	12,524,631
Balance at April 1, 2019	10,222,936	1,345,689	956,006	12,524,631
Net surplus for year	3,783,245	–	–	3,783,245
Reserve fund transferred to amount due to TCIG (note 15)	(3,428,810)	–	–	(3,428,810)
Balance at March 31, 2020	10,577,371	1,345,689	956,006	12,879,066

The accompanying notes are an integral part of these consolidated financial statements.

TURKS AND CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION

Consolidated Statement of Cash Flows

Year ended March 31, 2020
with comparative figures for year ended March 31, 2019

		2020	2019
Cash flows from operating activities:			
Net surplus for year	US$	3,783,245	6,918,977
Adjustments for:			
Depreciation of property and equipment		234,839	240,137
Depreciation of right-of-use asset		196,440	–
Amortisation of intangible assets		76,333	119,821
Impairment loss on accounts receivable		163,087	143,766
Finance charge		31,688	–
Interest income		(83,024)	(82,622)
		4,402,608	7,340,079
Changes in operating assets:			
Change in accounts receivable, gross of impairment loss		(414,076)	(5,028)
Change in due from employees		(10,666)	21,321
Change in prepayments and other receivables		11,615	(37,273)
Changes in operating liabilities:			
Change in accounts payable and accrued expenses		(195,515)	52,994
Change in deferred income		186,991	188,291
Net cash from operating activities		3,980,957	7,560,384
Cash flows used in investing activities:			
Change in term deposit		(2,004,755)	(3,503)
Proceeds from disposal of held-to-maturity investments		1,600,000	600,000
Acquisition of held-to-maturity investments		(1,651,085)	(602,616)
Additions to intangible assets		(26,075)	(70,836)
Additions to property and equipment		(90,395)	(44,469)
Interest income received		83,024	82,622
Net cash used in investing activities		(2,089,286)	(38,802)
Cash flows used in financing activities:			
Cash transferred to TCIG (note 15)		(2,094,944)	(6,290,979)
Payment of lease liability (note 17)		(184,312)	–
Finance charge paid		(31,688)	–
Net cash used in financing activities		(2,310,944)	(6,290,979)
Net (decrease)/increase in cash and cash equivalents		(419,273)	1,230,603
Cash and cash equivalents at beginning of year		11,076,890	9,846,287
Cash and cash equivalents at end of year	US$	10,657,617	11,076,890

The accompanying notes are an integral part of these consolidated financial statements.

1. General information

The Turks and Caicos Islands Financial Services Commission (“the Commission”) is a body corporate established in the Turks and Caicos Islands (“TCI”) on April 1, 2002, pursuant to the Financial Services Commission Ordinance 2001, preserved and continued under the Financial Services Commission Ordinance 2007 as revised (“the Ordinance”). The Commission’s primary purpose is to administer the provisions of the Ordinance and subsidiary legislation which grant it the power to issue and revoke licences, supervise institutions engaged in financial services business and advise the TCI Government (“TCIG”) and the Governor of TCI of changes needed to ensure the stability and security of the financial sector in TCI.

These consolidated financial statements comprise the financial statements of the Commission and its wholly owned subsidiary, FSC Property Holdings Co. Ltd. (“FSC Property”), an asset holding company incorporated on March 23, 2010 under the laws of TCI (together hereafter referred to as “the FSC”).

The FSC operates from its offices at Waterloo Plaza, Grand Turk, and Caribbean Place, Providenciales, TCI.

2. Basis of preparation

(a) *Basis of accounting*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS") and with the requirements of the Ordinance.

Details of the FSC’s significant accounting policies are included at note 3.

These consolidated financial statements have been prepared on an historical cost basis.

The methods used to measure fair values for disclosure purposes are discussed at note 4.

This is the first set of the FSC’s annual consolidated financial statements in which IFRS 16, *Leases*, has been applied. Changes in significant accounting policies are described at note 2(d).

(b) *Functional and presentation currency*

These consolidated financial statements are presented in United States Dollars (US$), which is the FSC’s functional currency. All financial information presented in US$ has been rounded to the nearest dollar.

2. Basis of preparation, continued

(c) Use of estimates and judgements

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in these consolidated financial statements is included in note 3(j)(i), *Impairment – non-derivative financial assets* and note 3(k), *Leases*.

These consolidated financial statements have been prepared on a going concern basis. No adjustments or reclassifications have been made that might be necessary if a basis of accounting other than a going concern basis were to be used.

(d) Changes in significant accounting policies

Except for the changes below, the FSC has consistently applied the accounting policies to all years presented in these consolidated financial statements.

For the year ended March 31, 2020, the FSC has adopted IFRS 16, a new standard issued and effective for financial years beginning on, or after, January 1, 2019.

IFRS 16 specifies how an IFRS reporter recognises, measures, presents and discloses leases. IFRS 16 provides a single lessee accounting model, requiring lessees to recognise assets and liabilities on the consolidated statement of financial position for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17, *Leases*.

IFRS 16 replaces existing leases guidance including IAS 17, IFRIC 4, *Determining whether an Arrangement contains a Lease*, Standing Interpretations Committee (SIC) 15, *Operating Leases - Incentives* and SIC 27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

2. Basis of preparation, continued

(d) Changes in significant accounting policies, continued

Transition

IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, requires the change in the accounting policy to be applied retrospectively when the effect of applying the new accounting policy is material. Management decided not to restate the corresponding figures as there was no material impact on the FSC's consolidated financial statements.

The following table summarises the impact of transition to IFRS 16, using a modified retrospective approach, in the FSC's consolidated financial statements at March 31, 2020 and for the year then ended:

		Under IAS 17	Under IFRS 16
Consolidated Statement of Financial Position			
Right-of-use asset	US$	–	523,841
Depreciation during the year		–	(196,440)
		–	327,401
Lease liability		–	(339,529)
	US$	–	(12,128)
Consolidated Statement of Revenue, Expenditures and Other Comprehensive Income			
Rent expense	US$	216,000	–
Depreciation right-of-use asset		–	196,440
Finance charge		–	31,688
	US$	216,000	228,128
Consolidated Statement of Cash Flows			
Cash flows used in operating activities	US$	216,000	–
Cash flows used in financing activities		–	216,000
	US$	216,000	216,000

3. Significant accounting policies

The significant accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements except that the FSC changed its accounting policy with respect to leases to comply with IFRS 16 (note 2(d)).

3. Significant accounting policies, continued

(a) Basis of consolidation

These consolidated financial statements comprise the consolidated financial position of the Commission and its wholly owned subsidiary as at March 31, 2020 and 2019 and its consolidated statements of revenue, expenditures and other comprehensive income, changes in reserves and cash flows for the years then ended.

(i) Subsidiary

FSC Property is an entity controlled by the Commission. The Commission controls an entity when it is exposed to, or has the right to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiary are included in these consolidated financial statements from the date that control commenced until the date that control ceases.

(ii) Non-controlling interest

Non-controlling interest (NCI) is measured initially at its proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Commission's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iii) Loss of control

When the Commission loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of reserves. Any resulting gain or loss is recognised in the consolidated statement of revenue, expenditures and other comprehensive income. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated when preparing these consolidated financial statements.

(b) Financial assets and financial liabilities

(i) Recognition and initial measurement

The FSC initially recognises accounts receivable on the date when they are originated. All other financial assets and financial liabilities (including regular-way purchases and sales of financial assets) are initially recognised on the trade date when the FSC becomes a party to the contractual provisions of the instrument.

3. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(i) Recognition and initial measurement, continued

A financial asset (unless it is an account receivable without a significant financing component) or financial liability is initially measured at fair value plus, for a financial asset or financial liability not measured at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. An account receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income (FVOCI) or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition, unless the FSC changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI, as described above, are measured at FVTPL. In addition, on initial recognition the FSC may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

3. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(ii) Classification and subsequent measurement, continued

Financial assets, continued

The FSC has the following financial assets measured at amortised cost: cash and cash equivalents, term deposit, accounts receivable, due from employees and other receivables.

Financial assets – Business model assessment

The FSC makes an assessment of the objective of the business model in which a financial asset is held for each portfolio of financial assets because this best reflects the way that the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to FSC's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered as sales for this purpose, consistent with the FSC's continuing recognition of the assets.

Financial assets that are managed and whose performance is evaluated on a fair value basis, which include underlying items of participating contracts, and financial assets that are held for trading, are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

3. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(ii) Classification and subsequent measurement, continued

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, principal is defined as the fair value of the financial asset on initial recognition. However, the principal may change over time - e.g. if there are repayments of principal.

Interest is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the FSC considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the FSC considers:

- contingent events that would change the amount or timing of cash flows;
- prepayment and extension features;
- terms that limit the FSC's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money (e.g. periodic reset of interest rates).

A prepayment feature is consistent with the 'solely payments of principal and interest' criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract.

Financial assets – Subsequent measurement and gains and losses

Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest rate method. The amortised cost is reduced by impairment losses. Interest income and impairment losses are recognised in the consolidated statement of revenue, expenditures and other comprehensive income. Any gain or loss on derecognition is also recognised in the consolidated statement of revenue, expenditures and other comprehensive income.

3. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(ii) Classification and subsequent measurement, continued

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost. Financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Any interest expense is recognised in the consolidated statement of revenue, expenditures and other comprehensive income and any gain or loss on derecognition is also recognised in the consolidated statement of revenue, expenditures and other comprehensive income.

The FSC has the following financial liabilities measured at amortised cost: accounts payable and accrued expenses and due to TCIG.

The FSC classifies non-derivative financial liabilities as other financial liabilities.

(iii) Derecognition

Financial assets

The FSC derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the FSC neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The FSC enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The FSC generally derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The FSC also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in the consolidated statement of revenue, expenditures and other comprehensive income.

3. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented on the consolidated statement of financial position when, and only when, the FSC currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when it is required or permitted by a standard.

(c) Intangible assets

(i) Recognition and measurement

Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the FSC are recognised as intangible assets when the following criteria are met:

- It is technically and commercially feasible to complete the software product so that it will be available for use;
- Management intends to complete the software product and use or sell it;
- There is an ability to use or sell the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- The expenditure attributable to the software product during its development can be reliably measured.

If an intangible item does not meet the definition of, and the criteria for, recognition as an intangible asset, the FSC requires any expenditure on this item to be recognised as an expense when it is incurred.

Intangible assets are measured at cost less accumulated amortisation and impairment losses (note 3(j)(ii)).

3. Significant accounting policies, continued

(c) Intangible assets, continued

(ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the FSC. All other expenditure is recognised in the consolidated statement of revenue, expenditures and other comprehensive income as incurred.

(iii) Amortisation

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values on a straight-line basis over their estimated useful lives, and is generally recognised in the consolidated statement of revenue, expenditures and other comprehensive income.

Computer software development costs recognised as assets are amortised over their estimated useful lives of seven years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted, where appropriate.

(d) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment, calculated as the difference between the net proceeds from disposal and the carrying amount of the item, is recognised in the consolidated statement of revenue, expenditures and other comprehensive income.

3. Significant accounting policies, continued

(d) Property and equipment, continued

(ii) Subsequent costs

The cost of replacing an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the FSC and its cost can be reliably measured. The carrying amount of the replaced part is derecognised. The cost of the day-to-day servicing of property and equipment is recognised in the consolidated statement of revenue, expenditures and other comprehensive income, as incurred.

(iii) Depreciation

Items of property and equipment are depreciated from the date they are available for use. Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Depreciation is recognised in the consolidated statement of revenue, expenditures and other comprehensive income. The estimated useful lives for the current and comparative periods are as follows:

Buildings	40 years
Building improvements	10 years
Office furniture	10 years
Office equipment	10 years
Computer equipment	4-10 years
Motor vehicles	5 years
Leasehold improvements	shorter of 10 years and remaining term of lease

Depreciation methods, useful lives and residual values are reassessed at the reporting date. Land is not depreciated.

(e) Provisions

A provision is recognised if, as a result of a past event, the FSC has a present legal or constructive obligation that can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and risks specific to the liability.

3. Significant accounting policies, continued

(f) Government grants

Grants are received from TCIG for development purposes and cover both capital and revenue expenditure.

The FSC recognises government grants related to specific assets, including non-monetary grants, as deferred income at fair value if there is reasonable assurance that they will be received and the FSC will comply with the conditions associated with the grant.

Government grants are then recognised in the consolidated statement of revenue, expenditures and other comprehensive income as government grant revenue on a straight-line basis over the expected lives of the related assets.

(g) Reserves

(i) Reserve fund

Section 17 of the Ordinance mandates that the FSC establish a reserve fund into which the FSC's operating surplus is paid along with any other funds that are otherwise required to be paid into such a reserve fund under the terms of the Ordinance.

If, on the last working day of any quarter within a financial year, the balance in the reserve fund exceeds the expected recurrent expenditure of the FSC for that financial year, the FSC is mandated to pay a sum equal to the excess to TCIG, within thirty days (fourteen days prior to March 31, 2019) of the last working day of the quarter, provided always that the balance in the reserve fund does not fall below US$5 million as a result of any such payment to TCIG.

Management have determined that the most appropriate measure of expected recurrent expenditure in accordance with the above requirement is the FSC budgeted expenditure for that financial year as submitted annually to the Governor of TCI.

(ii) Capital reserve fund

The FSC established a capital reserve fund for the purpose of financing its infrastructure needs. The capital reserve fund was established pursuant to a resolution of the Board of Commissioners of the FSC and after having received the approval of the Governor of TCI, to whom the FSC reports. Transfers to the capital reserve fund are made by way of an allocation of amounts due to TCIG. The capital reserve fund will be utilized for the FSC's infrastructural needs after consultation with, and express approval from, the Governor of TCI in respect of each specific capital project to which the capital reserve fund will be applied. The capital reserve fund is reported as part of the FSC's reserves.

3. Significant accounting policies, continued

(h) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when amounts can be reliably measured and it is probable that future economic benefits will flow to the FSC.

(i) Fees and charges

Fees and charges comprise annual company renewal fees, annual licence fees, application fees, land share transfer duty, business names registration fees, penalties and other fees.

Annual licence fees, where the FSC provides ongoing supervision of operations and regulatory compliance of licensees, and business names registration fees are recognised as income in the period to which they relate, with amounts collected in relation to future financial periods being deferred on the consolidated statement of financial position.

Annual company renewal fees, other annual licence fees, application fees, land share transfer duty, business names registration fees and other fees are recognised as revenue in their entirety at a point in time when the significant act of service occurs and there is no significant uncertainty as to its collectability, which is deemed to be when the fees are paid.

Penalty fees are recognised as revenue only when all significant contingencies are resolved and the penalty fee can be reliably measured.

(ii) Interest income

Interest income is recognised in the consolidated statement of revenue, expenditures and other comprehensive income as it accrues, using the effective interest rate method.

(i) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the FSC has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3. Significant accounting policies, continued

(i) Employee benefits, continued

(ii) Post-employment benefits

The FSC operates a defined contribution pension plan for certain employees. All staff members, except those on fixed term contracts or temporary contracts, are eligible to join the FSC's pension scheme. A defined contribution plan, a post-employment benefit, is a pension plan under which the FSC deposits fixed contributions into a separate third party entity. The FSC has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions of the FSC are expensed in the consolidated statement of revenue, expenditures and other comprehensive income when incurred.

(j) Impairment

(i) Non-derivative financial assets

The FSC recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost.

The FSC measures loss allowances at an amount equal to lifetime ECLs.

Loss allowances for accounts receivable are always measured at an amount equal to lifetime ECLs.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

The maximum period considered when estimating ECLs is the maximum contractual period over which the FSC is exposed to credit risk.

Measurement of ECL

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the FSC expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the FSC assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

3. Significant accounting policies, continued

(j) Impairment, continued

(i) Non-derivative financial assets, continued

Credit-impaired financial assets, continued

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past-due event;
- the restructuring of an amount due to the FSC on terms that the FSC would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL on the consolidated statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the FSC determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the FSC's procedures for recovery of amounts due.

Financial assets measured at amortised cost

The FSC considered evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets were individually assessed for impairment. Those found not to be impaired were then collectively assessed for any impairment that had been incurred but not yet individually identified. Assets that were not individually significant were collectively assessed for impairment. Collective assessment was carried out by grouping together assets with similar risk characteristics.

3. Significant accounting policies, continued

(j) Impairment, continued

(i) Non-derivative financial assets, continued

Financial assets measured at amortised cost, continued

In assessing collective impairment, the FSC used historical information on the timing of recoveries and the amount of loss incurred, and made an adjustment if current economic and credit conditions were such that the actual losses were likely to be greater or lesser than suggested by historical trends.

(ii) Non-financial assets

At each reporting date, the FSC reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in the consolidated statement of revenue, expenditures and other comprehensive income.

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

(k) Leases

Policy applicable from April 1, 2019

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are recognised on the consolidated statement of financial position of the FSC unless the lease term is 12 months or less or the underlying asset has a low value. The FSC recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments on the consolidated statement of financial position.

3. Significant accounting policies, continued

(k) Leases, continued

Policy applicable from April 1, 2019, continued

The right-of-use asset is initially measured at cost, which is the present value of the lease payments that are not paid at that date, and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

Depreciation of a right-of-use asset and interest on the lease liability is recognised in the consolidated statement of revenue, expenditures and other comprehensive income over the lease term (note 11), and payment of principal and interest on the lease liability is separately presented within financing activities in the consolidated statement of cash flows.

Policy applicable before April 1, 2019

Leases in which a significant portion of the risks and rewards of ownership were retained by the lessor, were classified as operating leases. Payments made under operating leases were recognised in the consolidated statement of revenue, expenditures and other comprehensive income on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense over the term of the lease.

(l) Taxation

Under current TCI law, the FSC is not required to pay any taxes in TCI on either income or capital gains. Consequently, no tax liability or expense has been recorded in these consolidated financial statements.

(m) Related parties

A related party is a person or entity that is related to the entity that is preparing its consolidated financial statements.

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

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

3. Significant accounting policies, continued

(m) Related parties, continued

(ii) An entity is related to a reporting entity if any of the following conditions apply:

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

Related party transactions pertain to transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

(n) New standards, amendments to standards and interpretations not yet adopted

The following are new standards, amendments and interpretations to published standards, issued but not effective for the financial year beginning April 1, 2019 and not early adopted by the FSC:

- IFRS 17, *Insurance Contracts* – IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of consolidated financial statements to assess the effect that insurance contracts have on the entity's consolidated financial position, financial performance and cash flows.

3. Significant accounting policies, continued

(n) New standards, amendments to standards and interpretations not yet adopted, continued

- IFRS 17, *Insurance Contracts*, continued

  IFRS 17 is initially effective for annual reporting periods beginning on or after January 1, 2022, with early adoption permitted only for entities that also apply both IFRS 9 and 15.

IFRS 17 is expected by management to be either not relevant or not significant to the FSC's operations and, accordingly, will not have a material impact on the FSC's consolidated financial statements and/or accounting policies.

4. Determination of fair values

A number of the FSC's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes, as described below. Where applicable, further information about the assumptions made in determining fair value has been disclosed in the notes specific to that asset or liability.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Where an active market exists, market price is used as the best evidence of the fair value of a financial instrument. Where no market price is available, the fair values presented have been estimated using present value or other estimation and valuation techniques based on market conditions existing at the reporting date.

The values derived from applying these techniques are significantly affected by the underlying assumptions used concerning both the amounts and timing of future cash flows and the discount rates.

The FSC regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the FSC assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified. Significant valuation issues are reported to the Board.

When measuring the fair value of a financial instrument, the FSC uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments;

4. Determination of fair values, continued

- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data;
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instruments' valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value, discounted cash flow models and comparison with similar instruments for which an observable market exists. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates.

The objective of the valuation technique is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

If the inputs used to measure the fair value of a financial instrument fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The FSC recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

5. Cash and cash equivalents

		2020	2019
Certificates of deposit	US$	7,649,350	5,550,335
Current accounts		1,872,068	4,388,992
Savings accounts		1,135,349	1,136,713
Cash on hand		850	850
	US$	10,657,617	11,076,890

5. Cash and cash equivalents, continued

The US$7,649,350 certificates of deposit held at March 31, 2020 (2019: US$5,550,335) comprised the following:

	2020			
	Principal amount	Maturity value	Interest rate per annum	Maturity Date
	US$	US$		
CIBC FirstCaribbean International Bank (CIBC)	1,841,260	1,841,474	0.14%	April 1, 2020
CIBC	1,446,486	1,448,377	0.52%	April 14, 2020
Scotiabank	1,300,000	1,300,444	0.41%	April 9, 2020
RBC Royal Bank (RBC)	1,001,268	1,001,433	0.20%	April 16, 2020
RBC	801,138	801,240	0.15%	April 9, 2020
CIBC	410,732	411,067	0.33%	April 20, 2020
CIBC	405,049	405,252	0.60%	April 15, 2020
Turks & Caicos Banking Company Limited (TCBC)	400,000	400,083	0.25%	April 30, 2020
RBC	43,417	43,430	0.10%	April 20, 2020
	7,649,350	7,652,800		

	2019			
	Principal amount	Maturity value	Interest rate per annum	Maturity Date
	US$	US$		
CIBC FirstCaribbean International Bank (CIBC)	1,827,565	1,829,291	1.15%	April 3, 2019
CIBC	1,430,850	1,436,009	1.46%	April 16, 2019
RBC Royal Bank (RBC)	800,000	800,102	0.15%	April 29, 2019
CIBC	605,284	607,209	1.28%	April 23, 2019
Turks & Caicos Banking Company Limited (TCBC)	440,000	440,229	0.63%	April 30, 2019
CIBC	403,263	403,549	0.85%	April 15, 2019
RBC	43,373	43,384	0.10%	April 22, 2019
	5,550,335	5,559,773		

During the year, the savings accounts earned interest at a rate of 0.40% per annum (2019: 0.40%). Current accounts are non-interest bearing.

6. Term deposit

The FSC's term deposit at March 31 represented a certificate of deposit with a maturity date greater than 3 months from the date of acquisition:

	Principal amount	Maturity value	Interest rate per annum	Maturity Date
	US$	US$		
Scotiabank	1,000,715	1,005,775	1.00%	July 20, 2020
TCBC	1,000,000	1,006,875	1.38%	August 31, 2020
CIBC	320,369	321,824	0.91%	June 9, 2020
March 31, 2020	2,321,084	2,334,474		

	Principal amount	Maturity value	Interest rate per annum	Maturity Date
	US$	US$		
CIBC	316,329	317,368	1.64%	June 11, 2019
March 31, 2019	316,329	317,368		

7. Accounts receivable, net

At March 31 accounts receivable, net of allowance for impairment losses, were:

		2020	2019
Company managers	US$	877,408	420,426
Insurance managers		54,475	20,450
Trust companies		22,000	22,000
Insurance providers and intermediaries		5,125	18,024
Others		3,740	3,640
Banks		205	67,537
		962,953	552,077
Allowance for impairment losses		(301,840)	(141,953)
	US$	661,113	410,124

Movement in the allowance for impairment losses was:

		2020	2019
Balance at April 1	US$	141,953	82,886
Impairment loss recognised		163,087	143,766
Write off		(3,200)	(84,699)
	US$	301,840	141,953

During the year ended March 31, 2020, an impairment loss of US$163,087 (2019: US$143,766) on accounts receivable was recognized in the consolidated statement of revenue, expenditures and other comprehensive income.

7. Accounts receivable, net, continued

Information about the FSC's exposure to credit risk, and impairment loss on accounts receivable, is included at note 29(a) to these consolidated financial statements.

8. Due from employees

		2020	2019
Christmas advances	US$	67,682	65,554
Regular salary advances		54,223	45,685
	US$	121,905	111,239

The amounts due from employees at March 31 were non-interest bearing, unsecured and repayable within six to eight months from the date of the advance.

9. Held-to-maturity investments

Held-to-maturity investments at March 31, 2020 represented investments in various US debt securities with original maturity periods ranging from one to seven years (2019: one to seven years) and nominal interest rates of 1.50% to 2.75% (2019: 0.88% to 2.75%).

		2020	2019
Face value	US$	1,550,000	1,500,000
Net premium		2,699	1,614
	US$	1,552,699	1,501,614
Carrying value	US$	1,552,699	1,501,614
Less current portion		(1,552,699)	(999,631)
	US$	–	501,983

During the year the FSC earned US$25,442 (2019: US$22,054) of interest on held-to-maturity investments which was included in interest income in the consolidated statement of revenue, expenditures and other comprehensive income.

10. Prepayments and other receivables

		2020	2019
Prepayments to suppliers	US$	119,728	88,581
Other receivables		14,354	57,116
	US$	134,082	145,697

Other receivables at March 31 were non-interest bearing, unsecured and repayable on demand.

11. Right-of-use asset

		2020	2019
Right-of-use asset	US$	523,841	–
Depreciation		(196,440)	–
Carrying amount	US$	327,401	–

In 2014, the FSC entered into a five year lease agreement with Waterloo Property in Grand Turk for the rental of FSC's office building. The initial 5 year lease was extended for another 2 years and now expires on November 30, 2021. The total monthly fixed office rental is US$18,000. The lease agreement is cancellable at any time by giving the lessor 1 month notice in writing or alternatively by paying to the lessor one month rental in lieu of such notice.

At the reporting date the cost of the FSC's right-of-use asset was US$523,841. The right-of-use asset is depreciated over the term of lease.

12. Intangible assets

		2020	2019
Software development cost:			
At beginning of year	US$	887,236	816,400
Additions		26,075	70,836
At end of year	US$	913,311	887,236
Accumulated amortisation:			
At beginning of year	US$	619,391	499,570
Amortisation for year		76,333	119,821
At end of year	US$	695,724	619,391
Carrying value	US$	217,587	267,845

The FSC has been engaged in developing an online Companies Registry (Registry) since 2006. At March 31, 2020 the associated software development costs had a carrying value of US$217,587 (2019: US$267,845). Costs capitalised are amortised over their estimated useful life of seven years.

The Registry was brought into use for internal purposes during the year ended March 31, 2013 and was brought into use for online filing by external users in March 2018. The FSC is continuing to work towards bringing the Registry into full use and expects to achieve this during the year ended March 31, 2021. In January 2016, the contract with the supplier of the Registry was amended to include additional services and to amend the payment terms of the original agreement.

13. Property and equipment

	Land, buildings & improvements	Office furniture	Office equipment	Computer equipment	Motor vehicles	Total
	US$	US$	US$	US$	US$	US$
Cost:						
April 1, 2018	2,126,450	283,209	165,969	465,496	110,048	3,151,172
Additions	–	16,904	17,102	10,463	–	44,469
Disposals	–	(2,491)	(150)	(10,184)	–	(12,825)
March 31, 2019	2,126,450	297,622	182,921	465,775	110,048	3,182,816
April 1, 2019	2,126,450	297,622	182,921	465,775	110,048	3,182,816
Additions	10,669	26,607	26,353	26,766	–	90,395
Disposals	–	–	–	–	–	–
March 31, 2020	2,137,119	324,229	209,274	492,541	110,048	3,273,211
Accumulated depreciation:						
April 1, 2018	609,498	175,711	57,214	371,601	81,783	1,295,807
Depreciation	152,183	23,190	17,125	31,429	16,210	240,137
Disposals	–	(2,492)	(150)	(10,183)	–	(12,825)
March 31, 2019	761,681	196,409	74,189	392,847	97,993	1,523,119
April 1, 2019	761,681	196,409	74,189	392,847	97,993	1,523,119
Depreciation	152,450	23,581	17,161	29,592	12,055	234,839
Disposals	–	–	–	–	–	–
March 31, 2020	914,131	219,990	91,350	422,439	110,048	1,757,958
Carrying value:						
March 31, 2019	1,364,769	101,213	108,732	72,928	12,055	1,659,697
March 31, 2020	1,222,988	104,239	117,924	70,102	–	1,515,253

Included in land, buildings, and buildings & leasehold improvements is 6,353 square feet of land. The cost of land was included in the total cost of units at the time of purchase and, as a result, has not been separately distinguished from the cost of the associated buildings.

13. Property and equipment, continued

At March 31 the FSC's land, buildings and building improvements located at Caribbean Place, Providenciales and its office leasehold improvements in Grand Turk comprised the following:

	March 31, 2020				
	Land and buildings	Improve-ments	Total cost	Accumulated depreciation	Carrying value
	US$	US$	US$	US$	US$
Land and buildings					
Units C7 & C8	236,731	162,834	399,565	(153,066)	246,499
Units C11 & C12	259,650	169,775	429,425	(173,934)	255,491
Units D7 & D8	269,690	145,527	415,217	(202,229)	212,988
Units K11 & K12	327,448	339,277	666,725	(173,982)	492,743
Leasehold	–	226,187	226,187	(210,920)	15,267
	1,093,519	1,043,600	2,137,119	(914,131)	1,222,988

	March 31, 2019				
	Land and buildings	Improve-ments	Total cost	Accumulated depreciation	Carrying value
	US$	US$	US$	US$	US$
Land and buildings					
Units C7 & C8	236,731	162,834	399,565	(130,864)	268,701
Units C11 & C12	259,650	169,775	429,425	(150,466)	278,959
Units D7 & D8	269,690	145,527	415,217	(180,934)	234,283
Units K11 & K12	327,448	339,277	666,725	(131,601)	535,124
Leasehold	–	215,518	215,518	(167,816)	47,702
	1,093,519	1,032,931	2,126,450	(761,681)	1,364,769

14. Accounts payable and accrued expenses

		2020	2019
Accrued employee benefits	US$	183,299	204,084
Accounts payable		117,082	259,859
Accrued legal fees and expenses		97,015	97,015
Statutory contributions payable		146	32,099
	US$	397,542	593,057

14. Accounts payable and accrued expenses, continued

The US$183,299 accrued employee benefits at March 31, 2020 (2019: US$204,084) pertained primarily to US$143,216 (2019: US$155,532) gratuities payable, being a short-term employee benefit, to all staff members employed by the FSC on a fixed term of employment for at least one year and that are not otherwise eligible to benefit from the FSC's pension scheme. The gratuity was calculated at 15% of the employee's basic annual salary, to be paid upon satisfactory completion of the employee's employment contract. The gratuity is expensed in the consolidated statement of revenue, expenditures and other comprehensive income as the related service is provided.

15. Due to TCIG

As stated at note 3(g) to these consolidated financial statements, if amounts held in a reserve fund, established under the terms of the Ordinance, exceed the expected recurrent expenditure of the FSC for that financial year, the FSC is mandated by the Ordinance to pay a sum equal to the excess to TCIG, within thirty days (fourteen days prior to March 31, 2019) of the last working day of the quarter, provided always that the balance in the reserve fund does not fall below US$5M as a result of any such payment to TCIG.

Management have determined that the most appropriate measure of expected recurrent expenditure in accordance with the above requirement is the FSC budgeted expenditure for that financial year as submitted to the Governor of TCI. The budgeted expenditure for the year ended March 31, 2020 was US$7,195,671.

On February 22, 2019, the Cabinet granted approval for the FSC to retain any net surplus greater than US$3.5M for the year ended March 31 2019 (note 30).

During the years ended March 31, 2020 and 2019 quarterly assessments of amounts due to TCIG were conducted and payments to TCIG were made in full within the time period specified in the Ordinance.

On September 17, 2018 the Governor of TCI approved the establishment of a capital reserve fund of US$1,345,689. It is intended that the capital reserve fund will be used to construct a Companies Registry building on Grand Turk, TCI. The capital reserve fund was recognised as part of FSC's reserves on the consolidated statement of financial position as at March 31, 2020 and 2019.

During the year ended March 31, 2020 US$2,094,944 (2019: US$6,290,979) was transferred to TCIG.

15. Due to TCIG, continued

		2020	2019
Due to TCIG at beginning of year	US$	430,879	3,221,858
Payments during the year ended March 31, 2020:			
April 15, 2019		(835,286)	–
July 17, 2019		(390,336)	–
October 16, 2019		(340,080)	–
January 14, 2020		(529,242)	–
		(2,094,944)	–
Payments during the year ended March 31, 2019:			
April 17, 2018	US$	–	(2,500,000)
May 30, 2018		–	(474,867)
July 12, 2018		–	(2,000,000)
October 17, 2018		–	(407,652)
January 14, 2019		–	(908,460)
	US$	–	(6,290,979)
Net surplus required to be transferred to TCIG:			
April - June	US$	390,336	–
July - September		340,080	–
October - December		529,243	–
January - March		2,169,151	–
Per Cabinet approval on February 22, 2019		–	3,500,000
	US$	3,428,810	3,500,000
Amount due to TCIG at end of year	US$	1,764,745	430,879

16. Deferred income

		2020	2019
Annual licence fees	US$	977,373	989,595
Annual renewal fees		510,575	450,750
Annual maintenance fees		277,827	290,251
Land share transfer duty		236,342	130,742
Business name renewal fees		65,400	66,200
Incorporation fees		60,342	13,330
	US$	2,127,859	1,940,868
Current portion:			
Annual licence fees	US$	977,373	989,595
Annual renewal fees		510,575	450,750
Land share transfer duty		236,342	130,742
Annual maintenance fees		63,542	78,424
Incorporation fees		60,342	13,330
Business name renewal fees		51,300	51,950
	US$	1,899,474	1,714,791
Non-current portion	US$	228,385	226,077

16. Deferred income, continued

(a) Annual licence fees

Annual licence fees pertain to advance payment of licence fees made by the following licensees to the FSC that relate in whole, or in part, to the following financial year:

		2020	2019
Banks	US$	462,398	470,047
Insurance providers and intermediaries		253,500	256,775
Company managers		103,500	109,145
Trust companies		90,000	90,000
Insurance managers		22,300	24,500
Investment dealers		21,000	18,000
Money transmitters		15,375	13,128
Mutual funds and mutual funds managers		9,300	8,000
	US$	977,373	989,595

(b) Annual renewal fees

Annual renewal fees pertain mainly to advance payments and deposits received for annual company renewal fees, business name renewal fees, name clearance fees and other related fees.

(c) Annual maintenance fees

Annual maintenance fees pertain to advance payments for maintenance of registered trademarks pursuant to the TCI Trade Marks Ordinance. The annual maintenance fees are non-refundable and applicable for financial years ranging from 2021 to 2030 (2019: 2020 to 2029).

17. Lease liability

The FSC's lease liability representing its obligation to make lease payments on its right-of-use asset (note 11) is as follows:

		2020	2019
Lease liability	US$	523,841	–
Payments during the year		(184,312)	–
		339,529	–
Current portion		(198,621)	–
	US$	140,908	

18. Retained surplus

The retained surplus of US$956,006 at March 31, 2020 (2019: US$956,006) represented the accumulated surplus of the FSC in 2007 prior to implementation of section 17, *Reserve Fund*, of the Ordinance.

19. Fees and charges

		2020	2019
Annual company renewal fees	US$	2,846,239	4,877,890
Land share transfer duty		2,576,410	3,305,876
Annual licence fees		2,208,687	2,119,207
Application fees		967,458	1,043,901
Penalties and other fees		883,477	833,999
Business names registration fees		237,303	224,992
	US$	9,719,574	12,405,865

On September 23, 2019 the due date for filing of former international companies was changed from March 31 to June 30 of each year. This change resulted in a decrease in the annual company renewal fees for the year ended March 31, 2020.

In addition, the TCI commenced a national shutdown on March 28, 2020 for purpose of preventing, controlling and suppressing the spread of the corona virus (COVID-19) (note 32). This shutdown resulted in the closure of the FSC at its year end which affected the collection of certain annual company renewal fees that were due for payment by March 31, 2020.

20. Staff costs

		2020	2019
Salaries and wages	US$	3,249,635	3,009,885
Insurance and health benefits		219,485	198,689
Gratuities		140,147	138,242
Transportation allowances		104,060	70,331
Contribution to defined contribution pension plan		58,588	55,484
Telephone allowances		300	–
	US$	3,772,215	3,472,631

21. Travel and subsistence

		2020	2019
International:			
Accommodation and subsistence	US$	101,246	62,067
Airfares		31,374	24,809
Others		1,310	1,216
	US$	133,930	88,092
Local:			
Accommodation and subsistence	US$	34,706	45,023
Air and sea fares		24,840	17,534
Others		–	657
	US$	59,546	63,214
	US$	193,476	151,306

22. Office expenses

		2020	2019
Office supplies	US$	119,493	111,124
Cleaning services		33,093	32,427
Printing and binding		3,797	5,167
	US$	156,383	148,718

23. Communication

		2020	2019
Line rental	US$	74,756	54,401
Telephone - local costs		26,347	28,129
Internet charges		14,119	13,853
Telephone - international costs		9,705	10,195
Postage and courier		5,920	6,538
	US$	130,847	113,116

24. Commissioners fees and expenses

		2020	2019
Commissioners fees	US$	93,000	93,000
Commissioners expenses		36,992	40,643
	US$	129,992	133,643

24. Commissioners fees and expenses, continued

Commissioners fees represented fees paid to the chairman and members of the board. The chairman receives US$3,500 while the members of the board receive US$3,000 each every meeting. The FSC had four members of the board during the year ended March 31, 2020 (2019: four) and met six times during the year ended March 31, 2020 (2019: six).

Included in commissioners expenses are travel expenses, allowances and hotel accommodation during board meetings.

25. Training

		2020	2019
Overseas	US$	37,723	2,990
Academic		23,529	18,333
Local		20,609	5,552
	US$	81,861	26,875

Included in overseas training expenses are expenses incurred in attending international industry conferences and training.

26. Other operating expenses

		2020	2019
Bank charges	US$	24,691	28,181
Work permit expenses		19,263	24,594
Others		12,007	12,240
	US$	55,961	65,015

27. Professional and consultancy fees

		2020	2019
Consultancy and other fees	US$	15,643	42,003
Legal fees and expenses		–	15,450
	US$	15,643	57,453

In the ordinary course of the FSC's activities, the FSC is a party to several legal actions (note 31).

28. Related party balances and transactions

The following are transactions and balances with TCIG, a related party by virtue of significant influence and common directors, and its related entities, and transactions with key management personnel:

		2020	2019
Transactions			
NHIB contributions	US$	99,236	90,524
NIB contributions	US$	120,249	108,165
Reserve fund required to be transferred to TCIG (note 15)	US$	3,428,810	3,500,000
Payments to TCIG (note 15)	US$	2,094,944	6,290,979
Government grants	US$	–	45,143
Balances			
Statutory contributions payable (note 14)	US$	146	32,099
Amount due to TCIG (note 15)	US$	1,764,745	430,879
Key management personnel compensation			
Short-term benefits			
Salary and benefits of key management personnel	US$	980,979	1,032,411
Accommodation for Managing Director	US$	33,000	31,625
Commissioners fees (note 24)	US$	93,000	93,000
Commissioners expenses (note 24)	US$	36,992	40,643
Post-employment benefit			
Contributions to pension fund	US$	12,156	11,572

Aside from the managing director and deputy managing director, the FSC had eight other key management personnel during the year ended March 31, 2020 (2019: seven).

Loans to key management personnel

		2020	2019
Beginning balance	US$	24,712	11,875
Loans advanced during year		51,709	55,416
Loan repayments received during year		(47,273)	(42,579)
Ending balance	US$	29,148	24,712

Loans to key management personnel, included in amounts due from employees (note 8), were non-interest bearing, unsecured and repayable within six to eight months.

29. Financial instruments

The FSC has exposure to the following risks from its use of financial instruments:

(a) Credit risk

(b) Liquidity risk

(c) Market risk

This note presents information about the FSC's exposure to each of the above risks, the FSC's objectives, policies and processes for measuring and managing risk and the FSC's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Governor of TCI, with responsibility for the FSC, appoints the FSC's Commissioners. The Commissioners principal functions are:

- to establish the policies of the FSC and monitor and oversee their implementation;
- to monitor and oversee the management of the FSC by the Managing Director with the objective of ensuring that:
  - (i) the resources of the FSC are utilised economically and efficiently;
  - (ii) adequate internal financial and management controls are in place;
  - (iii) the FSC is operated in accordance with principles of good governance; and
  - (iv) the FSC fulfils its statutory obligations and properly discharges its functions.
- to approve the financial estimates of the FSC for submission to Governor in Cabinet and to approve the FSC's consolidated financial statements; and
- to appoint the FSC's senior officers, including the Registrar of Companies, but excluding the Managing Director who is appointed by the Governor of TCI.

The Commissioners are responsible for developing and monitoring the FSC's risk management policies.

The FSC's risk management policies are established to identify and analyse the risks faced by the FSC, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the FSC's activities.

The Commissioners oversee how management monitors compliance with the FSC's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the FSC.

29. Financial instruments, continued

(a) Credit risk

Credit risk is the risk that a licensee or counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the FSC, resulting in a financial loss to the FSC.

Cash and cash equivalents and the term deposit are placed with counterparties that are TCI regulated entities. Management does not expect the counterparties to fail to meet their obligations.

Held-to-maturity investments are only allowed with counterparties that have a credit rating that is acceptable to the Commissioners of the FSC. Given their credit ratings, management does not expect any counterparty to fail to meet its obligations.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset on the consolidated statement of financial position.

The maximum exposure to credit risk at March 31 was:

		Carrying Amount	
		2020	2019
Current assets:			
Cash and cash equivalents	US$	10,657,617	11,076,890
Term deposit		2,321,084	316,329
Accounts receivable		661,113	410,124
Due from employees		121,905	111,239
Other receivables (note 10)		14,354	57,116
Current portion of held-to-maturity investments		1,552,699	999,631
		15,328,772	12,971,329
Non-current assets:			
Held-to-maturity investments		–	501,983
	US$	15,328,772	13,473,312

At the reporting date, the FSC had a concentration of credit risk as forty-eight percent (48%) (2019: seventy-eight percent (78%)) of the FSC's total cash and cash equivalents and term deposit in TCI were held with CIBC.

29. Financial instruments, continued

(a) Credit risk, continued

The exposure to credit risk for accounts receivable at March 31, by type of counterparty, was as follows:

		Carrying Amount 2020	Carrying Amount 2019
Company managers	US$	584,283	294,342
Insurance managers		49,525	16,485
Trust companies		22,000	20,313
Insurance providers and intermediaries		5,100	16,620
Banks		205	62,359
Others		–	5
	US$	661,113	410,124

The exposure to credit risk for accounts receivable at March 31, by geographical location, was as follows:

		Carrying Amount 2020	Carrying Amount 2019
Providenciales	US$	640,513	404,109
Grand Turk		20,600	6,015
	US$	661,113	410,124

The FSC's activities may give rise to risk at the time of settlement of transactions. Settlement risk is the risk of loss due to the failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed. For the vast majority of transactions the FSC mitigates this risk by conducting settlements through a compliance officer to ensure that the amount due is settled only when both parties have fulfilled their contractual settlement obligations.

The ageing of accounts receivable at March 31 was as follows:

		2020		2019	
		Gross	Impairment	Gross	Impairment
Past due					
Not later than one month	US$	786,980	126,200	443,421	34,000
Later than one month but not later than three months		333	–	550	–
Later than three months		175,640	175,640	108,106	107,953
Outstanding but not past due		–	–	–	–
	US$	962,953	301,840	552,077	141,953

29. Financial instruments, continued

(a) Credit risk, continued

During the year ended March 31, 2020, an impairment loss of US$163,087 (2019: US$143,766) incurred relating to accounts receivable was recognised in the consolidated statement of revenue, expenditures and other comprehensive income (note 7).

The Commissioners are of the opinion that the FSC's policies governing delinquent accounts and provisions for impairment ensure that these consolidated financial statements accurately reflect any credit risk associated with amounts owing to the FSC.

Based on past experience, the FSC believes that no significant impairment allowance is necessary with respect to the FSC's other financial assets.

The credit quality of held-to-maturity investments (US treasury bonds) that are neither past due nor impaired can be assessed by reference to external credit ratings (Standard & Poor's Ratings Services and Moody's Investor Services, Inc.) or to historical information about counterparty default rates:

	2020	2019
US Treasury bonds	AA+; Aaa	AA+; Aaa

The maximum exposure to credit risk for cash and cash equivalents, term deposit and held-to-maturity investments at March 31 by geographic region was as follows:

		2020	2019
Turks and Caicos Islands			
Cash and cash equivalents	US$	10,657,617	11,076,890
Term deposit		2,321,084	316,329
		12,978,701	11,393,219
United States of America			
Held-to-maturity investments		1,552,699	1,501,614
	US$	14,531,400	12,894,833

(b) Liquidity risk

Liquidity risk is the risk that the FSC will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset, or that such obligations will have to be settled in a manner disadvantageous to the FSC.

29. Financial instruments, continued

(b) Liquidity risk, continued

The FSC's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the FSC's reputation.

At March 31 there were no significant concentrations of liquidity risk. The FSC ensures that it has sufficient liquid financial assets to meet its current financial liabilities.

The FSC's management believe that investing in held-to-maturity investments has not affected the FSC's ability to meet its current financial liabilities.

The following are the contractual maturities of non-derivative financial instruments, including estimated interest payments but excluding the impact of netting agreements:

	2020			
	Carrying amount	Contractual cash flows	Under 1 year	> 1 year
	US$	US$	US$	US$
Cash and cash equivalents	10,657,617	10,661,067	10,661,067	–
Term deposit	2,321,084	2,334,474	2,334,474	–
Accounts receivable	661,113	661,113	661,113	–
Due from employees	121,905	121,905	121,905	–
Other receivables	14,354	14,354	14,354	–
Held-to-maturity investments	1,552,699	1,562,488	1,562,488	–
Accounts payable and accrued expenses	(397,542)	(397,542)	(397,542)	–
Due to TCIG	(1,764,745)	(1,764,745)	(1,764,745)	–
	13,166,485	13,193,114	13,193,114	–

	2019			
	Carrying amount	Contractual cash flows	Under 1 year	> 1 year
	US$	US$	US$	US$
Cash and cash equivalents	11,076,890	11,086,329	11,086,329	–
Term deposit	316,329	317,368	317,368	–
Accounts receivable	410,124	410,124	410,124	–
Due from employees	111,239	111,239	111,239	–
Other receivables	57,116	57,116	57,116	–
Held-to-maturity investments	1,501,614	1,528,055	1,011,475	516,580
Accounts payable and accrued expenses	(593,057)	(593,057)	(593,057)	–
Due to TCIG	(430,879)	(430,879)	(430,879)	–
	12,449,376	12,486,295	11,969,715	516,580

29. Financial instruments, continued

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rates and debt security prices, will affect the FSC's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

(i) Interest rate risk

The FSC's operations are subject to the risk of interest rate fluctuation to the extent that interest-earning assets mature or reprice at different times or in differing amounts. Risk management activities are aimed at optimising net interest income, given market interest rate levels consistent with the FSC's strategies.

At March 31 the interest rate profile of the FSC's interest-bearing financial instruments was:

		2020	2019
Fixed rate instruments:			
Financial assets			
Certificates of deposit	US$	7,649,350	5,550,335
Term deposit		2,321,084	316,329
Held-to-maturity investments		1,550,000	1,500,000
	US$	11,520,434	7,366,664

Cash flow sensitivity analysis for fixed rate instruments

A change of 100 basis points in interest rates for fixed rate instruments at March 31 would have increased/(decreased) surplus in the consolidated statement of revenue, expenditures and other comprehensive income by US$115,204/(US$115,204) (2019: US$73,667/(US$73,667)) assuming all other variables remained constant.

		2020	2019
Variable rate instruments:			
Financial assets			
Savings accounts	US$	1,135,349	1,136,713
	US$	1,135,349	1,136,713

29. Financial instruments, continued

(c) Market risk, continued

(i) Interest rate risk, continued

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates for variable rate instruments at March 31 would have increased/(decreased) surplus in the consolidated statement of revenue, expenditures and other comprehensive income by US$11,353/(US$11,353) (2019: US$11,367/(US$11,367)) assuming all other variables remained constant.

(ii) Fair values

The following table sets out the carrying amounts and fair values of financial assets and liabilities, including their levels in the fair value hierarchy. It does not include the fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	2020			
	Carrying Amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
	US$	US$	US$	US$
Cash and cash equivalents	10,657,617	–	–	–
Term deposit	2,321,084	–	–	–
Accounts receivable	661,113	–	–	–
Due from employees	121,905	–	–	–
Other receivables	14,354	–	–	–
Held-to-maturity investments	1,552,699	1,552,699	–	–
Accounts payable and accrued expenses	(397,542)	–	–	–
Due to TCIG	(1,764,745)	–	–	–

	2019			
	Carrying Amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
	US$	US$	US$	US$
Cash and cash equivalents	11,076,890	–	–	–
Term deposit	316,329	–	–	–
Accounts receivable	410,124	–	–	–
Due from employees	111,239	–	–	–
Other receivables	57,116	–	–	–
Held-to-maturity investments	1,501,614	1,501,614	–	–
Accounts payable and accrued expenses	(593,057)	–	–	–
Due to TCIG	(430,879)	–	–	–

29. Financial instruments, continued

(c) Market risk, continued

(ii) Fair values, continued

Observable prices or model inputs are usually available in the market for listed debt securities. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

30. Capital management

Section 17 of the Ordinance mandates that the FSC establish a reserve fund into which the FSC's operating surplus is paid along with any other funds that are otherwise required to be paid into such a reserve fund under the terms of the Ordinance. If, on the last working day of any quarter within a financial year, the balance in the reserve fund exceeds the expected recurrent expenditure of the FSC for that financial year, the FSC is mandated to pay a sum equal to the excess to TCIG, within thirty days (fourteen days prior to March 31, 2019) of the last working day of the quarter, provided always that the balance in the reserve fund does not fall below US$5 million as a result of any such payment to TCIG.

Management have determined that the most appropriate measure of expected recurrent expenditure in accordance with the above requirement is the FSC budgeted expenditure for that financial year submitted to the Governor of TCI. The budgeted expenditure for the year ended March 31, 2020 was US$7,195,671.

On February 22, 2019, the Cabinet granted approval for the FSC to retain any net surplus greater than US$3.5M for the year ended March 31 2019 to facilitate the construction of a building to house the Companies Registry in Grand Turk, TCI. The net surplus for year ended March 31, 2019 was US$6,918,977 and, as such, the amount of US$3,381,700 being the surplus greater than U$3,500,000, less the US$37,277 transferred to capital reserve fund, was retained in the reserve fund at March 31, 2019. There was no movement in the capital reserve fund during the year ended March 31, 2020. Accordingly, the reserve fund of US$10,577,371 at March 31, 2020 represented the budgeted recurrent expenditure for the year ended March 31, 2020 of US$7,195,671 and the excess surplus above US$3,500,000 for the year ended March 31, 2019 of US$3,381,700.

30. Capital management, continued

		2020	2019
Reserve fund at April 1	US$	10,222,936	6,841,236
Net surplus for year transferred to reserve fund		354,435	3,381,700
Reserve fund at March 31	US$	10,577,371	10,222,936

Net surplus for year transferred to reserve fund:

		2020	2019
Net surplus for year transferred to reserve fund:			
Net surplus for year	US$	3,783,245	6,918,977
Transfer to TCIG		(3,428,810)	(3,500,000)
Transfer to capital reserve fund		–	(37,277)
	US$	354,435	3,381,700

31. Contingent liabilities

In the ordinary course of its activities the FSC is a party to several legal actions. The FSC is potentially liable for costs and damages in the event of any adverse finding by the TCI court (the Court) in relation to any of these legal actions. However, it is not possible to predict the decisions of the Court or estimate the amount of such awards, if any. Accordingly, no provision has been made in these consolidated financial statements regarding these legal proceedings. Management is of the opinion that the resolution of these matters will not have a material impact on the FSC's consolidated financial statements.

32. Subsequent event

On March 11, 2020, the COVID-19 outbreak was declared a global pandemic by the World Health Organization causing significant disruption in the global and local economies. As a result, economic uncertainties have arisen which are likely to negatively impact the consolidated financial performance of the FSC for the year ended March 31, 2021 and possibly beyond. Due to the significant amount of uncertainties regarding this matter as at the date of approval of these consolidated financial statements the financial impact on the FSC could not be reasonably ascertained.

33. Going concern

As disclosed at note 32 to these consolidated financial statements the COVID-19 pandemic has caused significant disruption in both global and local economies. However, on the basis of various assessment, forecasts and representations, management believes the risk that the FSC will not be able to meet its obligations as they fall due is low and the FSC will continue as going concern for the foreseeable future.

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