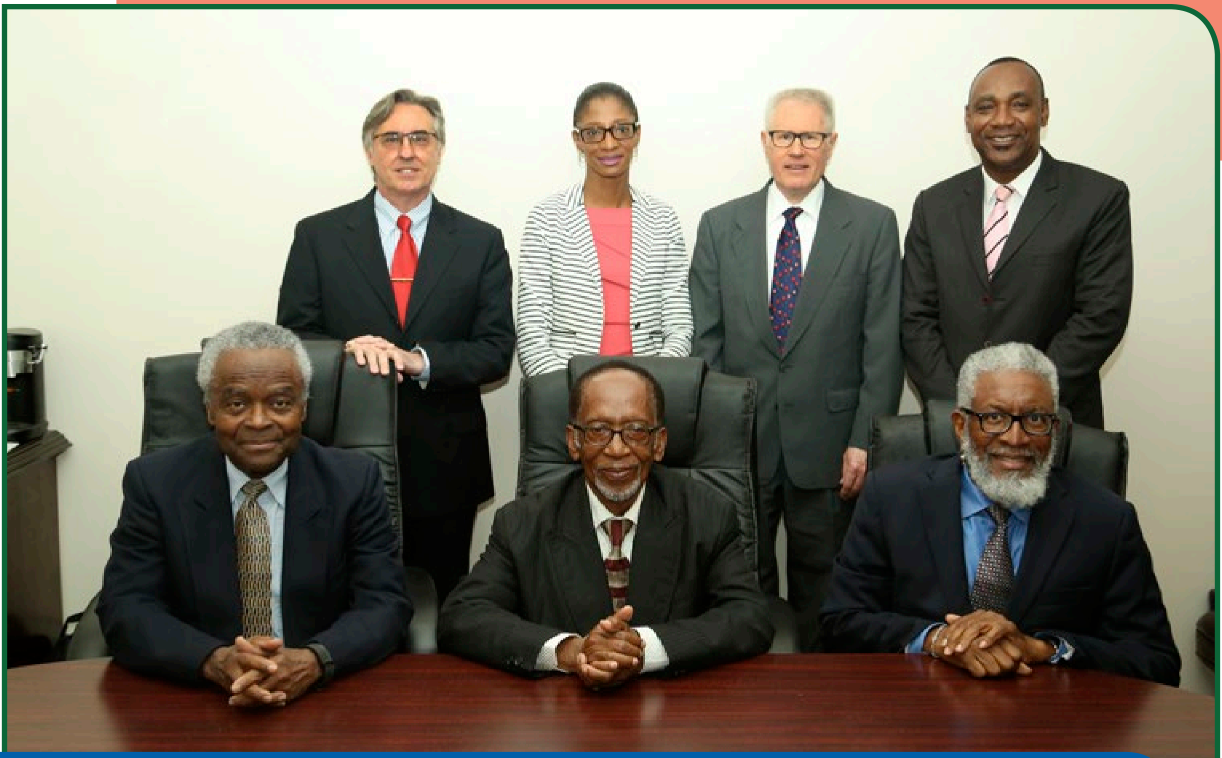
TURKS & CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION

ANNUAL REPORT
2016/2017

Reporting Period April 1, 2016 to March 31, 2017

DIRECTORS OF
THE FINANCIAL SERVICES COMMISSION



SEATED FROM LEFT TO RIGHT: Mr. Neville Grant, Sir Errol Allen (Chairman) and Mr. Oswald Simons (Deputy Chairman)

STANDING LEFT TO RIGHT: Mr. Kevin Mann, Mrs. Athenee Harvey-Basden (PS Finance), Dr. David Oakden and Mr. Niguel Streete (Managing Director)

TURKS & CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

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

SENIOR MANAGEMENT

Niguel Streete	-	Managing Director
Kenisha Bacchus	-	Director of Administration & HR and Senior Legal Advisor
Claudia Coalbrooke	-	Director Company Managers & Investments
Desmond Morrison	-	Director Finance
Marlon Joseph	-	Director Bank and Trust
Paul Coleman	-	Director Compliance
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 *DIRECTORS*

Errol *ALLEN*

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

Athenee *HARVEY-BASDEN*

Mrs. Harvey-Basden served in various positions in the Turks and Caicos Islands Government, including at the Treasury Division, as Accountant General and she now holds the positions 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 was appointed to the board with effect from April 1, 2011. Mr. Grant has vast experience in the field of financial supervision and regulation and was a consultant to the International Monetary Fund, Governments of Jamaica, Vanuatu and Zambia. He is a past Managing Director of the Cayman Islands Monetary Authority.

Kevin MANN

Mr. Mann is a Certified Anti-Money Laundering Specialist (CAMS). Mr. Mann has over 28 years in the supervision and regulation of the financial services industry in the UK and the British Overseas Territories and was responsible for oversight of regulatory standards for international financial services activities in the six British Overseas Territories in the Caribbean. He has played a critical role in assisting territories in improving preparations for successful OECD, CFATF and IMF evaluations. Prior to joining the board he worked closely with TCI Agencies, Government and Officials and now works mostly as a consultant.

David OAKDEN

Dr Oakden joined the board in October 2016. He 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 Ph.D. in Mathematics from the University of Toronto.

Niguel STREETE

Mr. Streete has extensive training and over 20 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

1.1 OVERVIEW

In keeping with the requirements of Section 22(4) of the Financial Services Commission Ordinance 2007, I am pleased to submit the annual report for 2017 to the Governor and people of the Turks and Caicos Islands. This report covers the work carried out for the financial year ended March 31, 2017 and includes the financial performance for that period.

I am happy to report that the Commission was able to execute most of the programmes and achieve most of the targets set for the financial year. Among these were the organizational review and updating of relevant board policies dealing with board conduct, internal procurement and the streamlining of licensing approval procedures. One key element of the organizational review was the separation of the Finance function from that of the Human Resources function. This separation has resulted in more streamlined and effective processes in both the Finance and HR administration.

It was reported to you in the 2016 annual report that the Commission wished to move ahead with plans to establish an organization wide risk-based supervisory framework for the regulatory oversight of licensees. I am also happy to report that towards that end the Commission staff participated in a Risk Based Supervisory (RBS) training module conducted in December of 2016. This training was put on by the Caribbean Group of Banking Supervisors (CGBS) in conjunction with the US Federal Reserve Banking System. The training provided critical reinforcement of the key concepts and methodologies to be used in our implementation drive for that framework. We thank both the CGBS and the Federal Reserve Board of Governors for allowing us this opportunity. The Banking and Insurance Departments have started the implementation of this framework. The Compliance

Department is to get underway soon with the implementation of RBS for its AML and Proceeds of Crime compliance efforts in the coming period.

The financial performance for the year was quite commendable, with revenue exceeding targets by some 14.41% and expenditure being contained below budget by 14.33%. This meant that the Commission was able to make a generous contribution to the Central Government of the surplus generated, after having satisfied its required Reserve Fund target.

The Managing Director in his report speaks in greater depth to the operational and other policy outcomes of activities undertaken during the review period.

1.2 STRENGTHENING THE FINANCIAL SYSTEM

Consistent with our greater focus on financial sector stability, the Commission continued its efforts during the period to research and design an appropriate framework for financial stability monitoring and oversight. Though still embryonic, this work should ultimately lead in the coming years to development of a sound, well-calibrated statutory and institutional framework aimed at reducing the systemic impact of future financial crises.

Complementary to these efforts, the Commission will also commence work in the second half of the upcoming financial year on crisis management. This project, which will be undertaken in two phases, will begin with strengthening of the Commission's internal capacity to respond to financial crises. Together, these initiatives should enhance the Commission's regulatory capabilities and further promote confidence in the financial system.

1.3 BUSINESS CONTINUITY PLANNING

Central to a stable and consistently well-functioning regulator is a well-organized and appropriate system of business continuity planning. To that end two approaches are being considered. Firstly, a system of succession planning and staff development which (as previously outlined to some degree in our 2016 report) is now being revamped and upgraded. Such a system provides for the filling of the post of Deputy Managing Director. That position will ensure that the workload of the Commission does not fall solely to the Managing Director and in case of his absence, or incapacity, provides for smooth continuity. Other aspects of this succession planning approach is that staff are being identified and matrices developed to assess their existing skills and any knowledge deficiencies relative to particular positions that may become vacant. Once any deficiencies are identified, robust programmes will be developed to address them. A member of staff in the HR Department will be trained in the area of succession planning to better position that Department to fully roll out and manage this process.

The second area of business continuity relates to the development of a documented framework to establish the steps and procedures to be followed in the case of a disaster affecting one of the islands from which the Commission operates or from a building occupied on any such island. Documenting and identifying all the key resources and systems required for continuity will assist greatly in managing the recovery and continuity process. This is an area which was identified as requiring attention in our new risk management process which was implemented during the year under review.

1.4 LOOKING AHEAD

In line with the growing demand internationally for standards on transparency and compliance, the FSC will embark on a project to develop and implement a Beneficial Owner Registry, which is targeted to be up and running within the next financial year. This activity will pull on existing human and financial resources and may pose short to medium term challenges given our existing commitments as well as other operational constraints. The requirement of the Beneficial Owner Registry is set out in the new Companies Bill set to come into effect shortly. The Bill has other provisions which may pose challenges for the Commission which oversees the Companies Registry, but which we are prepared to meet.

The Commission will continue to seek avenues of dialogue with other State Agencies to ensure that the Commission has available to it all the necessary resources to facilitate its work. In this regard we thank the Governor for the support and guidance that he has provided during the last year.

The Management and staff of the Commission continue to perform well against the varied constraints and resource shortages and we owe them a debt of gratitude for their commitment to duty.

Sincerely,

Sir Errol Allen
Chairman

2.0 MANAGING DIRECTOR'S REPORT

2.1 OVERVIEW

The Commission recorded several achievements during the 2016-17 financial year and made significant progress against the supervisory and operational targets set out in our Plans and Priorities 2016-17.

2.1.1 ENHANCING OUR APPROACH TO SUPERVISION

The ongoing effort to refine and improve our approach to supervision remained a central driver of the Commission's work programme. Throughout the year, the regulatory departments continued to collaborate on development of the Commission-wide risk based supervision framework, in preparation for engagement with the industry in 2017.

In support of this upcoming transition, in December 2016, we were privileged to co-sponsor a seminar on Risk Based Supervision with the Caribbean Group of Banking Supervisors (CGBS). The seminar – which was led by presenters from the US Federal Reserve System and which brought together banking regulators from eleven countries across the region – was by all reports, an overwhelming success.

In tandem with the implementation of risk based supervision, work commenced to update and formalise a supervisory ladder of intervention to cover all of the Commission's licensees. The framework will be issued in 2017, as part of the wider risk based supervision framework.

Concurrent with this enhancement of supervisory methodologies, the Commission also continued to advance a relatively broad regulatory policy agenda.

Primary among this list was the still ongoing work to develop a financial stability function within the Commission. The Commission began publishing Financial Stability Reports in 2015 and since then has worked to revamp the frameworks for stress testing and tracking of financial soundness indicators. Responsibility for financial stability is not solely the domain of the regulator; accordingly, the Commission will continue to engage policymakers, licensees and other relevant stakeholders as this work progresses in 2017 and beyond. The need for development and formalisation of a framework is especially critical, given the absence of structural safeguards common in other jurisdictions, including a central bank which would undertake a monetary policy function and typically provide Lender of Last Resort support as needed, during periods of financial distress.

2.1.2 OUR COLLABORATION

By its very nature, our work requires us to work closely with our various stakeholders; during the review period the Commission was again fortunate to benefit from collaboration on a number of initiatives. One seminal achievement was the considerable progress made – through partnership with the international insurance fraternity – to overhaul and improve the Commission's strategy for the regulation of Producer Owned Reinsurance Companies (PORCs).

During 2016-17, the Commission also provided technical support to Invest TCI, to complement that agency's efforts to promote the jurisdiction as a financial services centre.

Like many of our British Overseas Territory peers, the TCI is required to pass legislation on beneficial ownership and introduce a registry to house information on beneficial owners. During the upcoming year, the Commission will continue to support this Government-led initiative for greater transparency of ownership by providing technical and infrastructural support for the new Beneficial Ownership Registry. The proposed arrangement will see the new registry being hosted within and staffed by the Commission, which will work together with national law enforcement to provide beneficial ownership information, as needed, to overseas authorities, within established confidentiality protocols.

2.1.3 STRENGTHENING OUR INTERNAL GOVERNANCE

The Commission firmly recognises and supports the need for good governance of its operations. Accordingly, during the review period it strengthened its policy and control procedures in a number of ways, including implementation of a new Board Charter and development of several additional policies to guide the work of the Commission and its Board. I am also pleased to report that last October, the Commission rounded out the complement of its Board through the addition of our newest Director, Dr David Oakden. In the months since his appointment, Dr Oakden has already contributed substantially to the work of the Commission, particularly in his subject field of insurance; we are fortunate to benefit from his service.

2.1.4 IMPROVING OUR INTERNAL EFFICIENCIES

As the industry is aware, the Commission has encountered numerous challenges in implementing the K-Registry platform which have delayed its implementation. During 2016 however, we made significant progress, particularly in the design and testing of forms. As such, I am pleased to report that we are now nearly ready for launch. Introduction of the platform and the resultant automation of several transactions and processes is only one of several steps the Commission intends to take to deliver a better product and improve the overall experience for our Registry customers.

Considerable work was also done to strengthen staffing arrangements within the Commission. Of note within the period, the long vacant positions of Director of Insurance and Registrar were filled, and a new Human Resources and Administration Department was introduced for more efficient handling of staff related and administrative matters. Notwithstanding this progress, the combined impact of attrition and an ever expanding scope of work continues to strain our human resources, the effects of which are most sorely felt in the technical areas.

2.1.5 MODERNIZING OUR LEGISLATION

On the legislative front, the Commission continued to work alongside the industry to modernise the laws governing financial services in the Islands. Perhaps most notably, the previously finalised Domestic Insurance Bill and three new bills governing the operation and supervision of professional trustee services took effect in the second half of the year. Last year, the Commission also contributed to the development and drafting of legislation to guide establishment and supervision of credit unions. The new Credit Union Ordinance represents a significant step to expand and further diversify the range of financial service offerings available within the jurisdiction.

2.2 STRENGTHENING OUR FINANCES

As the audited consolidated financial statements indicate, the Commission recorded a surplus of $2.5M, most of which was transferred into the Consolidated Fund. Though the Commission continues to generate an operational surplus and operates within judicious budgetary limits, we will be challenged in coming years to devise new ways to augment our revenue streams, as our remit expands.

2.3 CHARTING OUR WAY FORWARD

As we look forward to the 2017-18 financial year, we have set several ambitious targets on our work programme. Key among these will be completion of the K-Registry implementation and delivery of its full suite of capabilities. On the supervisory front, we remain on course to fully implement risk based supervision within the next two years and expect that much of our engagement with our licensees in the coming year will support this initiative. We are pleased at the positive strides made to fortify our relationships with stakeholders and are committed to further strengthening these ties going forward. The Commission would be nothing if not for the committed efforts of its staff – in recognition of that fact, staff development and capacity building also feature prominently among the 2017-18 plans. We will also continue to diligently pursue succession planning and facilitate technical and other training for staff.

2.4 CLOSING

As we reflect on the year just concluded, I am heartened by the very real progress that we were able to achieve. I would like to take this opportunity to express my gratitude to our Chairman and Board of Directors for their unwavering support and strong guidance. My thanks also to the Governor, Premier, our licensees and all of the other stakeholders with whom we have collaborated, and on whose support we rely. I would also like to acknowledge the debt of gratitude I owe to the staff who continue to give dedicated service to the Commission. As we set out in pursuit of our 2017 slate of objectives, I am confident that we will – together – continue to achieve great success for the benefit of the people of the Turks and Caicos Islands.

Sincerely

Niguel Streete
Managing Director

3.0 BANK AND TRUST DEPARTMENT REPORT

3.1 OVERVIEW

During the financial year (FY) 2016/2017, the Bank and Trust (B&T) Department continued its supervision of banks, trust companies and money services businesses (MSBs) in accordance with the respective governing legislation.

The Department remained active during the year, mainly focusing on enhanced monitoring of banks' liquidity risk management frameworks, and consultation with the industries and other key stakeholders to reform legislation and refine guidelines. Also, emphasis was placed on staff training and development.

The number of financial institutions under the supervision of the B&T Department remained at 19 throughout the year with seven banks, nine trust companies and three MSBs. One application for a trust licence, submitted the previous year, was withdrawn during the year under review.

3.2 ACTION PLAN 2012-2016

During the FY 2016/2017, consultation with the industry continued as it relates to banks' liquidity standards. The Department has issued, for consultation, the revised guidance on liquidity requirements for licensed banks, for which finalisation is scheduled for the third quarter of 2017. Banks continued to provide regular monthly reports on their respective liquidity positions and have been enhancing their liquidity risk management frameworks.

Work continues on various guidelines, including: Credit Classification and Provisioning; Corporate Governance; Supervisory Intervention; and guidelines for the trust sector. The guideline on Bank Licences issuance was issued in July 2016.

The implementation of a risk-based supervisory regime remains a work-in-progress. Due to resource constraints, the deadline for completion was extended to 2018. The implementation of the Basel II framework was also deferred to 2018.

During the previous year, the B&T Department commenced the development of stress testing methodologies for credit and liquidity risks. These areas remained under development at the end of the financial year 2016/2017.

3.3 REGULATORY ACTIVITIES DURING THE YEAR

During the review period, the B&T Department conducted onsite examinations on two of the nine trust companies. The scope of the examinations covered corporate governance; effectiveness of policies, procedures and internal controls; Anti-Money Laundering/Prevention of Terrorist Financing controls; and compliance with the relevant Ordinances, Regulations and Codes.

As part of its supervisory approach, the B&T Department continued to conduct annual and semi-annual regulatory meetings with senior management of all licensees under its supervision. The items discussed during these meetings include the development of the company's business, past performance, future strategy and any supervisory concerns.

3.4 DE-RISKING IN THE BANKING SECTOR

As a result of increased Anti-Money Laundering and Prevention of Terrorism Financing scrutiny by regulators, banks globally have embarked on a de-risking exercise which have impacted local banks. International banks have been terminating existing relationships which they consider to be high risk or unprofitable. This initiative has affected a number of customers: money services businesses, international charities, law firms, company managers and banks. The Commission continues to monitor these developments and to consult with the banks and affected sectors to minimise the impact on the financial sector.

3.5 ENFORCEMENT ACTIONS

Enforcement action was initiated against one bank during the year; this issue is now resolved. No trust companies or money services businesses were subject to enforcement action during the year under review.

3.6 LEGISLATIVE INITIATIVES

Key legislative changes during the year included the issuing of a new suite of legislation to govern professional trust businesses; the Trusts Ordinance 2016, the Trust Companies (Licensing and Supervision) Ordinance 2016, the Trust Companies Regulations 2016 and the Trust Companies Code 2016. The new legislation prescribes a reduced minimum statutory deposit of $100K, down from $250K (which was required under the previous legislation[1]). Trust companies are also now required to maintain a minimum paid-up share capital of $250K under the new legislation.

1 The Trustee Licensing (Amendment) Regulations 2009

During the review year, a Trust Law Advisory Committee ("the Committee") was established under the Trust Companies (Licensing and Supervision) Ordinance 2016 ("the Ordinance") with industry and regulator representation. The primary function of the Committee as set out in Section 59 of the Ordinance is to make recommendations to the Commission on trust law reform.

The Credit Union Bill 2016 was passed in the House of Assembly in July 2016[2] . The Department continued to contribute to drafting and finalisation of the supporting Regulations and Code. It is envisaged that the B&T Department will undertake the supervisory oversight of the Credit Union sector once the legislation comes into effect.

The Banking Bill, which was reviewed by the International Monetary Fund's legal team for adherence to the Core Principles for Effective Banking Supervision, is under revision along with the draft Regulations and Code. These documents are scheduled for further consultation during the third quarter of 2017.

In addition, the legislation governing the money services businesses sector is currently under review with the aim of drafting a new suite of legislation to strengthen the regulation and supervision regime of the sector.

3.7 BANKING SECTOR

3.7.1 CAPITAL ADEQUACY

The TCI banking system's risk weighted capital adequacy ratio (CAR)[3] increased by four percentage points to 28.0 percent at end-March

[2] This Ordinance is not yet operational.

[3] Risk weighted capital adequacy ratio is defined as qualifying capital divided by risk-weighted assets. It mainly measures the adequacy of capital against the credit risk inherent in a bank's asset portfolio.

2017 relative to the previous year. This increase was primarily driven by a 7.0 percent ($17.1M) increase in the sector's qualifying capital coupled with a 7.0 percent ($68.1M) decline in risk weighted assets, which was mainly driven by one bank as a result of write-offs. Overall, individual banks remained adequately capitalized with CARs ranging from 19.0 percent to 50.0 percent, well above the 11.0 percent minimum statutory requirement.

3.7.2 ASSET QUALITY

Total assets in the banking system trended downward for the second consecutive year to $1.67B, representing a decrease of 2.7 percent compared to a decline of 9.0 percent during the FY 2015/2016. The decrease in total assets was mainly reflected in reductions in loans & advances and placements at other financial institutions of 4.1 percent and 4.4 percent, respectively. Corresponding reductions were noted in the sector's liabilities as banks repaid balances owed to other financial institutions, which fell by 38.2 percent ($121.9M). Other liabilities declined 27.7 percent ($23.7M) while customers deposits increased 7.7 percent.

Despite the decline to $865.9M ($903M in March 2016), loans and advances remained the largest asset class, accounting for 51.9 percent (52.7 percent in March 2016) of the banking sector's total assets. The decline experienced over the year was mainly influenced by write-offs and sale of non-accrual loans. In addition, the strengthening of the credit underwriting and loan administration policies at banks have constrained loan growth during the FY 2016/2017, hence the continued downward trajectory of the loan portfolio year on year.

In contrast, there was a notable increase in investments by 71.8 percent, attributed primarily to one bank. However, given the relative small size of this asset class, there was a negligible impact on total assets. See Chart 1 for key asset trends and Chart 2 for the composition of the sector's assets.

During the review period, non-performing loans (NPLs) reduced significantly by 31.9 percent to $86.3M ($124.4M in March 2016), and accounted for 10.0 percent of total loans (13.8 percent in March 2016). Loan loss provisions fell to $37.6M ($58.5M in March 2016), which provided coverage for 43.6 percent of NPLs relative to 46.8 percent at end-March 2016.

Consistent with previous years, NPLs were concentrated in the construction & land development (44 percent) and the personal loans (38 percent) sectors. Chart 3 shows the trend of NPLs and provisions over the periods 2013/14 to 2016/17.

3.7.3 EARNINGS

For the financial year under review, the banking sector reported accumulated profit of $32.8M, representing a 4.1 percent decline compared with the profit earned for the corresponding period in 2015/2016. The reduced profit reflected a larger decline in revenue relative to the decreased expenses for the banking sector. All the banks reported profits for the period under review, with three banks reporting increased profits relative to the previous financial year ended March 2016.

Revenue for the period under review amounted to $82.6M, consisting of interest income (from loans, placements and investments) of $52.8M or 64 percent (68% the previous year), other income (from services, commission and foreign exchange transactions) of $29.7M of 36 percent (31.6%, the previous year). The 14.7 percent ($9.1M) reduction in interest income, influenced

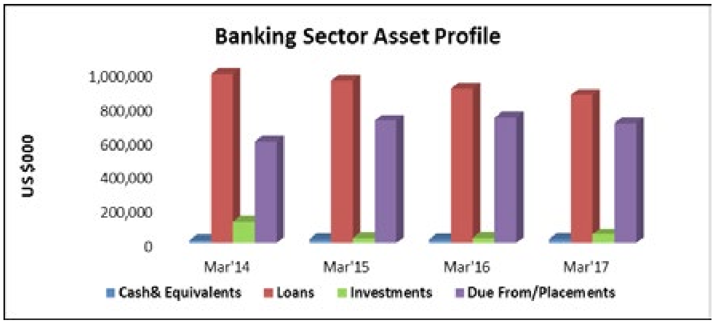

Chart 1: Banking Sector Asset Profile

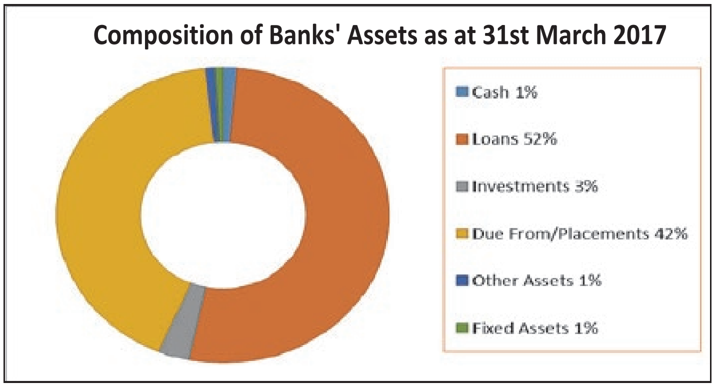

Chart 2: Banks Assets as at March 31, 2017

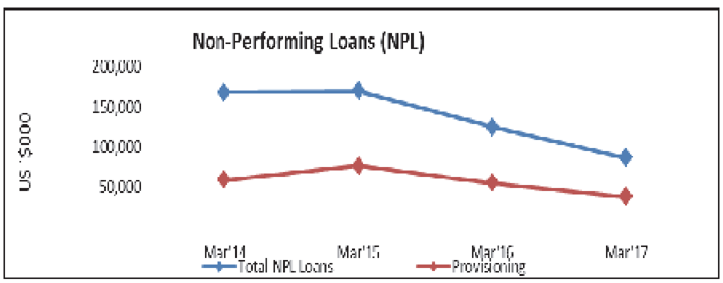

Chart 3: Non-Performing Loans

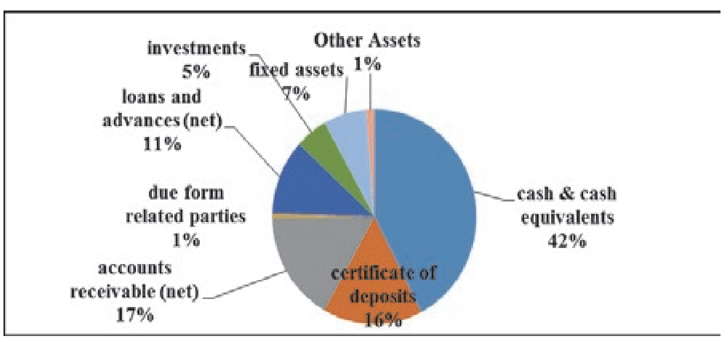

Chart 4: On-balance sheet Assets in the Trust Sector

by the contraction in loans and advances, was partly offset by a 151.2 percent ($5.4M) increase in interest from placements.

Other income increased by 4.1% ($1.2M). This increase was directly attributed to one bank's write back of loan provisioning of $3.3M in the fourth quarter. The remaining categories of other income all showed declines ranging from 5 percent to 21 percent.

Return on average assets and equity stood at 1.9 percent and 13.5 percent respectively, relative to 1.9 percent and 12.3 percent the previous year. Improved efficiency was reflected in the ratio of non-interest expenses to total revenue of 54.7 percent relative to 58.9 percent the previous year.

3.7.4 LIQUIDITY

The banking sector remained highly liquid, despite the fall in high quality liquid assets. Total liquid assets fell by 2.2 percent to $707.7M, while deposits and balances due to financial institutions together declined by 2.8 percent to $1.35B. As a result, the Liquid Asset Ratio[4] decreased by 0.6 percentage points to 52.3 percent. All banks exceeded the statutory minimum 12.0 percent Liquid Asset Ratio throughout the financial year.

Liquid assets provided coverage for 61.3 percent of customer deposits (67.5 percent in March 2016) and represented 42.4 percent of total assets (42.3 percent in March 2016).

3.8 TRUST SECTOR

This analysis reflects the financial position of the trust sector as at December 31, 2016. The on-balance sheet assets of trust companies reached $19.7M ($14M in December 2015), of

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[4] Liquid assets as a percentage of deposits and balances due to financial institutions

[5] The Certificate of Deposits amounted to $3.1M, consisting of restricted statutory deposits ($1.5M), contractual restricted deposits ($1M) and other deposits ($5K). These deposits are not readily available as liquid assets and therefore not considered as cash equivalent.

which the main asset component was cash and cash equivalents (42 percent), which consisted mainly of cash, followed by accounts receivable (17 percent) and certificates of deposits (16 percent). (For further details, refer to Chart 4). Two of the nine companies accounted for 80.0 percent of the sector's assets.

3.9 MONEY SERVICES BUSINESS SECTOR

As at March 2017, the three MSBs operating in the TCI had aggregate assets of $3.0M, which increased by 22.4 percent when compared with the previous year. Despite this increase, the sector's profitability declined during the same period by 17.1 percent to $632K when compared with $762K for the FY 2015/2016. The decline in the sector's profit margin was reflected in the return on average assets and equity ratios of 23.0 percent and 50.1 percent respectively, relative to 29.0 percent and 73.0 percent in FY 2015/2016.

Remittances transacted through MSBs during the review period totalled $108.1M ($94.6M during the previous financial year.), of which 93.2 percent ($100.7M) represented outflows and the remaining 6.8 percent ($7.4M) was inflows. Total outflows grew by 14.4 percent over the financial year while total inflows increased by 13.1 percent.

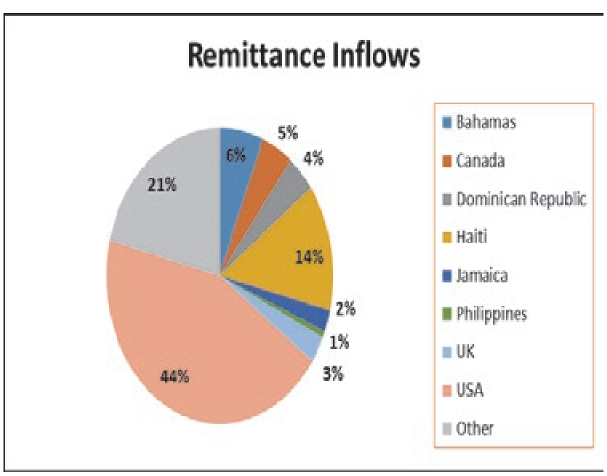


Chart 5: Remittance Inflows

Haiti and the Dominican Republic together accounted for 55.8 percent ($56.2M) of the total outflows and the United States of America accounted for the largest share of the inflows at 44.1 percent ($3.2M). Charts 5 & 6 show the percentages of remittance inflows and outflows by countries.

3.10 STAFF COMPLEMENT

The Department encountered staffing challenges, closing the year with five staff members compared with seven in the previous year.

3.11 TRAINING ACTIVITIES

During the review year, staff attended training which included:

1. Regional Workshop on Risk-Focused Supervision and Risk Assessment, hosted in the TCI and facilitated by the Caribbean Group of Bank Supervisors (CGBS) and the US Federal Reserve;
2. Consolidation and Risk Integration Seminar, facilitated by CGBS,
3. Credit Unions Regional Workshop sponsored by the Caribbean Regional Technical Assistance Centre (CARTAC) and the Caribbean Association of Credit Union Supervisors (CACS);

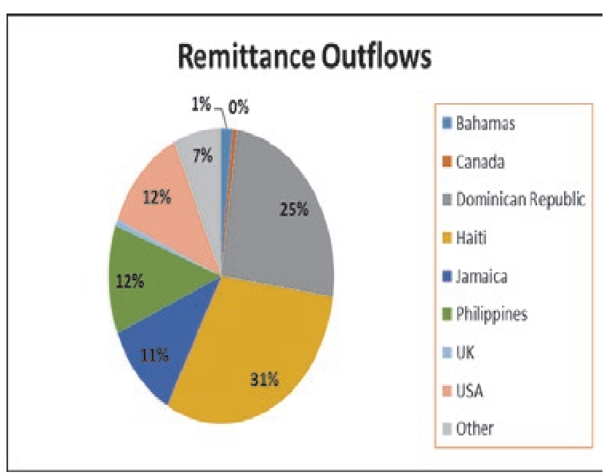


Chart 6: Remittance Outflows

4. Regional Seminar on Financial Stability and Stress Testing facilitated by Association of Supervisors of Banks of the Americas (ASBA) and CGBS;
5. Anti-Money Laundering Examination Seminar, hosted by the Central Bank of the Bahamas and facilitated by the US Federal Reserve;
6. Supervision of Operational Risk with a Focus on Basel II, hosted by Centrale Bank van Curaçao en Sint Maarten facilitated by the US Federal Deposit Insurance Corporation (FDIC);
7. Risk Management, Corporate Governance and Compliance Seminar facilitated by the Bahamas Institute of Financial Services.

The B&T Department staff also benefited from in-house training on Risk-Based Supervision and Basel II facilitated by CARTAC.

One staff member completed the International Compliance Association (ICA) Advanced Certificate in Compliance in September 2016 and another staff member completed the Association of Certified Anti-Money Laundering Specialists (ACAMS) certification program in April 2017. Furthermore, the Commission continues to subscribe to the FSI Connect online learning portal, which covers a wide array of modules, inter alia banking supervision and financial risk management.

4.0 INSURANCE DEPARTMENT REPORT

4.1 OVERVIEW

As at 31st March 2017, there were 7,138 (2016: 7,047) licensees being supervised and or regulated by the Insurance Department. The Turks and Caicos Islands insurance industry has two distinct sectors: the international insurance sector which is restricted to covering risk located outside of the TCI and the domestic insurance sector which is able to cover both foreign and domestic risk. As can be seen from Table 1 below, the insurance industry is dominated by international insurers, primarily Producer Owned Reinsurance Companies[6] ("PORC").

LICENSEES	2017	2016	2015	2014	2013
Reinsurers (PORCs)					
Credit Life	6,404	6,391	5,704	3,962	3,241
Non- Credit Life	617	538	448	2,992	2,920
Captives	65	66	65	80	88
Insurance Managers	7	7	7	6	6
Total International Insurers	**7,093**	**7,002**	**6,224**	**7,040**	**6,255**
Domestic Insurers	19	19	18	21	21
Insurance Brokers	11	13	13	13	9
Insurance Agents	5	5	5	11	14
Insurance Sub-Agents	10	8	4	3	3
Total Domestic Insurance Licensees	**45**	**45**	**40**	**48**	**47**

Table 1: Total active insurance licences

For the year under review, there were 7,093 active international insurance licensees, an increase of 91 (1.3%) over the previous period. In respect of the domestic sector, there was no movement, with the number of licensed entities remaining flat at 45.

A total of 769 international insurer licenses were issued and 23 licenses previously cancelled were reinstated during the year. However, this growth was offset by the surrender of 67 licences, comprising 64 PORC licenses and three captives and the cancellation of 634 PORC licences.

The Insurance Department generated $1.45M in revenue during the year. This revenue included annual licence fees (both full year and pro-rated), application fees and sundry fees for changes requested by licensees. Annual and application fees paid by PORC entities represented the lion's share (at 97%) of the revenue earned.

[6] PORCS are typically small reinsurance companies that reinsure risks of customers of select service providers, lenders and/or retailers. Under the laws of the Islands, PORCs
a. carry on the business of reinsurance;
b. whose affairs are under control of a direct writer and
c. which are beneficially owned by the producers of the business rein sured.

Table 2 below provides the breakdown by class and type in respect of licensing activity for the year under review.

Arising out of the IMF FSAP Mission, an action plan was developed to address the areas which the Mission recommended as requiring attention

Particulars	Total	PORCs (Credit Life)	PORCs (Non-Credit Life)	Captives
New licenses	769	689	78	2
Reinstatements	23	22	1	0
Surrenders	(67)	(64)	0	(3)
Cancellations	(634)	(634)	0	0
Net Movement during the year	**91**	**13**	**79**	**(1)**

Table 2: Movement in the No. of Licensees in the International Sector

to further enhance the regulatory regime. Work commenced on addressing some of those issues and for the next period the Unit will continue to focus its attention on achieving all the goals set out in this new action plan.

4.2 ACTION PLAN 2012-2016

All the goals set out in the 2012-2016 Action Plan for the Domestic Insurance Unit were achieved except for the issuing of a guideline detailing the minimum requirements for an acceptable reinsurance programme. This guideline is scheduled to be circulated to the industry for consultation during 2017.

In respect of the International Insurance Unit, work continued on some aspects of its action plan. A new International Insurance Bill will be drafted, with the framework document having been worked on during the period under review. The drafting of this bill will take into consideration modern principles for international insurance business.

Further, the preparation of a Supervisory Manual for the International Insurance Unit will be undertaken in the coming period, as there is a need to clearly document the current regulatory practices for Captive insurers and PORCs.

Regulatory reporting for Insurance Managers will be implemented shortly, requiring insurance managers to provide current information on the international insurers for which they are responsible.

4.3 REGULATORY ACTIVITIES DURING THE YEAR

As part of the Commission's commitment to collaboration and consultation, meetings were held with representatives from the insurance sectors. This atmosphere of collaboration led to numerous initiatives, including the establishment of a Working Group whose mission is to focus on issues affecting or that may affect PORCs; consultation on proposed changes to the legislative framework and training provided to members of the International Insurance Unit and the Industry during January 2016.

The reporting period was a very dynamic one for PORC supervision. Several improvements in the supervisory framework were made, namely;

1. New procedures were implemented in the International Insurance Unit that improved the efficiency of our operations and led to a significant reduction in the processing time for the review and approval of PORC applications to two weeks. The

Commission has made a commitment to the industry to consistently process PORC applications within a two-week time of receipt of all required documents.

2. Introduction of a revised application form for PORCs which requires a higher level of due diligence for shareholders, directors and senior officers of the company. This came into effect on 1st August 2016.

3. Issuance of a Regulatory Advisory to provide guidance to insurers who qualify for registration as Direct Writers. This new registration requirement is effective 1st April 2017. The TCI licensing procedures were strengthened to provide for the registration of Direct Writers where the insurer is not licenced in the TCI and does not have a minimum financial strength rating of at least an AM Best B+ or its equivalent from Standards & Poor's, Moody's or Fitch.

to the insurer describing the deficiencies, making appropriate recommendations and providing a timeline for corrective action. Additionally, the Department continued the preparation of quarterly risk assessments for domestic insurers during the period.

The overall risk rating of a company determines whether it will be scheduled for an onsite examination. The Department developed onsite examination procedures and commenced the onsite examination of insurance brokers during the period. Onsite examinations were completed for four licenced entities, two domestic insurers and two insurance brokers. Several on-site examinations are scheduled for 2017/2018.

Table 3 below provides data on this and other areas of activity during the period.

The Department carried out a comprehensive review of audited financial statements submitted by brokers during the period. Additionally, the aggregated industry figures were posted on the

Activity	*2016/2017*	*2015/2016*
Licenses Issued	2	*6*
Inspections Done	4	*4*
Revocation/ Surrender of licenses	2	*1*
Other Regulatory Actions – Warnings, Cease & Desist Orders	14	*58*
Number of Meetings & Discussions Held	*24*	*13*

Table 3: Regulatory Activities Domestic Insurance Unit Period to 31st March, 2017

The Domestic Insurance Unit continued to utilize the CARAMELS[7] Risk Based Assessment methodology to prepare the Annual Risk Assessment and to evaluate the risk profile of insurers. Where deficiencies were identified during the review, a compliance letter was sent

Commission's website. The Insurance Ordinance stipulates that Insurance Brokers may apply to the Commission for Special Dispensation to insure a local risk with non-TCI insurers. The Commission issued Regulatory Advisories to the industry to clarify the Commission's position regarding the request for special dispensation

[7] Under the CARAMELS framework, a company's risk profile is assessed according to the following areas of exposure: Capital, Asset Quality, Reinsurance, Actuarial Liabilities, Management and Corporate Governance, Earnings and Underwriting, Liquidity and Asset Liability Matching, and Self-Dealing and Related Parties.

and to inform that approval will be granted after the Commission is satisfied that similar coverage is not available from insurers licenced to operate in the TCI.

The regulatory framework was further enhanced by continued dialogue with other insurance regulatory authorities. The Commission participated in three College of Regulators meetings with the Bermuda Monetary Authority and members of the Caribbean Association of Insurance Regulators. These were held to discuss insurance companies that are operating within the TCI and other Caribbean Islands.

4.4 ENFORCEMENT ACTIONS

During the period, the Commission issued 14 Notices of Intention to take Disciplinary Action against seven insurance licensees: two captive insurers and five insurance brokers.

4.5 FINANCIAL AND STATISTICAL REVIEW OF THE DOMESTIC INSURANCE SECTOR

The domestic insurance sector comprises insurers - locally incorporated and branches of foreign insurers - brokers, agents and sub-agents. A significant percentage of the domestic insurance business is written directly through insurance brokers. As can be seen in Chart 7 below, property is the predominant class of business written in the TCI.

Chart 7: Gross Premiums Written

Total gross premiums written by the domestic insurance sector for the period 1st April 2016 to 31st March 2017 was $36.511 million. This was a decline of 14.6% when compared to the prior fiscal period. However, premiums ceded to reinsurers decreased by 21.5% resulting in an overall increase of 1.3% in net premium income.

Chart 8 shows continuous growth of the domestic insurance sector over the last five years. For the year ended 31st March 2017, total assets for the domestic insurance sector increased by 5.4% to $50.8 million when compared to the previous period. Cash, loans and investments continued to represent the largest proportion (50.2%) of the industry's assets.

4.6 LEGISLATIVE AGENDA

The Domestic Insurance Ordinance, which was passed during the previous financial year, is expected to strengthen existing protections and provide additional ones for policyholders. During the review period, the Department in conjunction with the Attorney General's Chambers worked on necessary changes to the draft regulations. It is envisioned that the draft regulations will be circulated to the industry for consultation, and presented to Cabinet before the end of the 2017/18 financial year. The Domestic Insurance

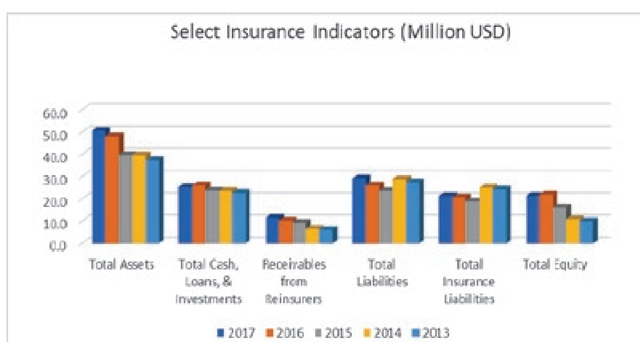


Chart 8: Select Insurance Indicators

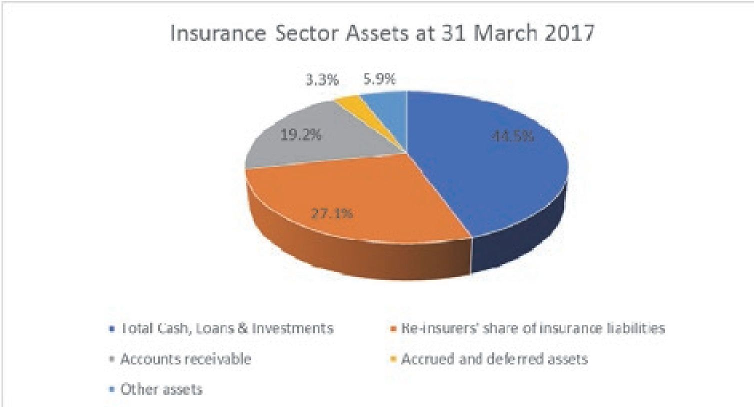


Chart 9: Insurance Sector Assets

Ordinance is scheduled to come into effect to coincide with the issuance of the Insurance Regulations.

It should be noted that when the Domestic Insurance Ordinance comes into effect, certain sections of the current Insurance Ordinance will be repealed and it will be renamed Non-Domestic Insurance Ordinance, to continue to provide for the regulation of the international insurance sector until an International Insurance Ordinance is passed.

The Department has commenced the process of drafting the International Insurance Bill. It is envisioned that this Bill, when enacted, will modernise the legislative and regulatory framework for international insurance in the TCI and will further strengthen the financial services industry.

During the year under review the Commission in collaboration with partners in the international insurance industry worked on two major initiatives to enhance the current legislative framework, namely:

1. Amendments to section 9 of the Insurance Ordinance, to improve the licensing and supervision of PORCs.
2. Amendments to the fee schedule to include a fast track fee for the granting of PORC licenses within five days.

4.7 TRAINING ACTIVITY

The Commission remained steadfast in its commitment to the development of its employees and as such continued to enhance technical competencies in the Insurance Department. During the period, members of the International Insurance Unit participated in a one week internal training exercise that focused on insurance companies and was specifically geared at increasing productivity and improving processing time for the approval and granting of insurance licences for PORCs. Additionally, team members participated in numerous other internal training sessions hosted by other Departments. Employees attended a Risk-Based Supervision & Risk Assessment Seminar facilitated by the Commission in association with the Caribbean Group of Banking Supervisors and the Federal Reserve System. The training session covered the assessment and the examination of various types of risk, for example, credit risk, operational risk and liquidity risk. Members of the department benefited from attending the CFATF XLIV Plenary meeting that was held in Providenciales and hosted by the Attorney General's Chambers.

Employees also attended workshops and seminars facilitated by the Caribbean Association of Insurance Regulators/Caribbean Regional Technical Assistance Centre Workshop and F&I Reinsurance & Product Conference (F&I). The F&I Conference covered numerous topics including Fundamentals of Risk Transfer, Tax & Reinsurance, and Vehicle Related Protection (VRP) Products and Industry Trends.

One staff member is pursuing a bachelor's degree and has enrolled in the Business Studies program at the TCI Community College.

During the next financial year members of staff will continue to participate in online courses on Insurance Core Principles and the FIRST ONE Programme, an FSI-IAIS Regulatory and Supervisory Online Programme (Virtual Seminar), internal training and other regional training activities to increase their regulatory knowledge and technical ability.

4.8 STAFF COMPLEMENT

There was a decline in the staff complement of the Insurance Department compared to the prior year. The Domestic Insurance Unit increased by one team member during the period. However, the number of employees in the International Insurance Unit declined by four. Our staff complement currently stands at 10 employees with varying degrees of technical, educational and regulatory training.

5.0 COMPANY MANAGERS AND INVESTMENTS DEPARTMENT REPORT

5.1 OVERVIEW

The Company Managers and Investments Department began the year in the wake of the much publicised Panama Papers. This development required Company Service Providers (CSPs) to review their portfolios to assess any relationships and possible implications for the Turks and Caicos Islands from the Panama Papers. It further underscored the need for financial institutions to ensure the effectiveness of their risk management frameworks to include, inter alia, robust due diligence procedures.

Throughout the year the total number of licensed company service providers remained unchanged at 37. This number may reduce with the exit of one licensee in the coming year.

There were no changes to the six entities licensed under the Investment Dealers (Licensing) Ordinance nor the five licensed under the Mutual Fund Ordinance. It is likely that, going forward, the number of mutual funds may reduce from ten to eight as two funds indicated the possibility of voluntarily winding up during the financial year 2017/2018.

The total value of the investment business portfolio at March 31, 2017 was reported as US$738.6M. reflecting a decrease of $126.2M or 14.5% from the figures reported at the end of the previous period.

Company service providers reported holding no assets on behalf of clients.

5.2 ACTION PLAN 2012-2016

Significant work was undertaken with regard to amendments proposed to the Investment Dealers (Licensing) Ordinance, with particular emphasis on the licensing of Investment Advisers, as well as supervisory guidelines for investment businesses. Amendments to the Company Management (Licensing) Ordinance (CMLO) to close gaps in the governance requirements were advanced during the year. To strengthen the AML/PTF component of these measures, further amendments are being introduced to the CMLO.

This work must receive broader consultation and such consultation will be carried out during Q2 of 2017.

5.3 REGULATORY ACTIVITIES

The Commission introduced a new licensing regime for company service providers to come into effect 1st April, 2017. The regime change required annual submission of information on a licensee's compliance with its obligation under its license. The new approach to licensing was announced by the Commission at a meeting of the combined investments and company services sectors in June 2016. The process was launched in November 2016 and required certain reporting to be submitted by January 2017, followed by the prescribed regulatory reporting no later than March 31, 2017.

Regulatory compliance continued to be a concern and as a result, six of the nine regulatory meetings held during the period related to compliance issues.

A revised schedule of examinations, which came into effect late in the period, saw two full on-site examinations completed.

5.4 ENFORCEMENT ACTIONS

As part of the remedies available to the Commission to address non-compliance, two licensees were issued with Notices of intention to take Disciplinary Action for breaches of the conditions of their company management license.

The review of one of these licensees was ongoing at the end of the period.

Table 4 provides a synopsis of regulatory activities for the current and prior period.

Activity	2016/2017	2015/2016
Licenses Issued	0	1
Inspections Done	2	
Revocation/ Surrender of licenses	0	-
Other Regulatory Action e.g. Warnings, C&D	2	
Number of Meetings & Discussions Held	9	-

Table 4 Regulatory Activities by Type

5.5 LEGISLATIVE AGENDA

Introduction of new Securities Legislation is on the Commission's work program for 2017/2018. As a signatory to the MoU with the International Organisation of Securities Commissions (IOSCO), the new legislation will consider IOSCO's Principles of Securities Regulation, as they apply to the investment business in the Turks and Caicos Islands. The Principles give effect to IOSCO's Core Objectives which are: the protection of investors; ensuring that markets are fair, efficient and transparent; and the reduction of systemic risk. IOSCO assists its members to promote high standards of regulation and acts as a forum for national regulators to cooperate with each other and other international organisations.

As part of the Commission's legislative agenda, updated Mutual Funds legislation must follow in successive financial years.

5.6 TRAINING ACTIVITY

During the year staff participated in several local and regional compliance and associated training:

1. In June 2016, the Head of the Department and one officer attended a meeting with the company managers and investment business sectors;

2. In November 2016, officers attended the CFATF Plenary held in Providenciales;

3. In December 2016, officers attended a Risk Based Training workshop in Providenciales hosted by the Caribbean Group of Banking Supervisors (CGBS) and the Federal Reserve System; and

4. A Compliance Officer has now successfully completed the Diploma in Corporate Governance and Compliance through the International Compliance Association of the United Kingdom in association with Manchester University, thus joining the other staff of the department as Members of the International Compliance Association.

5.7 STAFF COMPLEMENT

The Department was staffed by a Head of Department and two Compliance Officers. The complement is under review to ensure staffing levels and regulatory capacity are appropriately maintained.

6.0 COMPLIANCE UNIT REPORT

6.1 OVERVIEW

As at 31st March 2017 the Financial Services Commission had anti-money laundering and countering terrorist financing supervisory responsibility for a total of 377 entities, consisting of;

- 95 licensed financial institutions (No change from year ended March 2016)
- 120 registered Designated Non-Financial Businesses and Professions (DNFBPs) in the Commission's capacity as the appointed DNFBP Supervisor (an increase of 36% against prior year) 162 Non-Profit Organisations (NPOs) in the Commission's capacity as the appointed NPO Supervisor (an increase of 15% compared to 31st March 2016).

The supervisory mix is dominated by DNFBPs and NPOs to the extent that those entities represented 75% of the overall supervisory landscape.

Refer to Chart 10 for the percentage comparison of the AML/CFT supervisory responsibilities by type.

6.2 DESIGNATED NON-FINANCIAL BUSINESSES AND PROFESSIONS (DNFBPS)

Within the DNFBPs, legal professionals were the largest sector with 39 firms registered

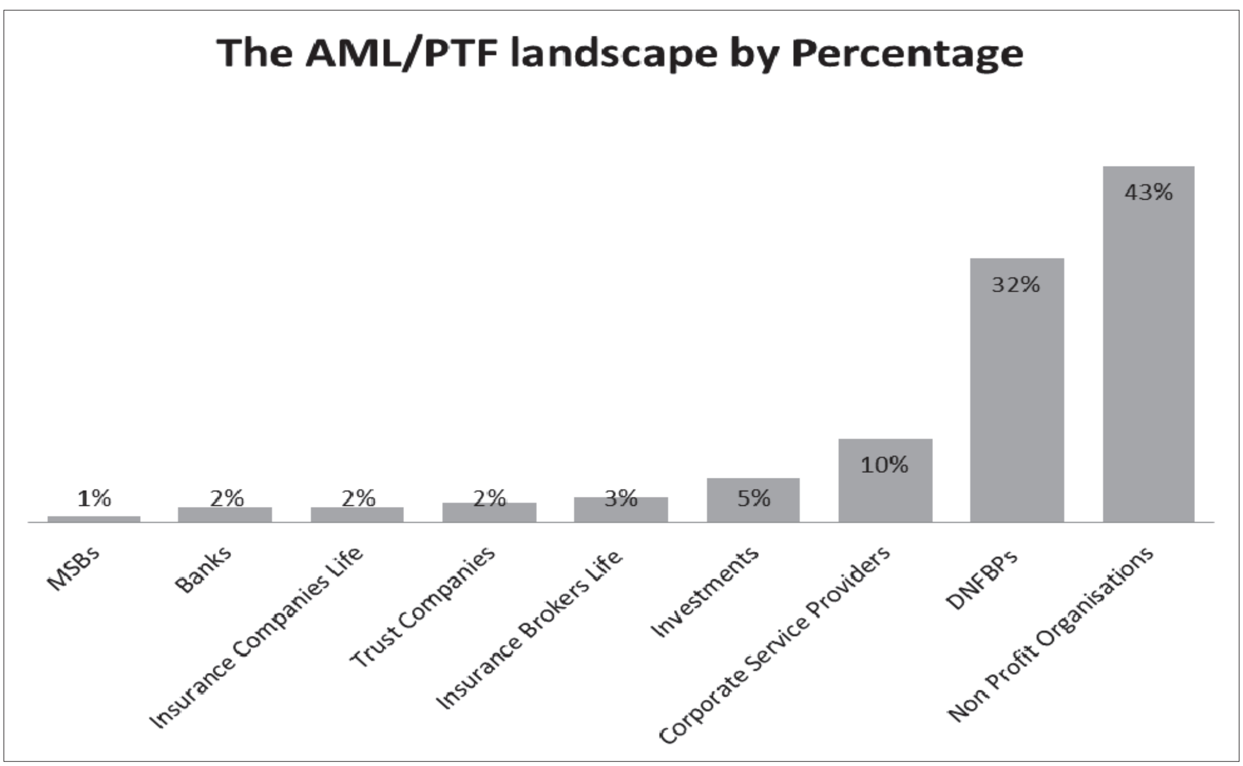


Chart 10 AML/CFT Supervisory Responsibilities by Type (% of Total)

followed by 29 real estate agencies as at the end of March 2017. The largest growth area within the DNFBPs was by used car dealers which increased from 3 dealers in March 2016 to 25 as at the end of March 2017

See Chart 11 for analysis of registered DNFBPs by number.

6.3 NON-PROFIT ORGANISATIONS (NPOS)

Chart 12 above provides a synopsis of the NPOs registered by purpose. Of the total of 162 NPOs registered as at the end of March 2017, the advancement of religion accounted for 33% of the total.

6.4 SUPERVISORY ACTIVITIES

During the year ended 31st March 2017 the Compliance Unit applied a risk based supervisory approach which included both onsite examinations and offsite surveillance.

On-site supervisory activities were undertaken across a diverse sample of financial businesses. In total nine examinations were conducted, of

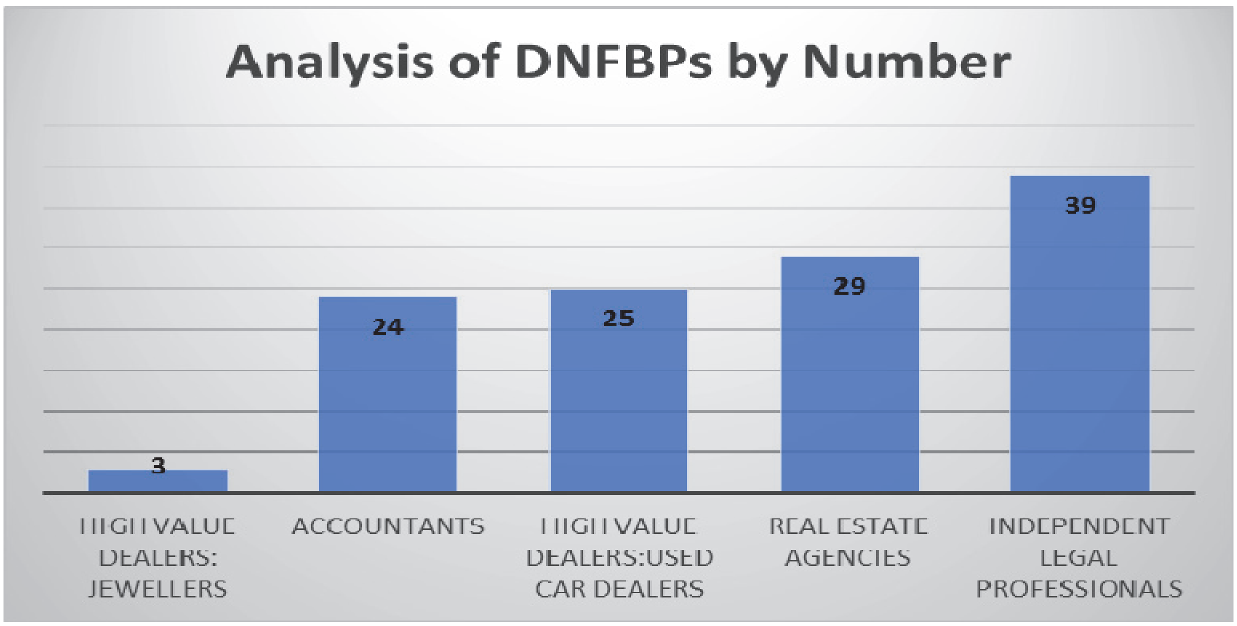


Chart 11 Analysis of DNFBPs by Number

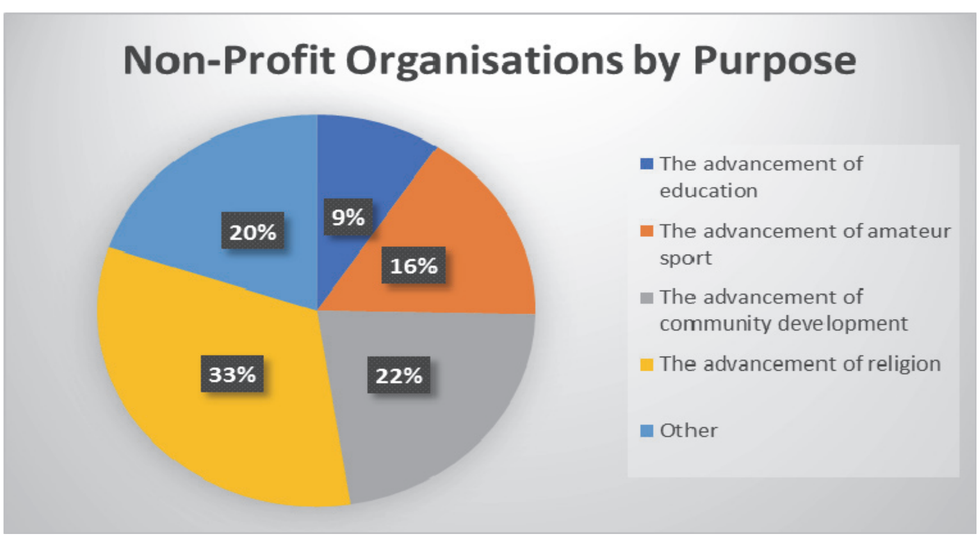


Chart 12 Analysis of Non-Profit Organisations by Purpose

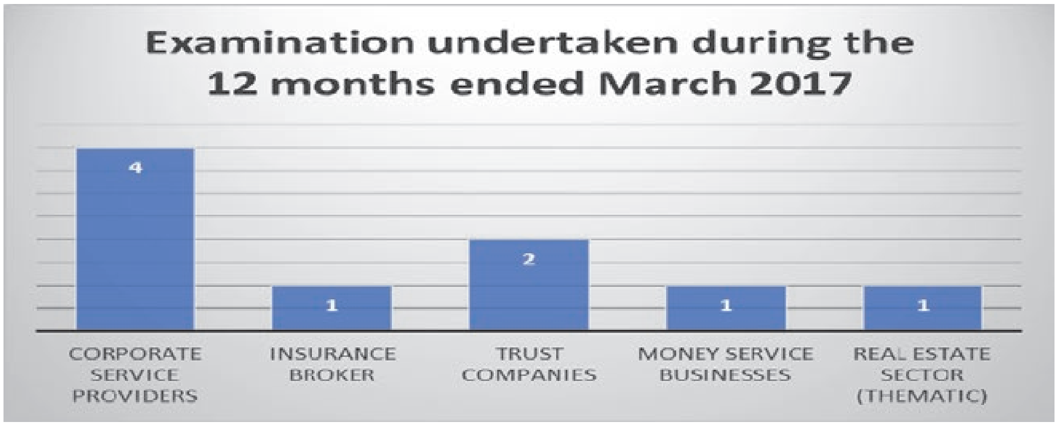


Chart 13 Examinations undertaken during the 12 months ended March 2017

which eight were in respect of licensed financial businesses and one in the non-financial sector (a DNFBP sector thematic review). See Chart 13 for examinations undertaken during the 12 months ended March 2017.

An integral and successful component of the supervisory process was the early commencement of exploratory discussions with each licensee prior to the commencement of the onsite examination. This enabled a more targeted examination, focused on areas of greater risk and, wherever possible, reduced the length of time spent on the licensee's premises.

For the first time, the Commission included in the on-site surveillance coverage, a thematic review which considered two critical risk areas, namely the identification and management of higher risk clients, and money laundering and terrorist financing ML/TF training. The real estate sector was the subject of the thematic review. The approach to the review was initially by way of a questionnaire issued to 19 real estate agencies coupled with a request for those sampled to submit their ML/TF risk assessment and the supporting policies and procedures. Of the 19 agencies which received the questionnaires 6 were visited to sample check the due diligence information and documentation contained within the client files. The thematic review provided a rapid assessment based upon a sample of 65% of registered agencies, of the quality of compliance in the chosen critical risk areas.

6.5 AML/CFT AWARENESS, TRAINING AND GUIDANCE

Throughout the 12 months ended March 2017, the Compliance Unit continued to raise awareness of money laundering and terrorist financing matters by way of presentations to: licensees individually; specific licensee associations; and meetings with centralized compliance teams of banks and money service businesses.

Targeted guidance was issued to financial businesses, in particular the banking and money services businesses, which described the red flags which may be presented by victims and owners of businesses most vulnerable to human trafficking.

By way of consultative involvement, the Compliance Unit worked consistently with those licensees which were in remediation following on-site examinations. The objective of the consultative approach was the transfer of the latest techniques necessary to manage emerging ML and TF risks and the implementation of sustainable controls.

In its role as Non-Profit Organisation Supervisor, the Compliance Unit provided regular guidance during the registration process on risk proportionate best practice approaches to achieving efficient governance regimes.

6.6 ENFORCEMENT ACTIONS

Enforcement action commenced against one licensee for compliance deficiencies in respect of Anti-Money Laundering and Prevention of Terrorist Financing regulations.

6.7 SUPPORT TO THE ANTI MONEY LAUNDERING COMMITTEE & OTHER AGENCIES

In accordance with the Proceeds of Crime Ordinance, the Financial Services Commission was a member of the Turks and Caicos Islands Anti-Money Laundering Committee, (AMLC). The Director of the Compliance Unit was one of two individuals who represented the Commission at the AMLC. Support was provided to the AMLC in responding to ML/TF emerging issues raised for consultation by the Financial Action Task Force.

The Turks and Caicos Islands, through the AMLC, continued work on the National Risk Assessment (NRA) of the money laundering and terrorist financing risks faced by the country. The NRA which commenced in October 2014 has been an initiative led by the Attorney General and was supported, as coordinator, by the Director of the Compliance Unit. A draft report of the findings of the NRA was submitted to the Attorney General in mid-2016 and a final workshop with conclusions and proposed actions to close areas of vulnerability was planned to be completed by mid-2017 at which time the final report will be issued.

Co-operation between agencies has been recognized as a key component in the fight against organised crime and effective implementation of the Financial Action Task Force Recommendations. The Compliance Unit continued to support the Financial Intelligence Agency (FIA) in responding to enquiries, initially received by the FIA, from international law enforcement agencies.

6.8 COMPLIANCE UNIT STAFF RESOURCING

The Compliance Unit had a complement of five persons throughout the year ended 31st March 2017, which remained the same as in the previous period. This comprised four (4) Compliance Analysts and a Director.

6.9 TRAINING

The Compliance Unit staff received beneficial exposure to international ML/TF specialists through several initiatives:

- All Compliance Unit staff attended the Caribbean Financial Action Task Force Plenary in October 2016 which was held in the Turks and Caicos Islands.

- All staff attended risk management training delivered by The Bahamas Institute of Financial Services. The Director of the Compliance unit also took on the role of presenter during that training.

- Two Compliance Analysts attended training on Risk Based Supervision sponsored by the US Federal Reserve Bank.

- One Compliance Analyst attended a training course on suspicious activity reporting sponsored by the Financial Transactions and Reports Analysis Centre of Canada (Fintrac).

All Compliance Unit staff were required to prepare "Back to Office Reports" with recommendations to adopt new practices based upon the training received.

The Compliance Unit provided in house training on AML /CFT concepts to other departments of the Commission to raise general awareness which equipped those departments with an understanding of the approach to undertaking AML/CFT on-site examinations.

7.0 REGISTRY REPORT

7.1 OVERVIEW

The Registry comprises three main sub registries, namely the Companies Registry, Trademarks Registry and Patents Registry, with the Business Names Registration also falling under the auspices of the Registrar of Companies.

The services provided by the Companies Registry include incorporation of local and exempted companies and registering of foreign companies, business names and partnerships. Other services include processing post incorporation notices and amendments, company liquidations/ dissolutions, restorations and continuances.

The Trademarks Registry is responsible for the registration of trademarks and the maintenance of records pertaining to trademarks and service marks.

The Patents Registry is responsible for the registration of United Kingdom (UK) Patents and the maintenance of records pertaining to patents.

7.2 COMPANIES REGISTRY

Company incorporations declined by 12% over the year to 1,241. Business volumes in relation to post incorporation processing, searches and certificates of good standing increased in 2016/2017. The main focus in 2016/2017 was the development and user acceptance testing of KRegistry. In addition, towards the end of the year focus shifted toward the development of systems that could meet the Government's commitment under the Exchange of Notes with the UK in establishing a central registry of Beneficial Owners.

7.3 TRADEMARKS AND PATENTS

Trademark registration for the period stood at 403, a decrease from the previous year's count of 422.

The 2016/2017 year saw an increase in registration of patents, reversing the downward trend from the previous two years. A total of 22 patents were registered, compared to 14 in the last year.

7.4 BUSINESS NAME

Registration of new business names grew by approximately 36% to 1,200 when compared to the previous year. Total registration, including renewals, amounted to 4,471 or 79% above 2015/2016.

The growth was attributable primarily to the continued enforcement by the Government's Business Licensing Department of the requirement for people to provide evidence of current registration with the Registry.

7.5 LEGISLATIVE AGENDA

During the second half of the year the Registry received the draft Companies Bill for review and submission of comments. The Bill has subsequently been enacted and comes into full force on September 30, 2017. Companies will have until June 29, 2018 to voluntarily register under the new Ordinance. The current Ordinance will be repealed on 1 July 2018.

The new Ordinance introduces, among other things, the establishment and maintenance of a register of beneficial owners and a register of charges, and will require that all companies upon incorporation, continuation or re-registration to have a Registered Agent. The Registered Agent must be licensed under the Company Management (Licensing) Ordinance.

In addition to the new Companies Ordinance, the Turks and Caicos Islands will be introducing legislation covering Insolvency. This is presently under review and is expected to be brought in force on or before September 30, 2017.

7.6 KREGISTRY AND KREVIEW

7.6.1 KREGISTRY

A number of key milestones were achieved during the course of the year as it relates to the KRegistry project. While the project has spanned some time, a great deal of progress has been made in the online filing module, strengthening security procedures, reconciliation and acceptance of past deliverables; additional investment was made in modifying or introducing new elements, such as the Business Names and Beneficial Ownership modules.

7.6.1.1 ONLINE FILING MODULE

In preparation for the launch of the Online Filing application, the Commission conducted an in depth review of the forms and certificate templates delivered with the system. This exercise was specifically geared towards ensuring that the forms meet the legislative requirements and provide for the best possible user experience. Given the volume of forms, a decision was taken to pursue a phased approach where external users would have an opportunity to get introduced to the 15 most commonly used requests. Moving forward the remaining forms would be rolled out in phases.

In support of the Online Filing module, testing relating to the online transactions and credit card processing was completed and approved by the Merchant Clearing House. The Commission is currently working on a number of policies that will be displayed on the KRegistry webpage to provide users with information about the Commission's position on refunds and security, just to name a few areas. Efforts have also been advanced in identifying a certificate service provider to facilitate digital signing of pdf documents. As per current regulations, Certificate Service Providers are required to register with TCIG; this process is entering its final stages.

7.6.1.2 DATA RECONCILIATION AND SECURITY

Recognizing the importance of accuracy in the data maintained for clients, the Commission has undergone a robust reconciliation exercise, the first round of which looked at 'Live' and 'Defunct' companies. Care was taken to ensure that all of the entities captured in the Legacy Database were reflected in the new KRegistry application. 2017 also saw the redesign of the KRegistry user form with a number of improvements to capture various job roles and several layers of authorization. These measures ensure that the required permissions are in place prior to users gaining access to the system. The Commission has conducted extensive user acceptance tests to confirm that application functions align themselves with business priorities. This is yet another important component of the Commission's risk based strategy.

7.6.1.3 BUSINESS NAMES/ BENEFICIAL OWNERSHIP

The Business Names module has been completely revamped to include a number of new features that will make processing of registrations more efficient and faster. Bulk processing of renewals, compliance notice emails and bulk striking of defunct names are only a few of the functions that are set to come on stream.

Beneficial Ownership has become a major law enforcement initiative in the region as the UK and other members of the EU strive to identify the principals of organized crime, money laundering and terrorism. In light of this the Commission has been entrusted to maintain the Beneficial Owner information for TCIG, with the first phase of this project to be delivered by June 30, 2017. This offline database will have heightened security to mitigate the risk of online hacking and tampering.

7.6.2 KREVIEW

KReview, the regulatory analysis platform, will see a number of updates as per amendments to the various ordinances. Plans are set to schedule refresher training for staff to take advantage of the enhancements in the application. Money Transfers is now a part of the KReview platform, therefore users should see a full suite of tools to address every arm of the Commission's compliance and regulatory functions.

Given the volume of priority areas, the Commission has had to adjust its project timelines for KReview and KRegistry to expedite the delivery of the Beneficial Owner module and take into account any changes coming out of the new Companies Bill. Therefore the Commission is aggressively working toward a launch date of September 1, 2017 for the full use of the KRegistry and KReview platforms.

7.7 ACTION PLAN

The Registry consistently reviews its operations to assess the efficiency and effectiveness of its service delivery. This review has been challenging particularly as our staff level is limited.

We have set as our goals for the 2017/2018 year the following targets:

- Enhance the file management process through a system of file tracking, either manually or computer based.

- Establishing a help desk with officers on a rotating basis to assist members of the public with queries, and to provide advice, particularly as it relates the filing of online forms under the KRegistry system.

We understand that the Registry's success is reliant on the participation of our clients and welcome the opportunity to meet practitioners and receive constructive feedback.

7.8 STAFFING

At the end of the financial year there were 20 permanent and 3 temporary staff, down from a total of 24 in the prior period.

7.9 TRAINING

During the year our staff participated in a number of internal training sessions and workshops. These included customer service, anti-money laundering and overview of regulatory functions. Training was aimed at improving the customer service that staff provide to clients by ensuring that our staff have access to accurate information. Further, as the first point of contact with residents who incorporate companies without using a company service provider, the Department wanted to ensure that its staff were able to evaluate the risks which may be associated with these entities.

7.10 CHALLENGES

7.10.1 INCREASED FOCUS ON INTERNATIONAL FINANCIAL CENTRES

In 2016, International financial centres were again the object of international media review and attention. The Panama Papers and the Bahamas Leaks heightened the attention placed on Offshore Jurisdictions. The result has been a focused fast track toward maintaining and having readily available information on beneficial owners. As indicated above this will now fall to the Registry to manage.

7.10.2 CYBER ATTACKS

A significant risk that arises with the beneficial owners register is information security and cyber-crime. We are investing heavily in systems that will allow company service providers to securely update the information held in the register. We are mindful, however, that this is an area that will require increased awareness and education (both of staff and clients) to assist in mitigating the risk.

7.10.3 INADEQUATE HUMAN RESOURCE CAPITAL

The Registry's human resource needs (quantity and capacity) will be continually evaluated as it pursues the following projects:

- Administer the new Companies Ordinance;
- Continue to administer the existing Companies Ordinance until repeal in June 2018;
- Roll out of the online KRegistry platform; and
- Ongoing work in policy development and international relations.

8.0 LEGAL AND ENFORCEMENT DEPARTMENT REPORT

8.1 OVERVIEW

The Legal Department continued fulfilling its mandate of providing legal and enforcement support to the Commission. During the review period, the Legal and Enforcement Consultant also assumed the responsibility of Secretary to the Board of Directors of the Commission.

8.2 GENERAL ADVICE AND SUPPORT

The Department provided general legal advice and support in respect of various areas, inter alia advice and support on interpretation of legislation, legal support on policies and support with respect to the drafting of Cabinet Papers for proposed legislative amendments to strengthen the Commission's regulatory regime.

The Department provided key support on numerous other projects including supporting the CFATF 4th Round Mutual Evaluation preparation and Global Forum Assessment preparation.

The Department assisted in a number of sessions to improve understanding in various areas of the Commission's operations. The focus this year was on Anti-Money Laundering and Companies Registry procedures. It is anticipated that in the next reporting period there will be need to conduct further training on new legislation which have been passed or will be passed.

8.3 LEGISLATION

During the review period, the Commission was instrumental in having a number of pieces of legislation passed through the House of Assembly. The Department collaborated - to varying extents - on drafting of legislative provisions, advising on the structure of legislation as well as participating in, and commenting on, the effectiveness of the draft legislation and assisting with consultations carried out.

Those legislation passed included:

1. Domestic Insurance Ordinance
2. Trust Ordinance
3. Trust Companies (Licensing and Supervision) Ordinance
4. Trust Companies Regulations
5. Credit Unions Ordinance.

Although the Domestic Insurance Ordinance was passed in 2016 it did not come into effect since the Regulations to supplement the Ordinance are not yet finalised. The Legal Department and the Insurance Department worked with the Attorney General's Chambers in developing the draft Regulations. The Regulations are currently being reviewed and it is expected that by the end of 2017 the Regulations and Ordinance will come into force. In addition, preliminary work has commenced on a new International Insurance Ordinance that will be progressed in the next reporting period.

The Banking Bill and its subsidiary legislation have been a project in the previous two reporting periods. In the last reporting period the Legal Department continued to assist the Banking Department in completing the draft Ordinance and assisted to bring the Regulations to 75% completion. It is anticipated that the entire suite of legislation will go through the consultation process and passage through the House in the 2017/18 reporting period.

Similar to the Domestic Insurance Ordinance, the Credit Unions Ordinance has been passed by the House of Assembly but will not come into effect until its Regulations are complete. Work will continue on these during the upcoming period.

The Commission identified a need to improve the Business Names (Registration) Ordinance; the Money Transmitters Ordinance and specific provisions of the Financial Services Commission Ordinance, and have taken steps toward achieving those goals. With respect to the Business Names Registration Ordinance and Financial Services Commission Ordinance, drafts of the proposed amendments were prepared by the Department and submitted to Cabinet for approval. Research and policy development in respect to an upgraded Money Transmitters Ordinance were also completed in the reporting period.

8.4 LITIGATION

The Commission continued to be engaged in a number of litigation matters during the reporting period. Some of the matters continued from the previous period while there were others which commenced in the current period.

The matters relating to (1) Restricted Deposits and (2) interlocutory motions arising out of a forced liquidation of a formerly licensed entity were settled during the 2016/17 period. However, other aspects of the latter case continue, with the prospect of a further appeal to the Judicial Committee of the Privy Council in London by the Appellant.

Two new matters arose during the period. One matter was in relation of a claim for breach of intellectual property rights for an application embedded in all computers. The Commission, through the Attorney General Chambers and New York Counsel, was able to successfully have that matter dismissed. Another matter was in respect of a proposed action in respect to the registration of a Business Name that was supposedly similar to that of an incorporated company. A detailed response was provided by the Commission to the alleged injured party. No further communication was received.

Significant Department resources were expended during the period addressing the litigation matter from previous years and the ones which arose during the current review period. Arising out of each litigation, the Commission reviewed its systems and procedures with a view to minimise the risks for future litigation.

8.5 ENFORCEMENT

The Legal Department issued 22 enforcement notices during the period that led to three penalties. Also two Notices of Intention to Revoke a License were issued to two entities licensed under the Company Managers (Licensing) Ordinance. The Commission was able to work with the two licensees to bring both into reasonable compliance to allow them to retain their licenses. In addition one directive was issued to a Trust Company.

Enforcement actions during the course were directed to:

- 2 Banks
- 1 Trust Company
- 3 Company Managers
- 7 Insurance licensees (2 non-domestic insures and 5 domestic brokers).

8.6 CO-OPERATION

The Legal Department is tasked with managing the Commission's co-operation mandate and continued to ensure that that mandate is fulfilled. To improve the service given by the Commission in respect to co-operation, the Legal Department redrafted and upgraded the Commission's Co-operation Handbook. The Handbook documents the expected procedures and consideration for effective cooperation with both domestic and international authorities. In addition, to further the mandate, the Commission successfully executed a Memorandum of Understanding with the Financial Intelligence Agency and worked on others with the Financial Services Regulatory Commission in Antigua and Barbuda; the Financial Services Commission in Anguilla; Caribbean Association of Insurance Regulators and the Group of International Finance Centre Supervisors.

During the period, the Commission provided assistance to five domestic and two international authorities. Assistance with the provision of various business names registration and company registration information was shared with local authorities (Financial Crimes Agency, Financial Crimes Unit, Integrity Commission, National Audit Office and the Special Investigation and Prosecution Team). In respect of international assistance, two requests were made by the United States Securities and Exchange Commission and one from the Financial Services Commission in Jamaica. With respect to these, the Commission issued three Notices to Produce Documents or Information to the relevant parties in order to adequately respond to these requests.

8.7 SECRETARIAT

The Legal Department gave support to the Board of Directors via the appointment of the Legal Consultant as the Secretary to the Board of Directors. The advent of the Department's support led to the establishment of a Board Charter to guide the Board in its operations. The development of the Charter and the support from the Department have contributed to the improved efficiency of the delivery of information to the Board.

8.8 RESEARCH

During the year the Legal Department conducted research to recommend the best, yet most cost effective, way to improve its legal resources. It is anticipated that in the next reporting period legal resources in the form of a legal database and relevant practitioner texts will be added to the Department's tools.

8.9 STAFF COMPLEMENT

The Department commenced the financial period with a complement of two (a Senior Legal Counsel and a Legal and Enforcement Consultant). The Senior Legal Counsel was redeployed in October 2016 to the substantive post of Director of Human Resources and Administration. However, the Director of HR and Administration will still provide advice to the Managing Director on AML issues. As at the end of the reporting period the Department therefore was effectively reduced to one. The Department is considering options to improve the complement in the next financial period.

9.0 INFORMATION TECHNOLOGY REPORT

9.1 OVERVIEW

The Information Technology (IT) Department is dedicated to delivering reliable, secure and innovative technology to the Commission.

9.2 IT INITIATIVES 2016 – 2017

9.2.1 NETWORK SECURITY

One of the primary focuses of the IT Department is to ensure that the Commission's data and devices are secured.

A number of enhancements were made to the existing systems in respect of threat management. One of the biggest risks to an organisation's information security is often not a weakness in the technological environment but rather the action or inaction by employees that can lead to security incidents. In light of this, the IT Department led the initiative to undertake a Security Awareness Program which involved all employees participating in security awareness training. The purpose of the Security Awareness Program is to consistently remind employees of the Commission's security policies, procedures and best practices. In addition, the Department also began issuing newsletters to staff on IT related matters.

9.2.2 SERVER VIRTUALISATION & REPLICATION

The IT department sustained two major outages during this period. These outages led to the review of the Disaster Recovery Plan and also the implementation of a Server Virtualisation environment. The virtualisation of 80% of our servers during the 2016 – 2017 financial year was one of the IT Department's major accomplishments. Server virtualisation is a technology for partitioning one physical server into multiple "virtual" servers. The virtual servers can run separate operating systems and applications, entirely independent from the physical server.

Additionally, the IT Department is currently utilizing replication technology. This technology duplicates our stored data every five minutes over our storage-area network between our two offices. Replication technology is instrumental in our Disaster Recovery as it significantly improves our recovery time objectives.

9.2.3 RELOCATION OF RECEPTION OFFICE

The IT Department played an integral part in the relocation of the Reception Office in Providenciales. All locations are connected via fibre connectivity providing a high speed interface amongst all of the offices.

With the use of Direct Internet Access (DIA) and Domestic Private Lease Circuit (DPLC), both branches (Grand Turk and Providenciales) can efficiently communicate with each other.

9.3 STAFF COMPLEMENT

The direct staff complement of the IT Department consisted of eight officers: 1 Director of IT; 2 Systems Administrators; 1 IT Officer and 4 Data Entry Clerks. Two of the staff are located in Providenciales and six in Grand Turk**.**

9.4 TRAINING

During the financial year, our Systems Administrators participated in the following courses:

- Relational Database Design, Tools and Techniques
- Network configuration and troubleshooting

Additionally, the Director of IT participated in a Virtualization Technology course.

10.0 HUMAN RESOURCES AND ADMINISTRATION REPORT

10.1 OVERVIEW

Following the conclusion of the organisational review which had commenced in the previous year, the Management and the Board of the Commission deliberated on the findings and considered how best to adopt the recommendations, as well as introduce other changes which had not been contemplated as part of the review report. A number of measures were introduced, primarily the splitting of the Finance and Administration into two separate departments. Out of this came an HR and Administration Department, whose primary focus is the management and development of the HR resources of the Commission as well as the handling of other administrative matters.

Three key formerly vacant positions were filled, arising out of the changes made during the period. These were:

i) Registrar in the Companies Registry Department, headed by Mrs. Karlene Ferrier.

ii) Director of Insurance, headed by Miss Corine Bolton and

iii) Director of HR and Administration, headed by Mrs. Kenisha Bacchus. Mrs. Bacchus will also provide advisory services to the Managing Director in relation to legal and AML matters.

Work was also done in relation to the realignment of the grade system, with effect from October 1, 2016. That realignment resulted in some staff being moved to different grades. Further, 11 members of staff were promoted and five confirmed as permanent employees of the Commission. Additionally, salary reviews resulted in most employees receiving a salary adjustment in keeping with the realigned grades or by reference to their performance levels.

The creation of the HR and Administration Department and the changes made were critical to improving the Commission's ability to effectively deliver on its mandate. In respect of the vacant positions filled, those provided the starting point for enhancing departmental efficiencies and effectiveness as well as for shared accountability. With respect to the establishment of the HR & Administration Department, that meant establishing a clear framework for the provision of support services to the other departments. Further, this will help the Commission achieve its strategic mission through enhanced management of its key resource, its staff. The success of the Department was measured by its ability to align and integrate processes with the strategic mission. This was addressed by proactively identifying issues, especially as they related to human resources and executing timely, effective corrective measures.

The Department sought to achieve its long-term aim by working in partnership with other departments of the Commission to create an enabling environment where employees were able to thrive and deliver sustainable organisational performance through capacity and capability building.

10.2 HR Initiatives and Streamlining

A number of initiatives were undertaken by the new Department. Amongst these was an upgrade to the Leave Administration system by implementation of a modified leave application form. New policies or amendments to existing policies were done in the area of educational assistance and staff bonding. Frameworks were put in place to address the manner and conditions under which the Commission would grant future educational assistance. Policies documents were prepared and issued for all staff to be aware of the amended terms.

A policy on Personal Days was prepared and issued. The policy provides that staff may, depending on the particular employee's circumstance, obtain up to three days for the year to deal with personal matters without having to resort to using their established leave days. This policy change was very welcomed by staff and is one way of indicating to staff their value to the organisation.

The work commenced on reviewing the Staff Manual with a view to consolidating all the amendments made over the previous years. The revised manual, upon approval, will be made available to all staff.

10.3 TRAINING

The Commission continued to offer employees, at all levels, a wide range of training opportunities throughout the year in order to build on their professional competencies, increase their knowledge and improve their skills-set so as to better contribute to the Commission's mission. Further, this will help to enhance their individual opportunities for future professional growth. Opportunities were provided not only for staff to achieve professional competencies in areas such as Compliance, Trust Estate Management, Anti-Money Laundering and Finance and Accounting but also for academic advancement at both the undergraduate and postgraduate levels.

The Department tried to leverage existing technology as a means to cut costs and improve internal efficiencies to deliver internal training across the two office locations in Grand Turk and Providenciales. During the year the Department was able to effectively deliver training simultaneously with staff in both locations which resulted in tremendous cost savings to the Commission and avoided duplication of effort. As a result most employees received internal training over the course of the year.

10.3.1 DEVELOPING EMPLOYEES & CREATING FUTURE LEADERS

The performance of the Commission relies, first and principally, on its employees. The Commission seeks to build the competencies of managers and staff by helping them to develop professionally and personally, which should redound to the benefit of the Commission through increased productivity.

We recognise that there is more that the Commission needs to do to help all our managers adjust within, and mature into, their roles. The Commission anticipates offering new training programs in the upcoming year, with a core focus on new managers and supervisors who are taking on people-management responsibilities at the Commission for the first time, and also an executive version for other Directors.

The Commission continued its work to strengthen its internal professional mobility to facilitate greater career development and retention of employees. The Commission was focused on communicating and informing employees, creating more visibility of opportunities, empowering managers and creating a suitable framework for succession. In preparation to implement the Commission's Strategy 2016-2017, a more focused approach is being developed to actively identify redeployment opportunities, a key aspect of which is internal career mobility. Where ever possible, focus will be placed on facilitating cross-divisional interchanges, which also allows employees to advance and enlarge their abilities and pursue diverse positions.

10.4 STAFFING

The staff in the Human Resources Department assisted job applicants and employees with all phases of the employment process; namely recruitment, interviewing, testing, background checks, evaluation and selection of people to fill posts within the Commission. They also provided post-employment services to employees.

The Staff complement of the Commission as at March 31, 2017 was 74 permanent and 3 temporary employees as shown in Chart 14.

The Companies Registry continued to be the department with the most staff at 35% of the total complement, followed by Insurance.

Table 5 provides a tabular representation of the total number of staff at the end of the financial year by the length of time at the Commission. It shows that 17% of the staff have been with the Commission for over ten years, 35% over five years but less than 10 and 48% between 0 and 5 years, with a larger proportion of the latter category serving for more than a year.

The years of service grouped in four categories is shown below in Chart 15 and compared to the previous reporting period. The chart shows that for the under 5 year category, there was a reduction of about 10 percentage points over the year, indicating a shift to a longer service period when 2016 is compared to 2015. For the 5-9 year category, 2016 shows a shift upwards over 2015. For 10-14 years of service again the trend is improving in that employees are staying much longer. For over 14 years the service period remained relatively flat.

Relevant data in respect of employees for the period included:

- The Commission employed five temporary staff at various points in the period;

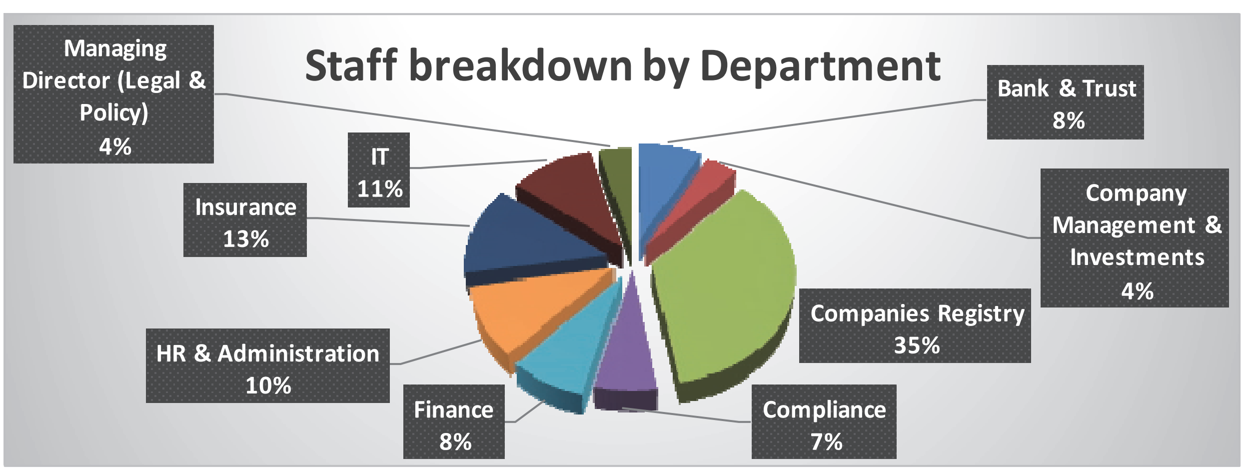


Chart 14 FSC Staff Complement by Department

No. of Years	No. of Staff
30+	1
25-29	2
20-24	0
15-19	3
10-14	7
5-9	27
<5	37
Total	*77*

Table 5 Employees by Years of Service

- The Commission employed nine new employees this year;
- Eight of the new employees were administrative staff and one was professional staff
- None of the new employees required a work permit;
- Seven employees left during the year and
- Two of the employees who left were professional staff on a work permit.

Category	Per Year %	Total
Professional Grades	**2.6%**	**2**
Administrative Grades	**9.1%**	**7**
Total	**11.7%**	**9**

Table 6 Staff Turnover 2016-2017

The Commission is committed to an inclusive culture that respects and embraces the diversity of its employees, clients and communities. The Commission aims to attract, develop and retain the most capable employees from differing backgrounds and experiences.

During the year the Commission experienced an 11.7% staff turnover rate. This increased from a rate of 9.1% in the previous year. 22% of those who left were in the professional grade and 78% in the administrative grade.

Table 6 refers.

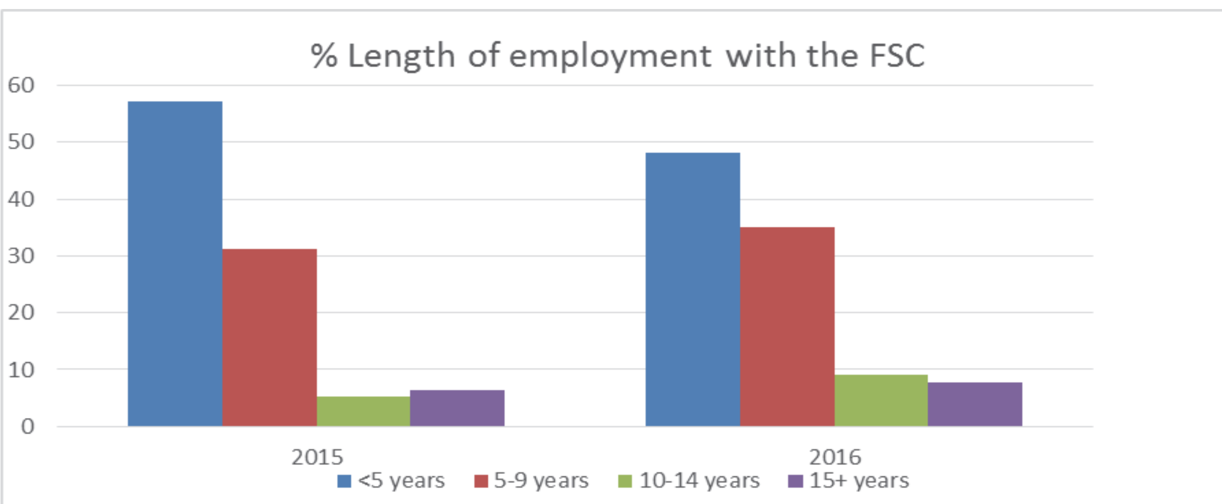


Chart 15 Service Periods by Comparison

10.4.1 WOMEN IN MANAGEMENT POSITIONS

Historically, the leadership roles at the Commission were predominantly held by males. However, interest in the work of the Financial Services Commission, and particularly in leadership roles, has been trending increasingly towards females. In 2014 five of the Commission's Departments were led by males whilst three were led by females. There was a slight shift so that for the year under review the majority of departments were led by females.

Chart 16 shows the ratio of male managers to female directors over a 3 year period 2014 to 2016.

The positions of Director of Insurance and Registrar of Companies which remained vacant at the end of the 2014 and 2015 financial years were filled in the second half of 2016.

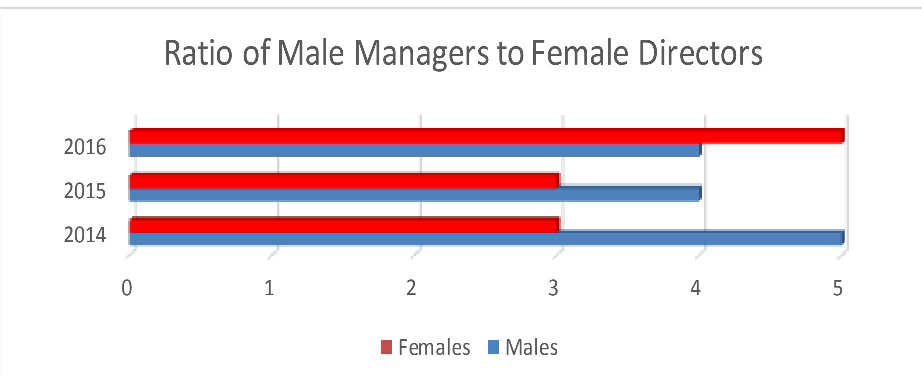


Chart 16 Management by Gender

	Male	Female
Professional Grades[8]	**9**	**27**
Administrative Grades	**11**	**30**
Total	**20**	**57**

Table 7 Total Number of Employees by Gender

Overall, there was a trend for a higher number of females employed at the Commission. This is evident in the numbers for female employees in the professional and administrative grades. 26% of staff were males and 74% were females. Table 7 provides a tabular presentation of the data relating to total employee count by gender.

10.4.2 NUMBER OF NEW HIREES

The year began with 77 employees however this was balanced with additional staff complement throughout the year. The Commission took on nine new employees during the year. Therefore despite losses the Commission was able to maintain its staff count at 77 employees.

10.5 EMPLOYEE RELATIONS & WELL-BEING

As part of the Commission's thrust to ensure a proper and healthy working environment for its staff, the renovation works at the premises acquired in the prior period was completed. The space was redesigned to accommodate the Compliance, Policy, IT, Business Names and Reception functions. In July 2016, the staff moved into a much more spacious and comfortable environment. This relocation augurs well for efficiency, productivity and the well-being of the staff. At the same time, customers are better able to be served well, as more members of the public can be accommodated at the same time.

The 2016 Annual Staff Social took place in Grand Turk on December 7th 2016. A wonderful time was had by all. During that occasion the Commission honoured its longstanding

[8] For the purpose of this report professional staff is defined as those persons in Grades 1 – 7 of the Commission's salary grade scale.

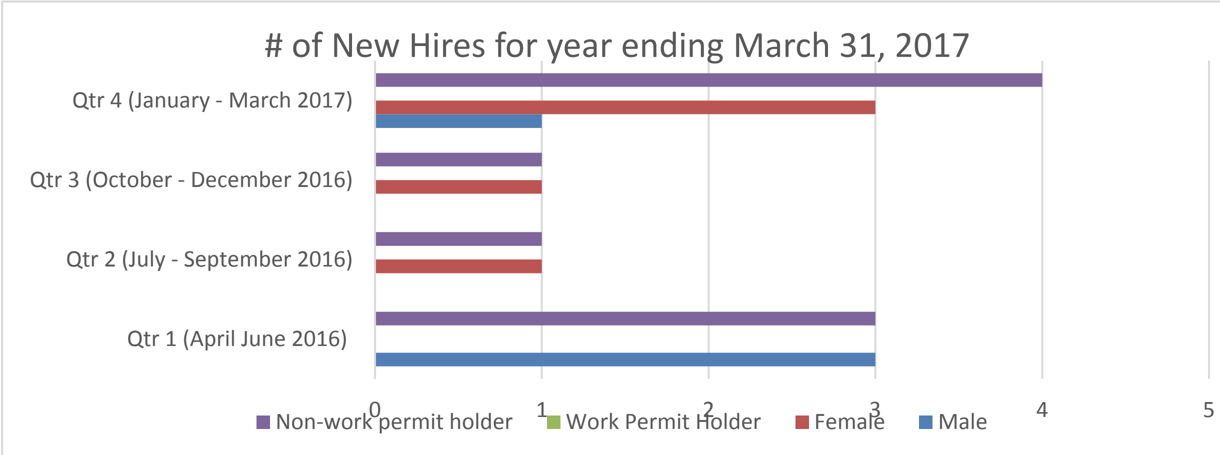


Chart 17 Hirees by Quarter 2016-2017

employees who had given 10 years or more of service. 12 people were honoured. A token was also presented to the employee of the year from the Grand Turk and Provo Offices, both of whom were from the Finance Department. A token was also given to the manager of the year.

The Commission encouraged the physical well-being of its employees by sponsoring gym memberships for employees in both Grand Turk and Providenciales. The Commission also participated annually in the sporting event commemorating International Women's Day organised by the Department of Gender Affairs of the Turks and Caicos Islands Government. Additionally, the Commission formed a softball team as a part of the Corporate Softball League in Providenciales.

10.6 COMMUNITY OUTREACH

The Commission continued to participate in the Turks and Caicos Islands Government's annual Job Readiness program which is usually focused on prospective graduates at the H.J Robinson and Clement Howell High Schools. One student interviewed in Grand Turk was also able to gain some practical experience by working at the Grand Turk Office during the Easter Holiday. The Commission also worked with the Turks and Caicos Islands Community College, by providing necessary work experience as required by the College for two employees of the Commission who are pursuing Bachelor's degrees.

11.0 FINANCE DEPARTMENT REPORT

11.1 OVERVIEW

During the financial year, the Head of the Department relinquished the Administration portfolio to be better able to concentrate on the systems and procedures which have a financial impact on the Commission. To that end, various reviews commenced some of which were concluded and others are continuing and will be finalised during the next reporting period. These have helped or will help to strengthen the Commission's financial systems and oversight functions. Amongst these were a review to update the Accounting Policy Manual, the procurement framework of the Commission and the risk management framework. All these reviews should be concluded by the second half of the upcoming financial year.

During the year the Commission engaged the services of an internal auditor as part of its compliance and risk management processes. It is expected that such a role will aid greatly in the assurance process as systems and procedures are reviewed, with recommendations for enhancement as necessary.

11.2 FINANCIAL PERFORMANCE REVIEW

11.2.1 REVENUE

The Commission recorded Total Revenues for the period 2016/2017 of $8.55M, up from $8.38M for the prior period 2015/2016. This represents a 2% increase. This increase none-the-less represents a steep decline of 7.77% from the $9.27M recorded in financial year 2014/2015. The movement in the fees over the three year period largely attributable to the decline by

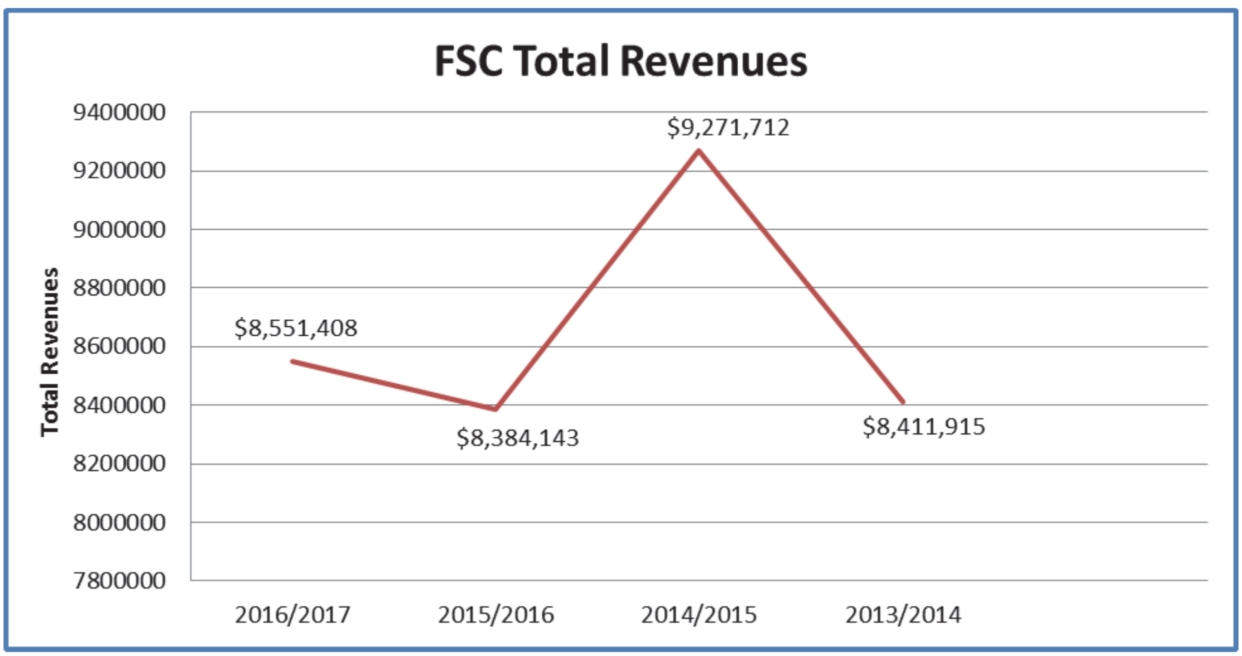


Chart 18, Total Revenues 4 year Period

[9] Revenue from all sources, including land share transfer duty and sundry fees

[10] Companies; Trademarks; Patents and Business Names

over half in the intake from land share transfer duties. It should be noted that land share duties is an exception item that the Commission has no control over; it is not part of operational performance.

Chart 18 shows a pictorial presentation of comparative revenues over the current and three previous periods.

The increase in the total revenue of 2% over prior year can be explained by the increase in the revenue attributable to the Registries. Upon further analysis, strong performance in the business names registration category (which saw an 83% increase) and the annual returns filing (3%) increase accounts for the overall movement in the total revenues.

The Registries[10] continued to account for the bulk of the revenue generated by the Commission at just about 76% ($6.5M), up from 75% ($6.3M) in the previous period. As indicated prior, the increase in the revenue intake for the Registry is accounted for by strong performance in the business names category, brought on by increased co-operation with TCIG Revenue Department over the registration requirements for Business Licensing purposes.

Refer to chart 19 for revenue comparison by Department.

While being a non-regulatory revenue earner, the Registry plays a very critical role in the revenue generation scheme. Regulatory functions, while critical, account collectively for only 23% of the revenue base. Second to the Registries is the Insurance sector, made up primarily of a domestic and an international component. The international component represents 68% of the insurance department's total revenue take. The insurance percentage of total revenue for this and the prior period was 17% and 18% respectively. The drop of 2% (from $1.471M to $1.448M) is reflected largely in the areas of domestic insurance entities, captives and managers, caused by some entities exiting

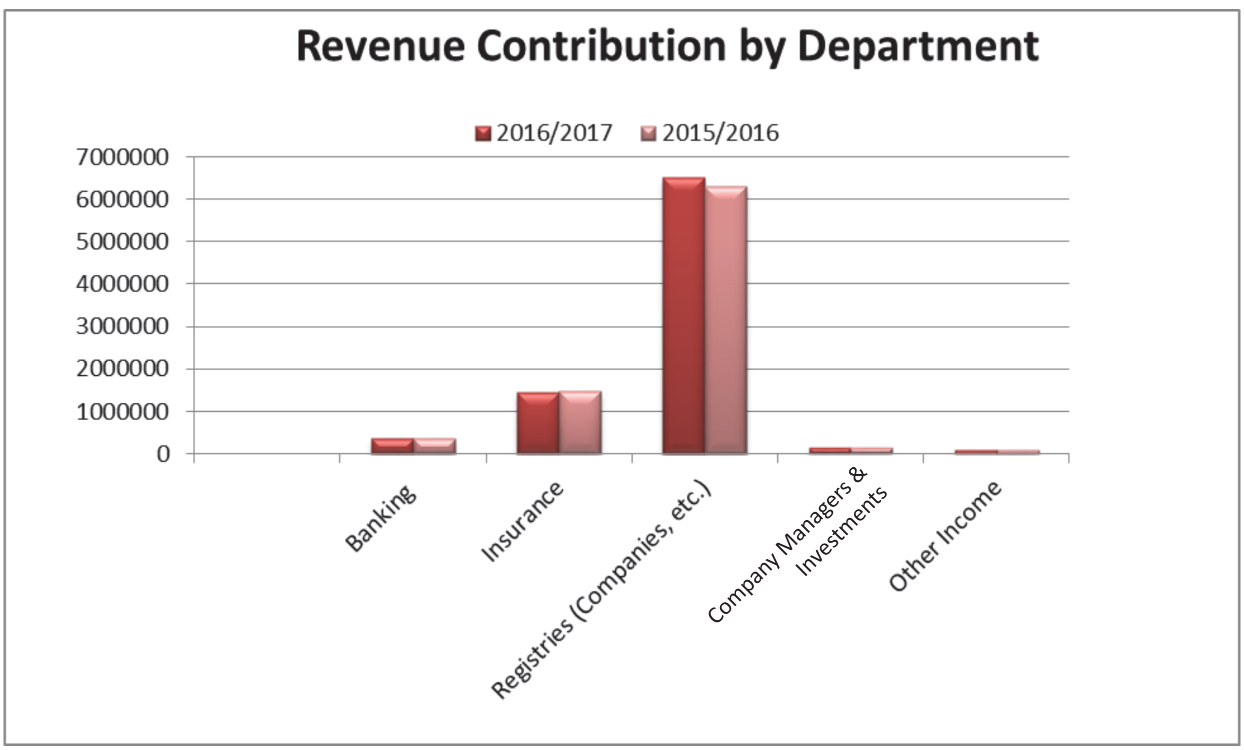


Chart 19, Revenue by Department (Dollar Value)

[11] This represents income earned, excluding sundry fees and land share transfer duties – see note 5 below

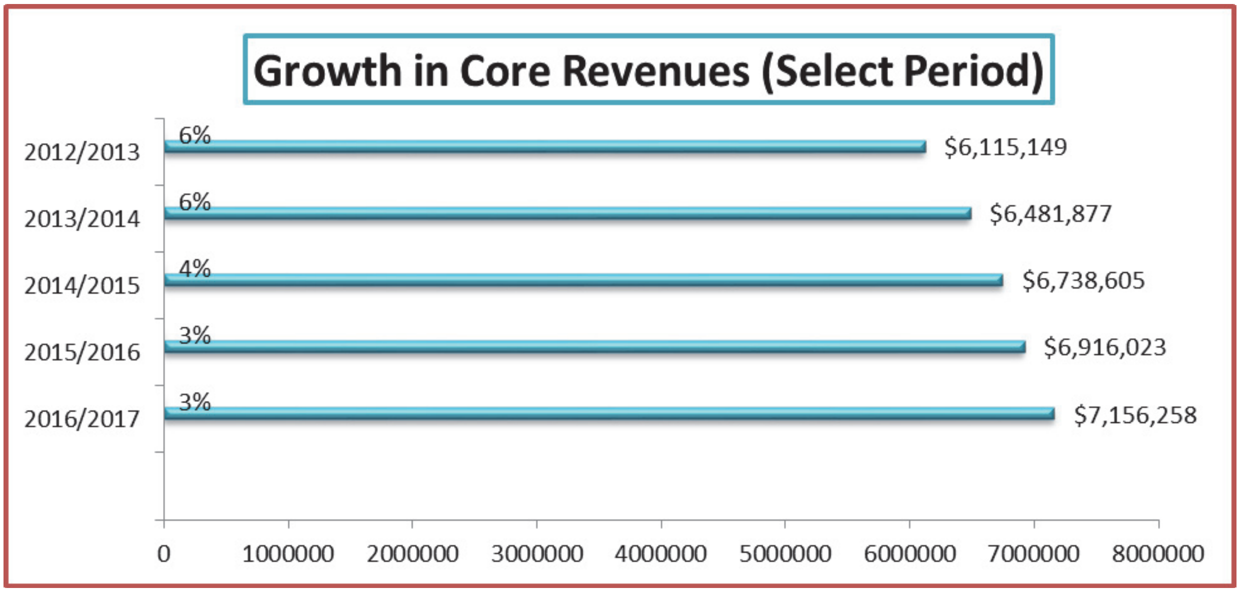


Chart 20 Revenue Growth (Core) for select periods

the local insurance market.

The intake of the banking and company managers and investments areas represent 4% and 2% respectively of total inflow. Those percentages have remained stable over the last two years.

In tandem with the increase of 2% in *Total Revenues*, *Core Revenue*[11] increased by 4% over the prior period. This current increase continued the trend of a gentle smooth upward increase in the core revenue base of the Commission as seen from the data over the last couple of years. For the current period, core revenues were $7.156M compared to $6.916M in the previous year and $6.738M in the year before that. All in all, the previous five years have shown a consistent upward movement in this key revenue variable. Refer to chart 20 for a graphical view of this data.

The growth in core revenues over the years has been caused by positive movements in the annual returns filing, moving by 3% over the previous period. There was hardly any growth in that category over the previous two periods. Business names also accounted for the growth in core revenues, moving by 83% over the previous year, and prior to that by 19%.

Comparatively, while annual returns filings have shown some positive movements, at least over the two year period 2015/2016 to 2016/2017 and remaining flat over the previous two periods, incorporations have been on a downward trend. It declined by 4% over the previous period and prior to that the revenue intake declined by 1%. The reason for the decline may be complex and could include increased competition from other jurisdictions as well as the outdated nature of the products available for incorporations. Work continues apace on the KRegistry electronic platform, which hopefully when completed should provide the impetus for increased incorporations, due to the availability 24 hours a day of a mechanism to incorporate companies remotely.

In terms of the budget targets, the Commission has consistently exceeded the targets set over the last three periods. Refer to chart 21 for the comparative presentation.

The targets have been met and surpassed largely because of sundry fees, which include certificates of good standing, searches and penalties imposed.

In the current financial year, the penalties have related primarily to those dealing with failure to file company annual returns on time. In prior periods they included some amounts for regulatory breaches. For 2016-2017, 44% of the variance was accounted for by these sundry fees and 18% as a result of stronger than expected trademarks performance. In the year 2014/2015 the largest portion of the revenue variance was accounted for by stronger than projected inflows from land share transfer duties, which are unpredictable.

While the international insurance sector is critical to the revenue stream it grew by only 2% over the prior period. With our impending electronic platform there is the possibility of increased flows from this area, going forward.

11.2.2 MEASURES TO GROW REVENUES

A number of initiatives have been taken or are being examined to grow revenues, some of which are long term and not expected to bear fruit in the immediate term.

Commencing in 2016, certain insurance direct writers, vis a vis their work with PORCs, who want to do business in the Turks and Caicos and who are not AM Best rated, are now required to register and pay a registration fee of $1,500. During the period we registered one entity.

Work got underway to have the House of Assembly enact legislation to increase banking fees. This is far advanced and is expected to be implemented in 2018.

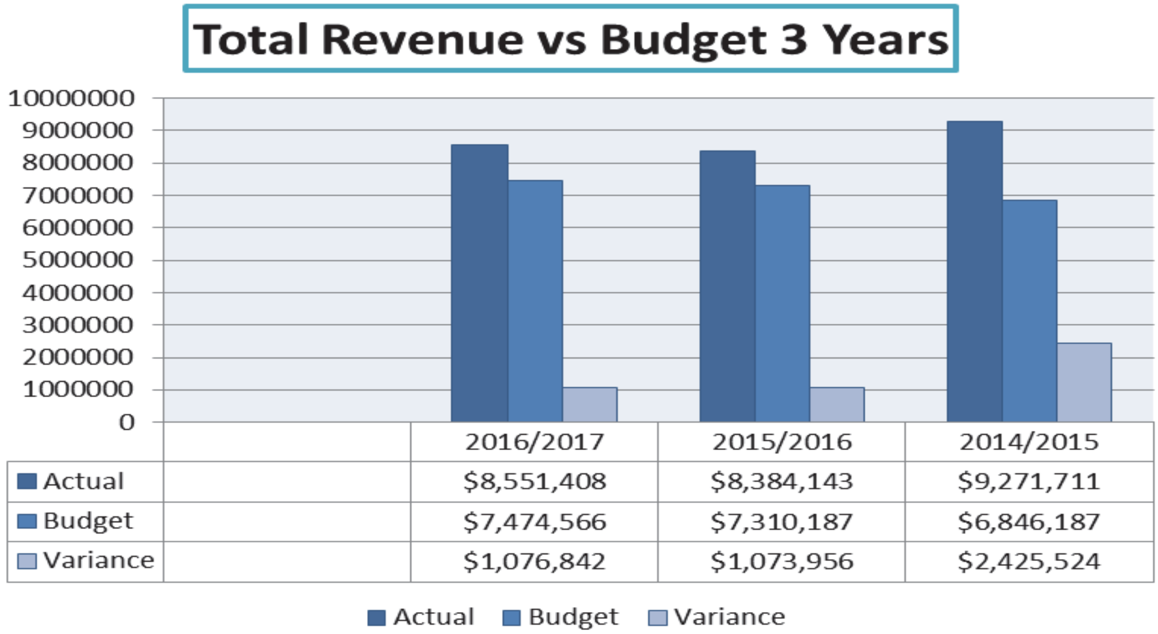
Work continues on the completion of the KRegistry electronic platform and we have now only a few items to conclude the online portion of the system. This is set for a revised implementation date during the latter half of the next financial year. We expect this to help in growing our company incorporations.

11.2.3 EXPENDITURE

Consolidated expenditure declined by 17% for the year, when compared to the previous year; a movement of $1.26M to $6.04M from $7.3M. This reduction was primarily as a result of legal and professional costs that had been incurred in the prior period being significantly less in the current period. While legal fees accounted for 51% of total professional and consultancy fees in the period, they in turn only accounted for 2.5%. of overall total expenditure for the year. This shows a significant downward movement from 13% of total costs in the prior period.

There were increases in other expenditure areas which are expected to be sustained in the future. These are in the areas of staff costs, impairment losses on assets and directors fees. In the case of staff cost, additional staff adjustments were made in keeping with recommendations of human resources consultants to bring the salaries slowly in line with market trends, both locally and internationally. The overall increase, however, on actual costs was marginal at just 1%. Staff costs for the period were $3.773M, up from $3.788M in the previous financial year. As to be expected, staff cost was the largest expense for the Commission at 63% compared to 52% in 2015/2016 after adjusting for the unusually high legal costs for that period.

While training continues to be integral to the Commission's mandate, training costs declined by 32% over the prior period. The Commission undertook during the period to renew its commitment to internal staff development and training. To that end formal structures were developed for such educational assistance.



	2016/2017	2015/2016	2014/2015
Actual	$8,551,408	$8,384,143	$9,271,711
Budget	$7,474,566	$7,310,187	$6,846,187
Variance	$1,076,842	$1,073,956	$2,425,524

Chart 21 Total Revenue vs Budget 2014/2015 to 2016/2017

Various international events were undertaken. Of significance, the Commission hosted the Risked Based Supervisory framework in late 2016 in conjunction with CGBS and the Federal Reserve System.

Notwithstanding the downward movement in the training costs, significant milestones were achieved through structured and unstructured staff development.

Directors costs increased by 27% due in part to the addition of another director to fill a vacant position. That director comes with tremendous insurance expertise and thus will provide a great boost to the regulatory oversight capabilities of the Commission. We welcome him to the Board.

During the year we took an impairment charge of 3% of total expenditure. This charge relates to various receivables amounts which we felt were uncollectable. Reviews carried out indicated that amounts billed were incorrect in some cases based on the status of the entities. These charges are not expected to recur to any significant extent in the next period.

11.2.4 ASSETS AND LIABILITIES AND RESERVE FUND

Total Assets, excluding fixed and intangible assets, increased by 28% during the period (from $8M in 2015-2016 to $10.246M as of reporting date). This is largely due to the operating surplus of $2.5M generated for the period prior to provision for transfer to the Turks and Caicos Islands Government (TCIG).

Total cash and interest bearing assets amounted to 91% of the total specified assets , down from 92% in the previous period. Investment holdings continued to reflect a mixed portfolio of local certificate of deposit and foreign treasury bonds of the highest ratings, with some cash. Treasury bonds accounted for 16% of the portfolio during the current period, down from 20% in the prior period. The decrease is as a result of a higher portion of the funds held being invested in shorter dated instruments as opposed to treasury bonds.

The Commission expects to pay the Government approximately $1.8M in resources for the financial year ended March 31, 2017.

The Reserve Fund remained relatively flat compared to the prior period, with the addition of only $14,409 to the Fund in keeping with projected expenditure requirements for the next financial year. The Fund stood at approximately $7.060M at March 31, 2017.

11.3 LOOKING AHEAD

The Department will continue its thrust of upgrading and updating its various control and financial systems during the upcoming period. Further, compliance and corporate governance will remain a guiding principle as part of the Department's focus.

The Department will be seeking to enhance its human resources complement within allowable frameworks to help to carry out its mandate and to ensure that it can properly meet its responsibilities.

[12] Total assets excluding fixed and intangible assets

SECTION B

FINANCIAL SERVICES COMMISSION

STATEMENT ON INTERNAL CONTROL & CONSOLIDATED FINANCIAL STATEMENTS

FOR YEAR ENDED MARCH 31, 2017

Financial Services Commission Board of Directors Statement on Internal Control

[Issued Pursuant to Regulation145(5) of the Public Finance Management Regulations 2012]

The Board of Directors is responsible for establishing oversight over the Commission and to ensure that a strong internal control function is in place. The overall objective of doing that is to ensure that the Commission's assets are safeguarded and that risk is minimized. The internal control process is designed to provide a reasonable assurance over the reliability of the financial reporting process, and compliance with legislation, regulations and accounting policies.

The Board has established an Audit and Risk Management Committee. This Committee carries out certain oversight functions and provide guidance to the full board in areas which include: preparation of the annual financial statements and the Commission's Annual Report; reviewing the internal control environment; the fulfilment by the Commission of its statutory financial obligations pursuant to the FSC Ordinance and compliance with relevant Board-approved policies and performance of the external auditors.

The Managing Director, who has day to day responsibility for the Commission, has the responsibility to manage the control environment in order to eliminate or mitigate risks in the Commission's operations. Management is responsible for ensuring that all employees understand the requirements for, and the individuals' roles in, maintaining a strong and effective internal control.

During the latter half of the period under review steps were taken to enhance the control environment by instituting a number of measures. These included the drafting up of terms of reference in relation to procurement that will, among other things, ensure that risks involved with high risk projects are quantified and measured prior to engaging in such high risk projects and that specified procedures are followed in relation to certain deemed high value procurement.

In addition, the Commission prepared its first organisation wide risk register. This document seeks to identity, measure and control relevant and important risks as they arise. This will be a guiding principle going forward as part of assessing risk within the control environment and dealing with them.

The Commission engaged the services of an independent, qualified and experienced internal auditor during the review period. The focus of the internal auditor's work was in relation to reviewing and making recommendations, where required, to strengthen the operational and IT systems environments of the FSC.

The Directors have assessed the effectiveness of the internal control for the year ended March 31, 2017 and believe that the internal control over the financial reporting is effective based on:

1. Adequate segregation of duties are in place and are working;
2. Monthly financial reports are prepared consistently and presented to the full board;

3. Annual working papers are drawn up and schedules are prepared to support the major balance sheet items and financial statements are drafted for submission to the auditors for review within a reasonable time after the year end;

4. Appropriate account signing authorities and limits have been established and are being complied with;

5. Reconciliations of various accounts take place regularly within each monthly cycle

6. Where weaknesses were detected in any area, those were addressed through additional policies and procedures and

7. The auditors have not made any serious findings in regard to a breakdown of the internal control environment during the recent audit carried out or reported that there was any incidence of fraud detected.

Financial Services Commission
Board of Directors
June 8, 2017

Consolidated Financial Statements of

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Year ended March 31, 2017

TURKS AND CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION

Consolidated Financial Statements

Year ended March 31, 2017

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, 2017, the consolidated statements of revenue, expenditures and other comprehensive income, changes in reserves and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Turks and Caicos Islands' Financial Services Commission Ordinance (2007) (as amended) (hereafter referred to as "the Ordinance").

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' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation of the 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

Without qualifying our opinion, we draw your attention to notes 14 and 32 to these consolidated financial statements.

On a quarterly basis, if amounts held in a reserve fund, established under the terms of the Ordinance, exceed the expected recurrent expenditure of the FSC for the relevant financial year, the FSC is mandated by the Ordinance to pay a sum equal to the excess to the Turks and Caicos Islands Government ("TCIG"), within fourteen days 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.

Report on Other Legal and Regulatory Requirements, continued

During the years ended March 31, 2017 and 2016 quarterly assessments of amounts due to TCIG were conducted but payments to TCIG were not always made in full within the time specified in the Ordinance. For example during the year ended March 31, 2017 no payments were made to TCIG. As at March 31, 2017 and March 31, 2016 the excess payable to TCIG had not been settled in full within fourteen days as specified in the Ordinance.

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

July 31, 2017

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Consolidated Statement of Financial Position

At March 31, 2017
with comparative figures at March 31, 2016

		2017	2016
Assets			
Current assets:			
Cash and cash equivalents (note 5)	US$	7,245,225	5,237,268
Term deposit (note 6)		608,531	607,041
Accounts receivable (note 7)		623,231	483,678
Due from employees (note 8)		175,565	125,030
Current portion of held-to-maturity investments (note 9)		603,114	300,317
Prepayments and other receivables (note 10)		91,212	47,358
		9,346,878	6,800,692
Non-current assets:			
Held-to-maturity investments (note 9)		899,247	1,197,745
Intangible assets (note 11)		395,871	507,650
Property and equipment (note 12)		2,066,318	2,087,579
		3,361,436	3,792,974
	US$	12,708,314	10,593,666
Liabilities and Reserves			
Current liabilities:			
Accounts payable and accrued expenses (note 13)	US$	590,805	954,689
Due to TCIG (note 14)		2,918,408	417,259
Current portion of deferred income (note 15)		923,961	937,235
		4,433,174	2,309,183
Non-current liability:			
Non-current portion of deferred income (note 15)		259,047	282,799
		4,692,221	2,591,982
Reserves:			
Reserve fund (note 29)		7,060,087	7,045,678
Retained surplus (note 16)		956,006	956,006
		8,016,093	8,001,684
	US$	12,708,314	10,593,666

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

These consolidated financial statements were approved on behalf of the Board of Directors on July 31, 2017 by the following:

Oswald Simons Deputy Chairman   Niguel Streete Managing Director

TURKS AND CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION

Consolidated Statement of Revenue, Expenditures and Other Comprehensive Income

Year ended March 31, 2017
with comparative figures for year ended March 31, 2016

		2017	2016
Revenue:			
Fees and charges (note 17)	US$	8,459,282	8,278,596
Government grants		45,143	46,139
Interest income		38,404	30,503
Other income		8,579	22,205
Gain on disposal of property and equipment		–	6,700
		8,551,408	8,384,143
Expenditures:			
Staff costs (note 18)		(3,773,218)	(3,787,898)
Professional and consultancy fees (note 19)		(302,224)	(1,338,184)
Rental of buildings (note 20)		(258,550)	(328,752)
Depreciation (note 12)		(248,213)	(205,354)
Impairment loss on accounts receivable (note 7)		(178,466)	(37,885)
Office expenses (note 21)		(148,184)	(177,987)
Directors' fees and expenses (note 22)		(144,135)	(113,457)
Training (note 23)		(118,695)	(175,447)
Amortisation of intangible assets (note 11)		(111,779)	(88,011)
Communication (note 24)		(103,446)	(132,407)
Travel and subsistence (note 25)		(99,625)	(171,194)
Insurance		(84,577)	(74,153)
Repairs and maintenance		(80,577)	(111,289)
Local hosting and entertainment		(77,918)	(120,516)
Utilities		(74,448)	(94,166)
Audit and accounting		(62,344)	(69,907)
Advertising		(50,770)	(61,650)
Other operating expenses (note 26)		(49,634)	(106,407)
Security		(45,336)	(49,328)
Subscriptions and contributions		(23,169)	(54,965)
Loss on disposal of property and equipment		(542)	–
		(6,035,850)	(7,298,957)
Surplus before other comprehensive income		2,515,558	1,085,186
Other comprehensive income		–	–
Net surplus for year	US$	2,515,558	1,085,186
Net surplus for year transferred to:			
Reserve fund	US$	14,409	555,959
TCIG (note 14)		2,501,149	529,227
	US$	2,515,558	1,085,186

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

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Consolidated Statement of Changes in Reserves

Year ended March 31, 2017
with comparative figures for year ended March 31, 2016

		Reserve fund	Retained surplus	Total
March 31, 2015	US$	6,489,719	956,006	7,445,725
Net surplus for year		1,085,186	–	1,085,186
Net surplus for year transferred to amount due to TCIG (note 14)		(529,227)	–	(529,227)
March 31, 2016		7,045,678	956,006	8,001,684
Net surplus for year		2,515,558	–	2,515,558
Net surplus for year transferred to amount due to TCIG (note 14)		(2,501,149)	–	(2,501,149)
March 31, 2017	US$	7,060,087	956,006	8,016,093

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, 2017
with comparative figures for year ended March 31, 2016

		2017	2016
Cash flows from operating activities:			
Net surplus for year	US$	2,515,558	1,085,186
Adjustments for:			
Depreciation		248,213	205,354
Impairment loss on accounts receivable		178,466	37,885
Amortisation of intangible assets		111,779	88,011
Interest income		(38,404)	(30,503)
Loss/(gain) on disposal of property and equipment		542	(6,700)
		3,016,154	1,379,233
Changes in operating assets:			
Change in accounts receivable, gross of impairment loss		(318,019)	(263,631)
Change in due from employees		(50,535)	(13,664)
Change in prepayments and other receivables		(43,854)	66,325
Changes in operating liabilities:			
Change in accounts payable and accrued expenses		(363,884)	518,705
Change in deferred income		(37,026)	(20,999)
Net cash from operating activities		2,202,836	1,665,969
Cash flows used in investing activities:			
Change in term deposit		(1,490)	198,713
Proceeds from disposal of held-to-maturity investments		300,317	–
Acquisition of held-to-maturity investments		(304,495)	–
Additions to intangible assets		–	(239,650)
Additions to property and equipment		(227,494)	(658,484)
Proceeds from disposal of property and equipment		–	6,700
Interest income received		38,283	30,420
Net cash used in investing activities		(194,879)	(662,301)
Cash flows used in financing activity:			
Cash transferred to TCIG (note 14)		–	(3,297,537)
Net cash used in financing activity		–	(3,297,537)
Net increase/(decrease) in cash and cash equivalents		2,007,957	(2,293,869)
Cash and cash equivalents at beginning of year		5,237,268	7,531,137
Cash and cash equivalents at end of year	US$	7,245,225	5,237,268

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

TURKS AND CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION
Notes to Consolidated Financial Statements

Year ended March 31, 2017

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) *Statement of compliance*

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

With respect to recognition of revenue on certain annual licence fees during the year ended March 31, 2016 the FSC changed its accounting policy from a modified cash basis of accounting to an accruals basis of accounting so as to comply with International Accounting Standard (IAS) 18, *Revenue*. This change in accounting policy was applied retrospectively as required by IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* (note 2(e)). Other changes were made to comply with IAS 1, *Presentation of Financial Statements.*

(b) *Basis of measurement*

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 to these consolidated financial statements.

2. Basis of preparation, continued

(c) Functional and presentation currency

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

(d) 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 accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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 the following notes:

- Note 7 – Accounts receivable
- Note 11 – Intangible assets
- Note 29 – Capital management
- Note 31 – Contingent liabilities

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.

(e) Changes in accounting policy

With respect to recognition of revenue on certain annual licence fees during the year ended March 31, 2016 the FSC changed its accounting policy from a modified cash basis of accounting to an accruals basis of accounting so as to comply with IAS 18. IAS 8 requires this change in accounting policy to be applied retrospectively when the effect of applying the new accounting policy is material.

3. Significant accounting policies

The accounting policies set out below have been applied to all periods presented in these consolidated financial statements and have been applied consistently by the FSC.

(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, 2017 and its consolidated financial performance and its cash flows for the year 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) Loss of control

When the Commission loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest 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.

(iii) 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) Non-derivative financial instruments

Non-derivative financial assets

Non-derivative financial assets are recognised initially at fair value, plus any directly attributable transaction costs, on the trade date at which the FSC becomes a party to the contractual provisions of the instrument.

Subsequent to initial recognition, non-derivative financial assets are measured as described as follows.

3. Significant accounting policies, continued

(b) Non-derivative financial instruments, continued

Non-derivative financial assets, continued

Financial assets are derecognised when the FSC's contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the FSC is recognised as a separate asset or liability.

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

The FSC has the following non-derivative financial assets: cash and cash equivalents, term deposit, accounts receivable, due from employees, other receivables and held-to-maturity investments.

(i) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment losses.

The FSC's loans and receivables comprise: cash and cash equivalents, term deposit, accounts receivable, due from employees and other receivables.

Cash and cash equivalents comprise current accounts, certificate of deposits, savings accounts and cash on hand.

Cash equivalents are short-term highly liquid investments with maturities of three months or less from the acquisition date that are subject to an insignificant risk of change of value and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Debt instruments that are not quoted in an active market are classified as loans and receivables.

3. Significant accounting policies, continued

(b) Non-derivative financial instruments, continued

Non-derivative financial assets, continued

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments that the FSC intends, and is able, to hold to maturity, and which do not meet the definition of loans and receivables and which are not designated as assets at fair value through profit or loss or as available for sale on initial recognition. Held-to-maturity investments are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method. If the FSC sells a held-to-maturity investment other than in insignificant amounts or as a consequence of a non-recurring, isolated event beyond its control that could not be reasonably anticipated, all of its other held-to-maturity investments must be reclassified as available-for-sale for the current and next two financial reporting periods.

Non-derivative financial liabilities

Non-derivative financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition trade and other payables are measured at amortised cost using the effective interest rate method.

Non-derivative financial liabilities are derecognised when the FSC's contractual obligations are discharged or cancelled or expire.

The effective interest rate method is a method of calculating the amortised cost of a financial liability and allocating the interest expense over the relevant period. The effective interest rate is the rate that discounts the estimated future cash payments through the expected life of the financial instrument. When calculating the effective interest rate, the FSC estimates cash flows considering all contractual terms of the financial instrument. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

The FSC has the following non-derivative financial liabilities: accounts payable and accrued expenses and due to TCIG.

3. Significant accounting policies, continued

(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)).

(ii) Subsequent costs

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. 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.

3. Significant accounting policies, continued

(c) Intangible assets, continued

(iii) Amortisation, continued

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

Property and equipment are measured at cost less accumulated depreciation and impairment losses (note 3(j)(ii)).

Cost includes expenditure that is directly attributable to the acquisition of property and equipment.

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.

Gains or losses arising from the disposal of property and equipment are reflected in the consolidated statement of revenue, expenditures and other comprehensive income.

(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.

3. Significant accounting policies, continued

(d) Property and equipment, continued

(iii) Depreciation

Depreciation is recognised in the consolidated statement of revenue, expenditures and other comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

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 years
Motor vehicles	5 years
Leasehold improvements	shorter of 10 years and remaining term of lease

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

(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 the risks specific to the liability.

(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.

3. Significant accounting policies, continued

(g) 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 fourteen days 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 recurrent expenditure in accordance with the above requirement is the budget as submitted annually to the Governor of TCI for the following year, and maintain the reserve fund at that level.

(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 at a point in time when the significant act of service occurs and there is no significant uncertainty as to its collectability.

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

3. Significant accounting policies, continued

(h) Revenue recognition, continued

(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.

(ii) Post-employment benefits

The FSC operates a defined contribution pension plan for certain employees. A defined contribution plan, a post-employment benefit, is a pension plan under which the FSC deposits fixed contributions into a separate 3rd 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) Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and the loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a policyholder, restructuring of an amount due to the FSC on terms that the FSC would not consider otherwise, indications that a policyholder or issuer will enter bankruptcy, adverse changes in payment status of licensee or issuer, or economic conditions that correlate with the defaults or the disappearance of an active market for a security.

3. Significant accounting policies, continued

(j) Impairment, continued

(i) Financial assets, continued

Financial assets measured at amortised cost

The FSC considers evidence of impairment for financial assets measured at amortised cost (loans and receivables) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment the FSC uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in the consolidated statement of revenue, expenditures and other comprehensive income and reflected in an allowance account against loans and receivables. When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed in the consolidated statement of revenue, expenditures and other comprehensive income.

(ii) Non-financial assets

The carrying amounts of the FSC's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit (CGU) exceeds its recoverable amount.

3. Significant accounting policies, continued

(j) Impairment, continued

(ii) Non-financial assets, continued

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGUs. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

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

In respect of other assets, 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 and amortisation, if no impairment loss had been recognised.

(k) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases are 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 are 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 financial statements.

3. Significant accounting policies, continued

(m) Related parties, continued

(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.

(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.

3. Significant accounting policies, continued

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

New and amended standards adopted by the FSC

New standards, amendments and interpretations to published standards that became effective for the financial year beginning April 1, 2016 were either not relevant or not significant to the FSC's operations and, accordingly, did not have a material impact on the FSC's accounting policies or consolidated financial statements.

New standards, amendments and interpretations issued but not effective for the financial year beginning April 1, 2016 and not early adopted by the FSC

The following new standards, amendments and interpretations to published standards that are relevant to the FSC's operations were issued but are not effective for the financial year beginning April 1, 2016 and were not early adopted by the FSC:

- IFRS 9, *Financial Instruments* – IFRS 9, published in July 2014, replaces the existing guidance in IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.
- IFRS 15, *Revenue from Contracts with Customers* – IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18, *Revenue*, IAS 11, *Construction Contracts* and International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.
- IFRS 16, *Leases* – IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. IFRS 16 provides a single lessee accounting model, requiring lessees to recognise assets and liabilities on the 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 is effective for annual reporting periods beginning on or after January 1, 2019, with early adoption permitted only for companies that also apply IFRS 15.

3. Significant accounting policies, continued

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

New standards, amendments and interpretations issued but not effective for the financial year beginning April 1, 2016 and not early adopted by the FSC, continued

The FSC is currently assessing the potential impact on its consolidated financial statements resulting from the application of IFRS 9, IFRS 15 and IFRS 16.

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 following methods and assumptions have been used:

- The fair value of liquid assets and other assets maturing within one year is assumed to approximate their carrying amount. This assumption is applied to liquid assets and the short-term elements of all other financial assets and financial liabilities; and
- The fair value of variable-rate financial instruments is assumed to approximate their carrying amounts.

(a) Loans and receivables

The fair value of loans and receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(b) Held-to-maturity investments

For disclosure purposes the fair value of held-to-maturity investments is determined using quoted market prices in an active market.

(c) Other financial instruments

Due to their short-term nature the carrying amounts of other financial assets and liabilities of the FSC approximate their fair value.

4. Determination of fair values, continued

When measuring the fair value of an asset or a liability, 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: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability 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

		2017	2016
Current accounts	US$	4,067,172	3,349,158
Certificates of deposit		2,048,985	574,360
Savings accounts		1,128,218	1,313,100
Cash on hand		850	650
	US$	7,245,225	5,237,268

The US$2,048,985 of certificates of deposit held at March 31, 2017 (2016: US$574,360) comprised the following:

		2017			
		Principal amount	Maturity value	Interest rate per annum	Maturity Date
CIBC First Caribbean International Bank (CIBC)	US$	2,005,583	2,008,433	0.58%	June 26, 2017
RBC Royal Bank (RBC)		43,402	43,413	0.10%	April 23, 2017
	US$	2,048,985	2,051,846		

5. Cash and cash equivalents, continued

		2016			
		Principal amount	Maturity value	Interest rate per annum	Maturity Date
CIBC	US$	500,000	500,615	0.75%	May 3, 2016
RBC		43,360	43,365	0.10%	April 6, 2016
Turks & Caicos Banking Company Limited		31,000	31,006	0.25%	April 4, 2016
	US$	574,360	574,986		

During the year, the savings accounts earned interest at a rate of 0.40% per annum (2016: 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 CIBC with a maturity date greater than 3 months from the date of acquisition:

		Principal amount	Maturity value	Interest rate per annum	Maturity Date
March 31, 2017	US$	608,531	610,437	0.63%	June 5, 2017
March 31, 2016	US$	607,041	607,520	0.16%	June 6, 2016

7. Accounts receivable

		2017	2016
Company managers	US$	513,785	304,708
Banks		40,206	43,000
Insurance managers		35,500	27,000
Insurance providers and intermediaries		20,730	28,309
Trust companies		10,000	75,501
Others		3,010	5,160
	US$	623,231	483,678

During the year ended March 31, 2017, an impairment loss of US$178,466 (2016: US$37,885) on accounts receivable were directly written-off to the consolidated statement of revenue, expenditures and other comprehensive income.

Information about the FSC's exposure to credit risk, and impairment loss on accounts receivable, is included at note 28(a) to these consolidated financial statements.

8. Due from employees

		2017	2016
Christmas advances	US$	104,496	90,306
Regular salary advances		71,069	34,724
	US$	175,565	125,030

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

9. Held-to-maturity investments

Held-to-maturity investments at March 31, 2017 represented investments in various US debt securities with original maturity periods ranging from three to seven years (2016: two to seven years) and nominal interest rates of 0.63% to 2.88% (2016: 0.50% to 2.88%).

		2017	2016
Face value	US$	1,500,000	1,500,000
Premium		16,318	12,140
Discount		(15,384)	(15,384)
Accumulated amortisation of discount		1,427	1,306
	US$	1,502,361	1,498,062
Carrying value	US$	1,502,361	1,498,062
Less current portion		(603,114)	(300,317)
	US$	899,247	1,197,745

During the year the FSC earned US$18,583 (2016: US$12,718) of interest on held-to-maturity investments which was included in interest income in the consolidated statement of revenue, expenditures and other comprehensive income.

During the year an additional US$121 (2015: US$83) of discount on held-to-maturity investments was amortised which was also included in interest income in the consolidated statement of revenue, expenditures and other comprehensive income.

10. Prepayments and other receivables

		2017	2016
Prepayments to suppliers	US$	88,623	36,559
Other receivables		2,589	10,799
	US$	91,212	47,358

11. Intangible assets

		2017	2016
Software development cost:			
At beginning of year	US$	782,450	542,800
Additions		–	239,650
At end of year	US$	782,450	782,450
Accumulated amortisation:			
At beginning of year	US$	274,800	186,789
Amortisation for year		111,779	88,011
At end of year	US$	386,579	274,800
Carrying value	US$	395,871	507,650

The FSC has been engaged in developing an online Companies Registry (Registry) since 2006. At March 31, 2017 the associated software development costs had a carrying value of US$395,871 (2016: US$507,650). 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. The FSC is continuing to work towards bringing the Registry into use for external purposes. In January 2016, the contract with the supplier of the Registry was amended to include additional services and to amend the payment terms per the original agreement.

12. Property and equipment

	Land, buildings, improvements & work-in-progress	Office furniture	Office equipment	Computer equipment	Motor vehicles	Total
	US$	US$	US$	US$	US$	US$
Cost:						
April 1, 2015	1,571,655	243,696	103,599	352,607	101,173	2,372,730
Additions	463,778	44,493	52,275	58,414	39,524	658,484
Disposals	–	(24,857)	(29,483)	(23,345)	(30,649)	(108,334)
March 31, 2016	2,035,433	263,332	126,391	387,676	110,048	2,922,880
April 1, 2016	2,035,433	263,332	126,391	387,676	110,048	2,922,880
Additions	91,017	13,163	55,848	67,466	–	227,494
Disposals	–	(1,833)	(26,285)	(7,870)	–	(35,988)
March 31, 2017	2,126,450	274,662	155,954	447,272	110,048	3,114,386

12. Property and equipment, continued

	Land, buildings, improvements & work-in-progress	Office furniture	Office equipment	Computer equipment	Motor vehicles	Total
	US$	US$	US$	US$	US$	US$
Accumulated depreciation:						
April 1, 2015	197,130	137,786	64,132	277,849	61,384	738,281
Depreciation	113,658	20,128	13,184	39,758	18,626	205,354
Disposals	–	(24,857)	(29,483)	(23,345)	(30,649)	(108,334)
March 31, 2016	310,788	133,057	47,833	294,262	49,361	835,301
April 1, 2016	310,788	133,057	47,833	294,262	49,361	835,301
Depreciation	146,527	22,364	19,925	43,186	16,211	248,213
Disposals	–	(1,833)	(25,743)	(7,870)	–	(35,446)
March 31, 2017	457,315	153,588	42,015	329,578	65,572	1,048,068
Carrying value:						
March 31, 2016	1,724,645	130,275	78,558	93,414	60,687	2,087,579
March 31, 2017	1,669,135	121,074	113,939	117,694	44,476	2,066,318

Included in land, buildings, buildings and leasehold improvements and work-in-progress 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.

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

	March 31, 2017					
	Land and buildings	Improve-ments	Work-in-progress	Total cost	Accumulated depreciation	Carrying value
	US$	US$	US$	US$	US$	US$
Land and buildings						
Units C7 & C8	236,731	162,834	–	399,565	(86,461)	313,104
Units C11 & C12	259,650	169,775	–	429,425	(103,529)	325,896
Units D7 & D8	269,690	145,527	–	415,217	(138,341)	276,876
Units K11 & K12	327,448	339,277		666,725	(47,374)	619,351
Leasehold	–	215,518	–	215,518	(81,610)	133,908
	1,093,519	1,032,931	–	2,126,450	(457,315)	1,669,135

12. Property and equipment, continued

	March 31, 2016					
	Land and buildings	Improve-ments	Work-in-progress	Total cost	Accumulated depreciation	Carrying value
	US$	US$	US$	US$	US$	US$
Land and buildings						
Units C7 & C8	236,731	162,834	–	399,565	(64,259)	335,306
Units C11 & C12	259,650	169,775	–	429,425	(80,060)	349,365
Units D7 & D8	269,690	145,527	–	415,217	(117,047)	298,170
Units K11 & K12	327,448	–	248,260	575,708	(10,915)	564,793
Leasehold	–	215,518	–	215,518	(38,507)	177,011
	1,093,519	693,654	248,260	2,035,433	(310,788)	1,724,645

The US$248,260 work-in-progress at March 31, 2016 pertained to renovation work on certain of the FSC's premises (units K11 and K12 at Caribbean Place, Providenciales).

13. Accounts payable and accrued expenses

		2017	2016
Accounts payable	US$	160,640	306,638
Accrued employee benefits		150,148	102,299
Accrued legal fees and expenses		146,740	515,376
Accrued employee salary incentives		100,751	–
Statutory contributions payable		32,526	30,376
	US$	590,805	954,689

The US$150,148 accrued employee benefits at March 31, 2017 (2016: US$102,299) pertained primarily to US$129,214 (2016: US$102,299) gratuity payable, being a short-term employee benefit, to certain employees of the FSC. The gratuity was calculated at 15% of 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.

During the year the FSC recognised salary incentives, being a short-term employee benefit, of US$100,751 for certain employees awarded following the FSC's organisational review. This incentive was calculated at 5% - 7% of the employee's basic annual salary.

14. Due to TCIG

As stated at note 3(g) to these consolidated financial statements, if amounts held in the reserve fund exceed the expected recurrent expenditure of the FSC for the relevant financial year, the FSC is mandated to pay a sum equal to the excess to TCIG, within fourteen days 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.

During the years ended March 31, 2017 and 2016 quarterly assessments of amounts due to TCIG were conducted but payments to TCIG were not always made in full within the time specified in the Ordinance. For example during the year ended March 31, 2017 no payments were made to TCIG. As at March 31, 2017 and March 31, 2016 the excess payable to TCIG had not been settled in full within fourteen days as specified in the Ordinance.

At March 31, 2017, US$2,918,408 (2016: US$417,259) was due to TCIG in this regard. During the year US$nil (2016: US$3,297,537) was transferred to TCIG.

		2017	2016
Due to TCIG at beginning of year	US$	417,259	3,185,569
Payments during year:			
April 14, 2015		–	(625,788)
April 28, 2015		–	(1,500,000)
August 18, 2015		–	(1,171,749)
	US$	–	(3,297,537)
Quarterly assessment of amounts due:			
April - June	US$	–	–
July - September		–	–
October - December		–	–
January - March		2,501,149	529,227
	US$	2,501,149	529,227
Due to TCIG at end of year	US$	2,918,408	417,259

The amount due to TCIG at March 31 per individual entity was as follows:

		2017	2016
The Commission	US$	1,832,408	(453,055)
FSC Property		1,086,000	870,314
	US$	2,918,408	417,259

TURKS AND CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION
Notes to Consolidated Financial Statements, continued

Year ended March 31, 2017

15. Deferred income

		2017	2016
Annual licence fees	US$	763,475	780,049
Annual maintenance fees		282,447	304,556
Government grants		90,286	135,429
Land share transfer duty		46,800	–
	US$	1,183,008	1,220,034
Current portion:			
Annual licence fees	US$	763,475	780,049
Annual maintenance fees		68,543	112,043
Government grants		45,143	45,143
Land share transfer duty		46,800	–
	US$	923,961	937,235
	US$	259,047	282,799

(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:

		2017	2016
Banks	US$	257,500	257,500
Insurance providers and intermediaries		245,000	252,049
Company managers		107,200	113,875
Trust companies		90,000	100,000
Insurance managers		24,500	21,000
Investment dealers		18,000	21,000
Money transmitters		12,375	6,125
Mutual funds and mutual funds managers		8,900	8,500
	US$	763,475	780,049

(b) 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 2018 to 2026 (2016: 2017 to 2026).

15. Deferred income, continued

(c) Government grants

		2017	2016
Capital Warrants			
Project No. 2714	US$	24,693	24,693
Project No. 2878		358,746	358,746
	US$	383,439	383,439
Accumulated amortisation:			
Project No. 2714	US$	24,693	24,693
Project No. 2878		268,460	223,317
	US$	293,153	248,010
	US$	90,286	135,429

(i) Project No. 2714

During the financial year ended March 31, 2006, the FSC received a development warrant from TCIG of up to US$53,410 to purchase furniture, equipment and vehicles. US$28,657 was received during 2006 of which US$3,964 was released immediately as it related to a direct expense. The funds from the warrant not directly expensed are released to income as the assets are depreciated.

(ii) Project No. 2878

During the financial year ended March 31, 2006, the FSC received a development warrant from TCIG of up to US$359,010 to fund the FSC's E-Initiative Project No. 2878 for the KReview and KRegistry Application Software. US$216,200 of the total warrant was received in the same year and from 2007 to 2011 the FSC received additional warrants of US$142,810.

The warrants received from TCIG from 2006 to 2011 were assigned as follows:

		Warrant	Initially assigned to	
Year received		received	Asset	Expense
March 31, 2006	US$	216,200	216,000	200
March 31, 2007		42,810	42,746	64
March 31, 2008		50,000	50,000	–
March 31, 2011		50,000	50,000	–
	US$	359,010	358,746	264

The funds from the warrant not directly expensed are released to income as the assets are depreciated.

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16. Retained surplus

The retained surplus of US$956,006 (2016: US$956,006) at March 31, 2017 represented the accumulated surplus of the FSC in 2007 prior to implementation of section 17, *Reserve Fund*, of the Ordinance.

17. Fees and charges

		2017	2016
Annual company renewal fees	US$	4,188,925	4,054,073
Annual licence fees		1,769,203	1,754,950
Application fees		967,291	980,636
Land share transfer duty		708,714	726,711
Penalties and other fees		594,309	635,862
Business names registration fees		230,840	126,364
	US$	8,459,282	8,278,596

18. Staff costs

		2017	2016
Salaries and wages	US$	3,297,046	3,288,315
Insurance and health benefits		211,747	197,792
Gratuities		155,519	181,763
Contribution to defined contribution pension plan		61,366	55,678
Transportation allowances		47,540	64,350
	US$	3,773,218	3,787,898

19. Professional and consultancy fees

		2017	2016
Legal fees and expenses	US$	153,592	957,923
Consultancy and other fees		148,632	380,261
	US$	302,224	1,338,184

In the ordinary course of the FSC's activities, the FSC is a party to several legal actions. Included in legal fees and expenses for the year ended March 31, 2017 was US$153,592 (2016: US$744,303) of legal fees. During the year ended March 31, 2017 the FSC incurred US$8,910 (2016: US$213,620) of costs and damages on adverse findings by the TCI court in relation to these legal actions.

20. Rental of buildings

		2017	2016
FSC office - Grand Turk	US$	216,000	243,712
Accommodation for Managing Director		30,150	35,540
FSC office - Providenciales		11,200	33,600
Other lease payments		1,200	15,900
	US$	258,550	328,752

On December 1, 2014 the FSC entered into a five year lease agreement with a lessor for the rental of office space on the ground floor of Waterloo Plaza, Grand Turk. The total monthly fixed office rental is US$18,000. The lease agreement can be terminated anytime by giving the lessor one month notice in writing or alternatively by paying to the lessor one month rental in lieu of notice.

21. Office expenses

		2017	2016
Office supplies	US$	103,204	131,205
Cleaning services		38,094	35,948
Printing and binding		6,886	10,834
	US$	148,184	177,987

22. Directors' fees and expenses

		2017	2016
Directors fees	US$	84,000	62,500
Directors expenses		60,135	50,957
	US$	144,135	113,457

23. Training

		2017	2016
Local	US$	73,459	93,104
Academic		39,866	49,162
Overseas		5,370	33,181
	US$	118,695	175,447

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24. Communication

		2017	2016
Line rental	US$	49,482	51,156
Telephone - local costs		26,323	32,571
Internet charges		16,856	17,067
Telephone - international costs		7,176	18,851
Postage and courier		3,609	12,762
	US$	103,446	132,407

25. Travel and subsistence

		2017	2016
International:			
Accommodation and subsistence	US$	45,357	83,002
Airfares		21,701	56,126
Others		2,443	1,280
	US$	69,501	140,408
Local:			
Accommodation and subsistence	US$	18,097	11,496
Air and sea fares		12,027	19,290
	US$	30,124	30,786
	US$	99,625	171,194

26. Other operating expenses

		2017	2016
Bank charges	US$	29,893	37,465
Work permit expenses		16,321	25,281
Others		3,420	9,661
Office relocation expenses		–	34,000
	US$	49,634	106,407

27. 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:

		2017	2016
Transactions			
NHIB contributions	US$	96,603	97,262
NIB contributions	US$	115,143	100,529
Net surplus for year transferred to amount due to TCIG (note 14)	US$	2,501,149	529,227
Payments to TCIG (note 14)	US$	–	3,297,537
Balances			
Statutory contributions payable (note 13)	US$	32,526	30,376
Amount due to TCIG (note 14)	US$	2,918,408	417,259
Key management personnel compensation			
Short-term benefits			
Salary and benefits of key management personnel	US$	901,789	906,883
Allowances of the board of directors (note 22)	US$	84,000	62,500
Directors expenses (note 22)	US$	60,135	50,957
Post-employment benefit			
Contributions to pension fund	US$	9,566	7,648
Loans to key management personnel			
Beginning balance	US$	6,967	13,717
Loans advanced during year		57,100	34,400
Loan repayments received during year		(36,742)	(41,150)
Ending balance	US$	27,325	6,967

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.

28. 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 Directors. The Directors 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, to approve the FSC's consolidated financial statements and to appoint a suitably qualified person to audit 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 Directors 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.

28. Financial instruments, continued

Risk management framework, continued

The Directors 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.

(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 allowed only with counterparties that have a credit rating that is acceptable to the Directors 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	
		2017	2016
Current assets:			
Cash and cash equivalents	US$	7,245,225	5,237,268
Term deposit		608,531	607,041
Accounts receivable		623,231	483,678
Due from employees		175,565	125,030
Other receivables (note 10)		2,589	10,799
Current portion of held-to-maturity investments		603,114	300,317
		9,258,255	6,764,133
Non-current assets:			
Held-to-maturity investments		899,247	1,197,745
	US$	10,157,502	7,961,878

28. 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 2017	2016
Company managers	US$	513,785	304,708
Banks		40,206	43,000
Insurance managers		35,500	27,000
Insurance providers and intermediaries		20,730	28,309
Trust companies		10,000	75,501
Others		3,010	5,160
	US$	623,231	483,678

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

		Carrying Amount 2017	2016
Providenciales	US$	615,425	458,571
Grand Turk		7,806	25,107
	US$	623,231	483,678

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:

		2017		2016	
		Gross	Impairment	Gross	Impairment
Past due					
Not later than one month	US$	616,784	–	355,000	–
Later than one month but not later than three months		–	–	115,000	–
Later than three months		–	–	13,678	–
Outstanding but not past due		6,447	–	–	–
	US$	623,231	–	483,678	–

28. Financial instruments, continued

(a) Credit risk, continued

During the year ended March 31, 2017, an impairment loss of US$178,466 (2016: US$37,885) incurred relating to accounts receivable were directly written-off to the consolidated statement of revenue, expenditures and other comprehensive income (note 7).

The Directors 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 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:

	2017	2016
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:

		2017	2016
Turks and Caicos Islands			
Cash and cash equivalents	US$	7,245,225	5,237,268
Term deposit		608,531	607,041
		7,853,756	5,844,309
United States of America			
Held-to-maturity investments		1,502,361	1,498,062
	US$	9,356,117	7,342,371

At the reporting date, eighty-five percent (85%) (2016: seventy-three percent (73%)) of the FSC's total cash and cash equivalents and term deposit in TCI was with CIBC.

(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.

28. 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 comprising cash and cash equivalents and term deposit 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:

		2017			
		Carrying amount	Contractual cash flows	Under 1 year	> 1 year
Cash and cash equivalents	US$	7,245,225	7,248,086	7,248,086	–
Term deposit		608,531	610,437	610,437	–
Accounts receivable		623,231	623,231	623,231	–
Due from employees		175,565	175,565	175,565	–
Other receivables		2,589	2,589	2,589	–
Held-to-maturity investments		1,502,361	1,540,630	618,434	922,196
Accounts payable and accrued expenses		(590,805)	(590,805)	(590,805)	–
Due to TCIG		(2,918,408)	(2,918,408)	(2,918,408)	–
	US$	6,648,289	6,691,325	5,769,129	922,196

		2016			
		Carrying amount	Contractual cash flows	Under 1 year	> 1 year
Cash and cash equivalents	US$	5,237,268	5,237,894	5,237,894	–
Term deposit		607,041	607,520	607,520	–
Accounts receivable		483,678	483,678	483,678	–
Due from employees		125,030	125,030	125,030	–
Other receivables		10,799	10,799	10,799	–
Held-to-maturity investments		1,498,062	1,548,850	317,321	1,231,529
Accounts payable and accrued expenses		(954,689)	(954,689)	(954,689)	–
Due to TCIG		(417,259)	(417,259)	(417,259)	–
	US$	6,589,930	6,641,823	5,410,294	1,231,529

28. 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:

		2017	2016
Fixed rate instruments:			
Financial assets			
Certificates of deposit	US$	2,048,985	574,360
Term deposit		608,531	607,041
Held-to-maturity investments		1,500,000	1,500,000
Financial liabilities		–	–
	US$	4,157,516	2,681,401

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$41,575/(US$41,575) (2016: US$26,814/(US$26,814)) assuming all other variables remained constant.

28. Financial instruments, continued

(c) Market risk, continued

(i) Interest rate risk, continued

		2017	2016
Variable rate instruments:			
Financial assets			
Savings accounts	US$	1,128,218	1,313,100
Financial liabilities		–	–
	US$	1,128,218	1,313,100

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$11,282/(US$11,282) (2016: US$13,131/(US$13,131)) assuming all other variables remained constant.

(ii) Fair values

The following table sets out the carrying amounts and fair values of financial 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.

		2017			
		Carrying Amount	Fair Value Level 1	Level 2	Level 3
Cash and cash equivalents	US$	7,245,225	–	–	–
Term deposit		608,531	–	–	–
Accounts receivable		623,231	–	–	–
Due from employees		175,565	–	–	–
Other receivables		2,589	–	–	–
Held-to-maturity investments		1,502,361	–	1,507,121	–
Accounts payable and accrued expenses		(590,805)	–	–	–
Due to TCIG		(2,918,408)	–	–	–
	US$	6,648,289	–	1,507,121	–

28. Financial instruments, continued

(c) Market risk, continued

(ii) Fair values, continued

		2016			
		Carrying	Fair Value		
		Amount	Level 1	Level 2	Level 3
Cash and cash equivalents	US$	5,237,268	–	–	–
Term deposit		607,041	–	–	–
Accounts receivable		483,678	–	–	–
Due from employees		125,030	–	–	–
Other receivables		10,799	–	–	–
Held-to-maturity investments		1,498,062	–	1,521,828	–
Accounts payable and accrued expenses		(954,689)	–	–	–
Due to TCIG		(417,259)	–	–	–
	US$	6,589,930	–	1,521,828	–

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.

29. 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 fourteen days 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 recurrent expenditure in accordance with the above requirement is the budget as submitted annually to the Governor of TCI for the following year, and maintain the reserve fund at that level.

29. Capital management, continued

At March 31, 2017 and 2016 the FSC had maintained the required reserve fund as required by section 17 of the Ordinance. At March 31, 2017 the required reserve fund was US$7,060,087 (2016: US$7,045,678) which also represented the FSC's budget, as submitted to the Governor of TCI, for the following year.

30. Comparison of actual results with budget during year

			March 31, 2017	
		Actual	Budget	Variance
Revenue				
Fees and charges	US$	8,459,282	7,450,566	1,008,716
Government grants		45,143	–	45,143
Interest and other income		46,983	24,000	22,983
		8,551,408	7,474,566	1,076,842
Expenditures				
Staff costs		(3,773,218)	(4,230,741)	457,523
Depreciation and amortisation		(359,992)	(252,000)	(107,992)
Professional and consultancy fees		(302,224)	(396,200)	93,976
Rental of buildings		(258,550)	(516,600)	258,050
Impairment loss on accounts receivable		(178,466)	–	(178,466)
Office expenses		(148,184)	(184,210)	36,026
Directors fees and expenses		(144,135)	(173,050)	28,915
Training		(118,695)	(215,500)	96,805
Communication		(103,446)	(123,446)	20,000
Travel and subsistence		(99,625)	(218,194)	118,569
Insurance		(84,577)	(84,935)	358
Repairs and maintenance		(80,577)	(166,220)	85,643
Local hosting and entertainment		(77,918)	(73,500)	(4,418)
Utilities		(74,448)	(122,201)	47,753
Audit and accounting		(62,344)	(50,000)	(12,344)
Advertising		(50,770)	(71,800)	21,030
Other operating expenses		(49,634)	(39,000)	(11,176)
Security		(45,336)	(35,789)	(10,634)
Subscriptions and contributions		(23,169)	(92,292)	69,123
Loss on disposal of property and equipment		(542)	–	(542)
		(6,035,850)	(7,045,678)	1,009,828
Net surplus	US$	2,515,558	428,888	2,086,670

30. Comparison of actual results with budget during year, continued

		March 31, 2016		
		Actual	Budget	Variance
Revenue				
Fees and charges	US$	8,278,596	7,288,587	990,009
Government grants		46,139	–	46,139
Interest and other income		59,408	21,600	37,808
		8,384,143	7,310,187	1,073,956
Expenditures				
Staff costs		(3,787,898)	(3,863,116)	75,218
Professional and consultancy fees		(1,338,184)	(366,600)	(971,584)
Rental of buildings		(328,752)	(518,478)	189,726
Depreciation and amortisation		(293,365)	(180,000)	(113,365)
Office expenses		(177,987)	(159,080)	(18,907)
Training		(175,447)	(240,000)	64,553
Travel and subsistence		(171,194)	(250,005)	78,811
Communication		(132,407)	(92,909)	(39,498)
Local hosting and entertainment		(120,516)	(64,000)	(56,516)
Directors fees and expenses		(113,457)	(138,600)	25,143
Repairs and maintenance		(111,289)	(182,040)	70,751
Other operating expenses		(106,407)	(36,600)	(69,807)
Utilities		(94,166)	(120,945)	26,779
Insurance		(74,153)	(72,508)	(1,645)
Audit and accounting		(69,907)	(50,000)	(19,907)
Advertising		(61,650)	(70,000)	8,350
Subscriptions and contributions		(54,965)	(76,852)	21,887
Security		(49,328)	(7,986)	(41,342)
Impairment loss on accounts receivable		(37,885)	–	(37,885)
		(7,298,957)	(6,489,719)	(809,238)
Net surplus	US$	1,085,186	820,468	264,718

Included within the budget which management uses to determine the level of total expenditure are both operational and capital anticipated expenditures for the year. The above analyses considers the operational budget only.

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. Breach of the Ordinance

As disclosed at notes 3(g) and 14 to these consolidated financial statements, Section 17 of the Ordinance mandates that if, on a quarterly basis, amounts held in the reserve fund exceed the expected recurrent expenditure of the FSC for the relevant financial year, the FSC is mandated to pay a sum equal to the excess to TCIG, within fourteen days 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.

During the years ended March 31, 2017 and 2016 such payments to TCIG were not always made in full within the time specified in the Ordinance. For example during the year ended March 31, 2017 no payments were made to TCIG. As at March 31, 2017 and March 31, 2016 the excess payable to TCIG had not been settled in full within fourteen days as specified in the Ordinance.