Regulating with Honesty, Integrity and Transparency

TURKS AND CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION

2013 Annual Report

TURKS AND CAICOS ISLANDS
BEAUTIFUL BY NATURE

FINANCIAL SERVICES COMMISSION

ANNUAL REPORT 2013

Reporting Period April 1, 2012 to March 31, 2013

Directors of the
Financial Services Commission

Seated Left to Right:
Kevin Higgins Managing
Errol Allen Chairman
Oswald Simons

Standing Left to Right
Munro Sutherland retired
Neville Grant
Gordon Kerr retired

Missing from Photo:
Athenee Harvey PS Finance
Delton Jones Deputy Chairman
Anthony Roberts

Directors and Senior Management

BOARD OF DIRECTORS

Errol Allen
Chairman

Delton Jones
Deputy Chairman

Athenee Harvey
Permanent Secretary, Ministry of Finance

Anthony Roberts
Director

Oswald Simons
Director

Neville Grant
Director

J. Kevin Higgins
Managing Director

SENIOR MANAGEMENT

Kenisha Bacchus
Legal Counsel and Senior Head, Grand Turk Office

Desmond Morrison
Head, Finance & Administration and Senior Head, Providenciales Office

Derek St. Rose
Head, Insurance

John James
Registrar of Companies, Patents, Trademarks & Business Names

Marlon Joseph
Head, Banks, Trusts and Money Transmitters

Claudia Coalbrooke
Head, Company Managers and Investments

Paul Coalman
Head Designated Non-Financial Businesses and Professions

Cathrice Williams
Head, Information Technology

Deborah Ashton
Deputy Registrar of Companies

Nadene Harvey
Office Manager, Grand Turk

Hyacinth Been
Office Manager, Providenciales

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SECTION A

REPORT OF THE COMMISSION

Profile of the Directors

Errol Allen

Mr. 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 (1) year with the International Monetary Fund (IMF). Mr. Allen was appointed to hold the post of 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

Miss Harvey served in various Government posts such as at the Treasury division of the Ministry of Finance, as Accountant General and now holds the position of Permanent Secretary, Ministry of Finance since 2012. Miss Harvey has various degrees in Accounting.

Oswald Simons

Mr. Simons is a retired banker whose career has spanned over thirty (30) years with various banking groups. Mr. Simons served as Chairman of the Turks and Caicos Investments Agency up to the time of its closure as a statutory body of the Government.

Anthony Roberts

A Fellow of the UK Institute of Actuaries since 1972, Mr. Roberts has been living and working in the Caribbean for nearly 19 years and currently holds the position of Chief Actuary at the Central Bank of Trinidad and Tobago. Prior to moving to the Caribbean, Mr. Roberts worked in both the UK and continental Europe for insurance companies and in consulting roles with prime emphasis on technical and managerial aspects of life insurance.

Delton Jones

Mr. Delton, who is Deputy Chairman of the Commission, Jones is an economist and was the Permanent Secretary in the Ministry of Finance. He has since retired from that post and now acts as a consultant.

Mr. Neville Grant

Mr. Grant was appointed to sit on 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.

J. Kevin Higgins

Mr. Higgins is an economist who worked in central banking for 15 years and comes to the position with experience in regulation of licensed entities. Mr. Higgins has also worked in the private banking sector and was a director of the National Insurance Board of the Turks and Caicos Islands.

CHAIRMAN'S REPORT

Errol Allen, chairman of the Financial Services Commission

The Commission continued to carry out its oversight functions against the backdrop of improving but still depressed economic conditions. It was against this environment that we lost one of our banking service providers, which decided to exit the market due partly to the prevailing economic conditions. There were no negative outcomes from the closure of this bank as all depositors were repaid. Notwithstanding such an occurrence, other significant milestones were achieved during the period under review.

As part of the continued modernization of the regulatory environment, we undertook the decision to craft much more robust banking legislation. The proposed legislation represents a shift in the way we plan to approach regulation, as it sets out a minimum standard applicable to all licensees in the principal legislation, leaving the more detailed regulatory aspects to be developed, and changed as necessary, by the regulator. In tandem with a new banking regime, we also sought to upgrade the regulatory environment for the insurance sector. We will be creating a dual regulatory environment for the insurance sector, with one legislation dealing with the domestic sector and another to regulate the international side of the business. There will be enhanced regulatory provisions in the new domestic legislation, dealing with capital, compliance, etc.

As Chairman, one of my main areas of focus has been training of both the staff of the Commission and the Industry participants. To this end I formally delivered a speech to the staff members, advising of the significance of education and training to personal development, as well as to the work at hand. Dialogue has been sought with regional resource and training center CARTAC to provide much assistance in this regard. Going forward, we will develop a work plan and submit same to CARTAC for consideration. Other avenues for training will also be pursued.

For a regulator to be successful it is important that the regulated buy into the regulatory process. At the same time, other stakeholders and interested parties must feel that they are part of the process. In like manner, the regulator has to show all stakeholders that they stand to benefit from the work of a strong, independent regulator. To this end, we secured the services of a communications consultant to advise and guide us on ways that we can improve our image and presence in the jurisdiction and provide critical information as deemed necessary. Arising out of that exercise, we have begun to provide media updates as required, a redesign of the Commission's website was undertaken and the Board of Directors will assume a more visible role.

At the same time, the Commission entered into a sponsorship agreement with the Government under which the Commission committed itself to greater degrees of openness. To achieve the objectives set out therein, the Commission has agreed to meet at least once a year with the Industry participants, and this we did in December 2012, and will do so every December hereafter. Such a meeting facilitates exchange of ideas and provides a forum for the regulator to update the Industry on what it has done during the year and what are the plans for the upcoming period(s). Monthly and quarterly reports are submitted to the Government to provide regular updates on the financial activities and performance of the Commission.

The Board of the Commission saw the addition of a director having extensive insurance sector experience. This should strengthen the Board's oversight in the critical area of insurance.

I am happy to report that the financial services sector, while not yet growing tremendously, remained stable. This we regard as important since stability is the desired result of our regulatory oversight.

I wish to thank the Governor, the Ministry of Finance and the staff of the Commission for their valued confidence and support. As Chairman, I pledge to do all within my powers to help shape and guide the work of the Commission so as to ensure that we, as a jurisdiction, remain competitive, viable and strong.

Sincerely,

Errol Allen
Chairman

MANAGING DIRECTOR'S REPORT

J. Kevin Higgins, Managing Director of the Financial Services Commission

Policy Measures towards Better Supervision and Governance

The Commission continued to take measures towards strengthening its oversight of the financial services sector, including some of those actions which were outlined in the prior year in our *Action Plan*. Those actions included legislative as well as policy changes which will have a significant impact on the strength of the jurisdiction in the coming periods.

Early in the year it was decided that what was needed was a complete paradigm shift in terms of the mechanism for banking regulatory oversight. As such, previous draft banking legislation was discarded and new legislation commissioned, based on the BVI model. Under this model there is principal legislation accompanied by a detailed Code. This model provides for a regime in which the Commission itself will be able to set those rules, as provided for in the Code, which impact on a bank's day to day operations without having to resort to Parliament to pass laws every time that a change is deemed necessary. This will therefore lead to better efficiency and effectiveness in the regulation of banking entities.

Concomitant with the steps to draft a new banking regulation regime, a number of guidelines were introduced to guide the sector namely: Liquid Assets, Mismatch Limits, Internal Control, Appointment of Auditors, Credit and Operational Risks Management. A draft Corporate Governance Guideline has been prepared but not yet finalized. This should be done in the next period and should be applicable to all licensees, not just banks.

In an effort to assess the adequacy of the level of supervision over the insurance sector, we commissioned the services of a consultant to review and advise on those steps necessary to ensure the highest level of supervision. This review lead to the following steps being taken:

1. Fast tracking the drafting of the new Domestic Insurance Ordinance which is now before Parliament for enactment;
2. Drafting of an insurance supervisory manual, to include a policy on ladders of supervisory intervention and sanctions, capital adequacy and corporate governance;
3. Hiring of two (2) additional technical staff (insurance analysts) for the department and

4. Discussions with a view to developing a risk profile of insurers.

Additional accommodation was acquired during the period to house the domestic insurance unit and this, in addition to the hiring of the technical staff complement, will provide the spring board to allow for closer and better supervision of the domestic sector. Annual examinations of domestic insurance entities will commence shortly.

Sweeping changes are being proposed to the Trust Ordinance that will provide both an enhanced regulatory framework as well as introduce new trust instruments to the market. Discussion and dialogue with the industry is on-going and it is proposed the bill will be tabled before Parliament before end of the third quarter of 2013.

In years past it was proposed that the Commission be the oversight agency under the Proceeds of Crime legislation for Designated Non-Financial Businesses and Professions (DNFBPs). This was entrenched in the Ordinance in the previous year but no provisions had been made to deal with the associated costs. Furthermore, non-profit organizations were seen as a potential source for money laundering. As such during the last quarter of the financial year the Proceeds of Crime Ordinance and the Companies Ordinance were amended, as well as a Non Profit Organizations Regulations introduced, to (a) make provisions for the oversight of non-profit organizations and (b) charge an administrative fee of $150 for the registration with the Commission of all such entities now required to be overseen by the Commission.

The Commission is moving ahead with the development and roll out of its KRegistry and Kreview software. The latter will provide the platform for the standardization of the necessary information and documentation required for the conduct of examinations of licensed entities. The former is needed to bring the Companies Registry into the 21st Century and will allow for online incorporation of companies and the filing of documents. In order for this project not to drag out much longer, the decision was taken to hire a project manager to oversee the completion. In this regard a contract was signed at the beginning of the financial year for such a person. The work is expected to be completed, and the original contracts for the supply of the software varied, to set a new deadline for completion of December 31, 2013.

The Commission has sought and will continue to seek to broaden the depth of its communication with both stakeholders and licensees. Much detail of these initiatives has already been pointed out by the Chairman in his report. This will form an essential plank in the supervisory tools used in the oversight of the financial sector as well as to ensure co-operation by all stakeholders.

Compliance and Enforcement

The Commission continued to seek compliance in areas where compliance was deemed either weak or non-existent. In this regard compliance and enforcement notices were issued to a number of entities. A total of 33 Notices of Intention to take Disciplinary Action were issued, with 25 being enforced. Of these, 12 had monetary penalties with various fines imposed, ranging from $500 to $75,000 and totalling some $170,000 approximately. In the previous year, 9 penalty notices were issued and fines totalling $45,000 collected. The increase in penalties imposed is a clear indication that the Commission is taking breaches of the financial services ordinances quite seriously.

One (1) insurer had its licence revoked halfway through the financial year after it failed to satisfy repeated attempts to bring it in line with the requirements of the Ordinances. I am pleased to say that based on discussions with the Joint Administrators no policy holder sustained or is expected to sustain financial losses from such an action.

The Company Management and Investments Department continues its work in relation to cross-referencing data submitted to various departments by company managers and agents. This exercise has yielded significant value added in terms of ensuring the integrity of data held.

International Co-operation

The Commission sought the assistance of the International Organization of Securities Commissions (IOSCO) to guide it in the upgrading of the securities laws of the jurisdiction as well as to bring this sector up to international standards. This is seen as critical if the Commission is going to be in a position to attract well regulated and solid investment firms to the Turks and Caicos Islands. The in-house review has been done and we await the report of the Commissioners.

As provided for in various pieces of legislation, we continued to co-operate with other international regulatory bodies in order to ensure that our jurisdiction does not become a haven for money laundering or one that facilitates other criminal activity. As such two (2) requests from foreign regulatory authorities were received and complied with.

No new Memorandum of Understanding (MOU) was signed with other organizations during the year but we are currently negotiating with a number of other regulators and are looking forward to signing at least three (3) new ones in the upcoming period.

Training

Training continues to be a major focus of the Commission to ensure that all staff have the requisite (and where necessary up-to-date) skills to carry out their functions. In the area of compliance three (3) staff members of the Compliance Division are now certified by the International Compliance Association after having sat the exams. Four staff have applied for and received membership in the said Association.

Four (4) new staff members enrolled in various academic programmes during the review period, bringing the total staff at the end of the year in such programmes to eleven (11). In addition, there have been opportunities for staff to attend various courses and conferences. We continue to encourage the staff to make use of all available opportunities.

The Commission also undertook significant training activities for the Industry as indicated in Table 1 hereunder.

To better widen the scope of training resource opportunities available, the Commission sought and got membership in the Latin American Center for Monetary Studies (CEMLA). The first training opportunity was provided to a member of the Bank and Trust Department in December 2012.

Review of the Industry

The banking industry continues to remain strong. One entity decided to withdraw from the market and surrendered its licence at the end of December 2012. All depositors were repaid and there was a smooth run off. The asset base of the banking sector now stands at US$1.73B, up from US$1.72B.

We saw the continued growth of the International Insurance Sector. Out of a total of 765 licences issued by the Insurance Department, 750 of those were for Producer Owned Reinsurers (refer to table 2 below). The domestic sector has not grown significantly in terms of licenses issued. In fact we saw the loss of one insurer, which had to have its licence revoked for various breaches, including non-compliance with its restricted deposit requirement. Total assets of the domestic sector stood at $82M while gross premiums earned for the year was $36M.

TABLE 1: Training for Industry Participants

Date Held	Topic of Seminar	Areas Covered	Attendees
October 2012	Compliance	Fundamentals of KYC/Compliance	23
November 2012	Captive Insurance	Captive Insurance Management	60
November 2012	FATCA	Introduction and update on FATCA Act	26
December 2012	Trust Review	Review of the trust law	23

TABLE 2: Activities (Regulatory) by Type for the Period

Type of Activity	Banks	Insurance Entities	Trusts	Company Managers	Money Transmitters	Mutual Funds	Invest. Dealers	Total
Licenses Issued	-	765	1	2	1	-	-	769
Inspections	-	-	5	-	1	-	-	6
Revocation/ Surrender	1	59	2	2	-	-	2	66
Other Regulatory Action	3	7	4	1	-	-	-	15
Meetings & Discussions Held	6	13	3	-	3	-	-	25

The Registry continues to generate the bulk of the revenues for the Commission. There was a 10% increase in incorporation of companies compared to the previous period. The number of active companies on the Register stood at just over 13,000 (see Table 3 below for select indicators of activity, inclusive of the Registry).

TABLE 3: Select Indicators (Units) for the Period

Type of Activity	2012/2013	2011/2012	2010/2011
Licenses Issued	769	558	526
Companies Incorporated	1,286	1,173	1,175
Business Names Registered	506	581	1,629
Annual Returns Filed	11,992	11,134	12,629
Number of Companies on the Register	13,296	13,104	11,970

I am happy to report that the Commission is financially stable. Amendments were made to the FSC Ordinance to provide a reserve floor of $5M, thus ensuring that the Commission will have adequate funds to carry out its oversight of the industry.

Going Forward

Looking ahead, we see an even stronger regulator, having a mix of financial and human resource tools to carry out its mandate as intended. Some additional tools that will allow this are:

a. A new building for the Bank and Trust Department which will provide an aesthetically pleasing and comfortable environment for staff to operate from;

b. The completion and commissioning of the KRegistry and KReview, which will aid our work tremendously and

c. The addition of more technical staff to our present complement.

I continue to express my gratitude to those who provide the necessary support: the Governor's Office, Attorney General's Chambers and the Board of Directors as well as the staff of the Commission.

If all of us continue to work together then we will all make the Turks and Caicos Islands a jurisdiction that offers a well regulated financial services Industry.

Sincerely,

J. Kevin Higgins
Managing Director

FINANCE & ADMINISTRATION REPORT

Financial Review

Base revenues (income in respect of licences, annual returns and incorporations) increased marginally by 5% over the previous period (April 2011 to March 2012). By dollar value, the largest increase was in the area of annual returns, reflecting continuing efforts put into cleaning up the old database to get it ready for the new KRegistry System expected to come on stream this calendar year.

Total core revenues on the other hand (base revenues plus sundry fees and land share transfer duties) increased by some 14% when compared to the previous year. The percentage increase in the revenues year over year was attributable to a jump in the imposition of penalties for various breaches of a financial services ordinance; a 150% increase in land share transfer duty as a result of one large share transfer and increased revenues from the filing of annual returns due to a higher level of compliance.

Total core revenues amounted to $7.4M compared to a budget of $7M, resulting in a positive variance of $0.4M. In the previous period, total core revenue obtained was $6.5M while the budgeted amount was $5.9M, representing a $0.6M positive variance. CHART 1 above gives a comparative analysis of the performance of actual and budgeted core revenues over the last three (3) years.

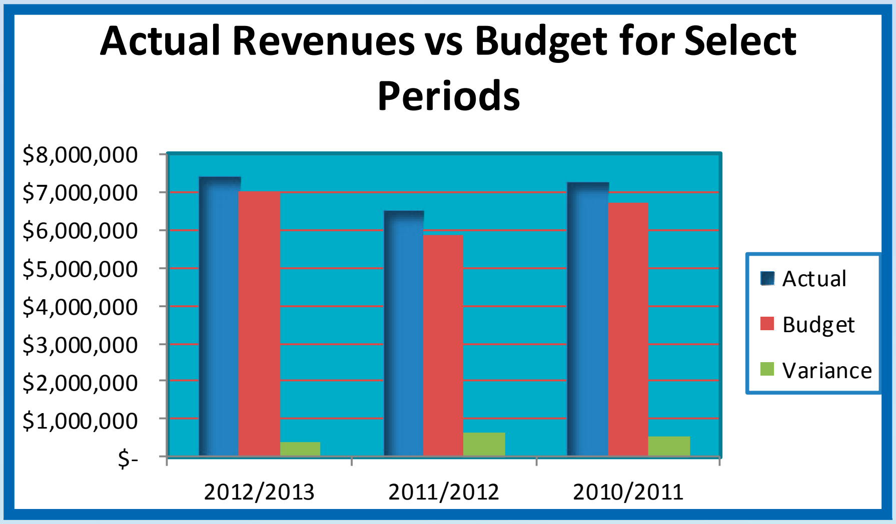

Chart 1: Actual Revenues v Budget

As in prior periods, the Registries continue to provide the bulk of the revenue flows for the Commission, moving up to 78% from 77% in the previous period. Insurance inched down from 14% to 13%. Investments and banking division revenues have remained relatively flat. Chart 2 shows the dispersion of the revenues earned.

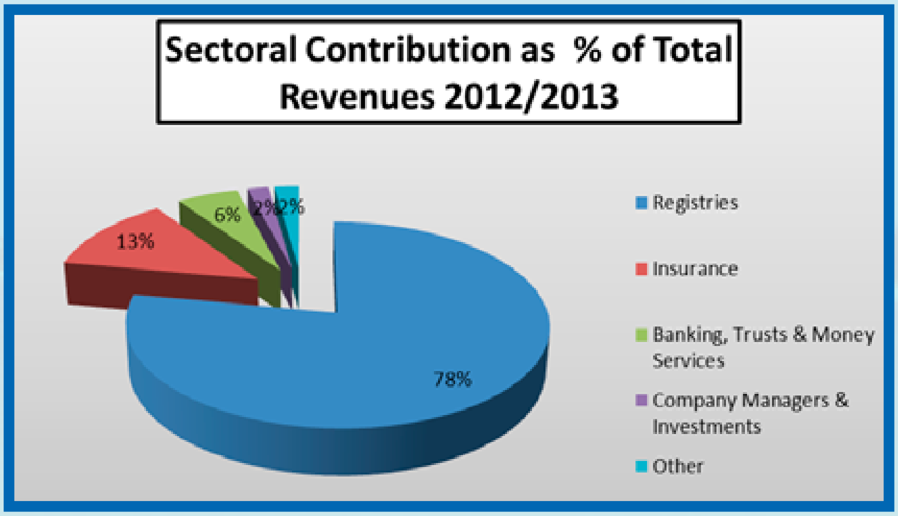

CHART 2: Percentage Contribution by Sector to Revenues

There were no new fees imposed or increases which took effect during the period. However, legislation was passed in March 2013 providing for the imposition of an annual fee of $150 on non-profit organizations as of April 1, 2013. Similarly, a fee was provided in the amount of $150 for the one time registration of designated non-financial businesses and profession (DNFBPs) which is to take effect April 1, 2013. Combined, these initiatives are expected to boost revenues by some Forty Thousand Dollars (US$40,000) in the upcoming period and annually thereafter by some Thirty Thousand Dollars (US$30,000).

There was a 12% increase in the asset base of the Commission, excluding fixed and intangible assets. This was driven by an increase in the reserve fund of 34%, which stood at $5.5M at the end of the reporting period. A floor of $5M was introduced for the reserve fund during the period. Actual reserves were therefore 6% above the statutory minimum. Amounts set aside for the Government's share of the surplus generated and accrued expenses increased by some 6%.

For the year under review the Commission had set a consolidated expenditure target of $4.1M. Actual expenditure incurred was $4.2M, which resulted in a negative variance of $0.1M. This negative variance was driven largely by consultancy costs exceeding the targeted amounts as a number of unplanned projects had to be undertaken, requiring outside professional expertise.

Administration Review

The Commission continues to see an expansion, both in its staff complement as well as in the number of offices from which it operates. Two (2) Additional technical staff were brought on board to bolster the domestic insurance division. The staff complement stood at 63 at the end of the review period. Refer to Table 4 below for a breakdown by department of the staff complement. Two (2) additional buildings were acquired during the year, one to house the banking unit and the other the domestic insurance unit. The unit for the domestic insurance staff was completely renovated and the staff moved in during November 2012.

TABLE 4: Employees by Department

DEPARTMENT	2012/2013	2011/2012
Managing Director's Office	2	2
Banks, Trusts and Money Services	7	8
Insurance	14	13
Company Managers and Investments	3	4
Companies, Patents, Trademarks and Business Names Registries	18	16
Finance & Administration	9	9
Information Technology	7	3
Designated Non-Financial Businesses & Professions	1	-
Legal and Enforcement	2	1
Total Number of Employees at Year End	**63**	**56**

The renovations for the banking unit were not carried out during this fiscal year and will be undertaken in the upcoming period.

Education continues to be a major focus of the management and board of directors. As such, assistance is given by way of the payment of full tuition for staff to attend the local community college or to sit online degrees. There were eleven (11) members of staff enrolled in various educational programmes, with five (5) being added during the fiscal year. Table 5 below gives a breakdown of the number of staff in full time or part time training courses and the course being undertaken.

Technical seminars and conferences put on by regional and international bodies such as CARTAC and CEMLA are used to ensure that the Commission stays abreast of regulatory and financial market trends.

TABLE 5: Staff Development/Training

Financial Services Commission Staff School Assistance Program				
Staff	**Course of Study**	**School Attending**	**Start Date**	**End Date**
1	Bachelor of Science Business Studies	TCI Community College	Sep-11	May-14
1	Bachelor of Science Business Studies	TCI Community College	Jan-12	Dec-14
1	Bachelor of Science Finance	TCI Community College	Sep-11	May-14
1	Ass. Business/ Human Resource Management	Penn Foster	Mar-10	Apr-13
1	Bachelor of Science Business Studies	TCI Community College	Sep-12	May-14
1	Associates Degree Business Studies	TCI Community College	Jan-13	May-15
1	Associates in Finance	Penn Foster	Sep-11	Sep-15
1	Associates Degree Computer	TCI Community College	Jan-13	Jun -13
1	Project Management Course	The Bahamas Institute of Financial Services	Feb-13	Jun-13
1	Ass. Degree in Business Studies	TCI Community College	Sep-11	Dec-13
1	Bachelor of Science Business Studies	TCI Community College	Jan-13	Jan-15

BANKS, TRUSTS AND MONEY TRANSMITTERS REPORT

Overview

The financial sector of the Turks and Caicos Islands remains a key component for the future growth and prosperity of the economy. In light of the foregoing, the Banks & Trusts Department continues to liaise with its licensees as well as strengthening its supervision techniques and strategies through relationship building. The banking system remained stable during the current reporting period due to more conservative approaches in lending as well as increased regulatory oversight.

During this fiscal year the banking department focused on the objectives set out in the Commission's Action Plan as well as areas of deficiencies identified in the IMF pre-assessment conducted in 2011 with regards to our adherence to the revised Basel Core Principles.

Banks Division

There were 7 licensed and registered banks in the Turks and Caicos Islands at the end of March 2013 compared to 8 for the corresponding period in 2012. One (1) bank voluntarily surrendered its licence as at 31st December 2012.

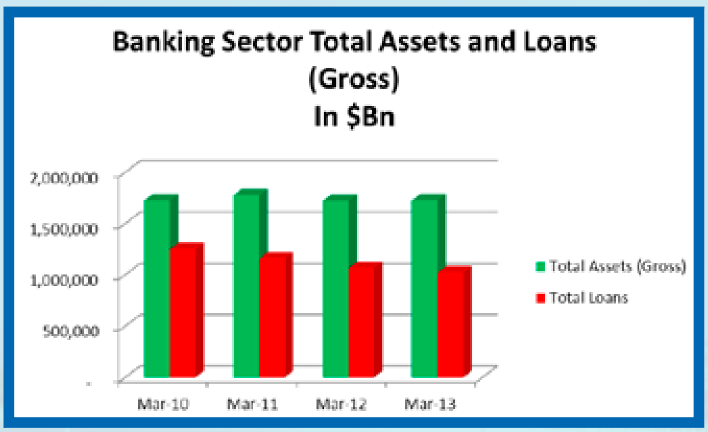

Chart 3: Banking Sector Total Assets

The banking sector's total assets increased over the financial year to $1.73B from $1.72B in 2012. CHART 3 to the right depicts the relative growth in the asset base over the last four (4) year period. The growth in the asset base was primarily related to an increase in total placements by local banks with other banks outside of the TCI. Despite the increase in the sector's total assets there was a decline in total loans by $42M, from a total of $1.06B to $1.02B which was previously recorded. The decline in total loans was directly related to reduced lending to public utilities, construction, land development and the public sector. The distribution of credit, based on economic sectors remained largely unchanged during the period under review; lending to residential and real estate activity remained the area of greatest concentration.

Over the 2013 financial year, investments declined by 2.1% ($128M to $125M); the decline was due to the sluggish performance in equities and related investments. Fixed and other assets were relatively stable over the year.

Currently, banks in the TCI are actively engaged in delinquency management in an effort to control asset quality. Over the 2013 financial year there was

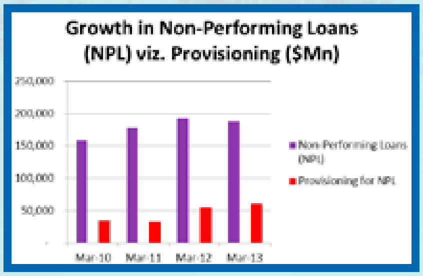

Chart 4: Growth in Non-Performing Loans

a 2.1% reduction in total non-performing loans (from $192M to $188M). CHART 4 to the left represents the increase in non-perfomring loans from 2010 to 2012 and also depicts a downward trend beginning in the financial year to March 2013. Various banks instituted delinquency management programmes that were designed to assist in the alleviation of impairment losses on loans. Some features of the programmes include enhancing customer due diligence as well as strengthening the collections unit for outstanding loans from customers. Though there was a reduction in non-performing loans over the year, banks were encouraged to make adequate provisions for delinquent loans to adeaquately capture anticipated losses. Loan loss provisioning increased by 9% over the year (from $55M to 60M). Similar to the last financial year, the rates on lending and deposits were lowered.

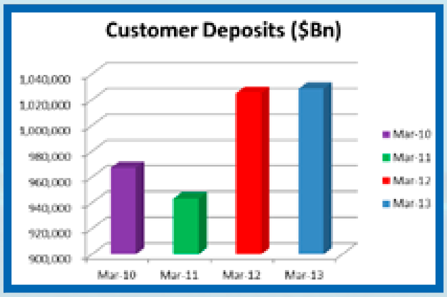

Chart 5: Customer Deposits

During the period under review there was minimal growth in customers' deposits, which increased by 0.3% or $3.6mn moving from $1.02B to $1.03B. CHART 5 to the right represents. Though private businesses, households and non-residents withdrew funds over the period, this was offset by increased deposits by the TCI Government as well as other public sector bodies.

The profitability of the banks fell from a high of $22M in the previous year to just under $16M in the current year. This decrease was partly attributed to the higher loan loss provision which was made for anticipated losses during the current year.

Over the financial year, banks maintained capital adequacy ratios that were well above the prudential minimum.

Training

The department's staff attended training at the Toronto Centre, CEMLA as well as Basel 11 training. Two sessions were held with the financial services industry on the Foreign Account Tax Compliance Act (FATCA) in an effort to be industry ready as well as to build awareness before its implementation by the U.S Treasury.

Other activities geared at wider training were carried out as follows:

- The Commission attained membership in the Center for Latin American Monetary Studies (CEMLA)
- An application was also submitted to the Group of International Financial Centre (GIFC) and
- Standardization of the Quarterly Reporting Forms. The Commission conducted training sessions with individual institutions with the objective of improving the reporting system and to make it more user-friendly.

Legislative Changes, Polices and Guidance Notes

In November 2012, a session was held with the industry on the revised Banking Bill. The Commission also published a number of guidelines for the industry. They included:

- Minimum Holding of Liquid Assets and Maximum Mismatch Limits;
- Internal Control and Audit for Licensed Banks;
- Guidelines for Credit Risk management and
- The Management of Operational Risk

A draft Corporate Governance Guideline has been prepared but is still under review. It is expected that this will be finalized and published in the ensuing period.

Trusts Division

There was a slight decrease in the number of licensed trust companies, moving from 15 to 12 when compared to the previous reporting period. While one (1) new licensed trust company was recorded, four (4) surrendered their licenses.

Notably, over the 2013 financial year the Banks and Trusts Department completed on-site examinations of the seven (7) remaining trust companies with the help of expert consultants who supported the Department's staff. To date on-site examinations have been completed for all trust companies.

In December 2012, an industry consultation was held with the Trustees Association for comments on the proposed new Trust Ordinance and Trustees Licensing Ordinance.

Money Transmitters Division

During the reporting period one (1) more money transmitter was licensed bringing the current numbers from 4 to 5. Notably, the Commission completed the series of onsite examinations for all operating money transmitters on island.

INSURANCE DEPARTMENT REPORT

The Turks and Caicos Islands (TCI) Insurance Sector continued to grow as obtained in previous years. The international insurance sector remained the mainstay of the market. For the year ended 31st March 2013, there were 6,255 active international insurance licences in comparison to the 47 active licences for the domestic insurance sector. Table 6 below summarizes all insurance licences for the year:

Table 6: Total Active insurance licences in effect at 31st March, 2013

	2013	2012
Reinsurers (PORCs)	6,161	5,494
Captives	88	97
Insurance Managers	6	7
Total International Insurers	**6,255**	**5,598**
Domestic insurance Companies	21	23
Brokers	9	10
Agents	14	12
Sub-Agents	3	3
Total Domestic Insurers	**47**	**48**

International Insurance Sector

A total of 762 new international insurer licences were issued for the year, comprising 755 Producer Owned Reinsurance Companies (PORCs) and 7 Captive licences. During the period, 51 PORC licences were revoked/surrendered along with 5 Captive licences and 1 Insurance Manager's1 licence; a total of 57 revocations/surrenders. Table 7 provides summary information on the international licences:

Table 7: Total International Insurance Licences in Effect as at 31 March 2013

Description	Total	PORCs (Credit Life)	PORCs (Non-Credit Life)	Captives	Insurance Managers
New Licences	762	709	46	7	0
Revocations	13	9	0	3	1
Surrenders	44	42	0	2	0
Total Number of Companies	**6,255**	**3,241**	**2,920**	**88**	**6**
Licence Type as % of Total for Class	100%	51.8%	46.7%	1.4%	0.1%
Total Licences Previous Year (2012)	5,598	2,611	2,883	97	7

1 Bayport Insurance Mangers Ltd licence was revoked on 18th September, 2012.

The Commission remained steadfast in its commitment to the development of its employees and as such continues to enhance its technical competencies in the International Insurance Unit. In 2012, two employees attended the Captives Insurance Conference hosted by the Turks and Caicos Association of Insurance Managers in conjunction with The Financial Services Commission.

Domestic Insurance Sector

At the end of year, the domestic sector comprised twenty-three (23) insurance companies; nine (9) long-term, thirteen (13) general and one (1) composite insurer. Of these insurance companies, Clico (Bahamas) Ltd[2] remained in liquidation, Gulf Insurance Limited was placed under administration[3] and had its licence subsequently revoked, and, Blue Crest Re-Insurance Corporation Limited[4] surrendered its licence. During the period, two (2)[5] insurance company applications were received and approved. The other Domestic licences in force at the end of the year were ten (10) brokers, twelve (12) agents and three (3) sub-agents. One (1) new insurance broker[6] licence was issued for the period. During the financial year, Accordia insurance Brokers Ltd and The Insurance Centre Agents surrendered their broker and agent licence respectively. These licences were subsequently revoked on 31st March, 2013.

Due to the dynamic nature of insurance and the changes occurring in the regional and international arena, it became necessary for the domestic insurance legislation to be strengthened. This need was reinforced by the International Monetary Fund (IMF) which called for the strengthening of the Commission's regulatory standards.

During the year the Commission continued to strengthen its regulatory and supervisory oversight of the domestic insurance sector. As such, the new legislation (the Domestic Insurance Bill) which was originally intended to be introduced in 2011 is currently before Parliament, and it is anticipated that this Bill will be enacted within the third quarter of 2013. . The underlying principles supporting the new domestic legislation conform to international and regional best practices and the Insurance Core Principles developed by the International Association of Insurance Supervisors.

Emphasis was also placed on several prudential requirements including: Corporate Governance, Internal Controls, Capital Adequacy, Risk Management and the Actuarial valuation of insurance liabilities. The Caribbean Policy Premium Method (PPM) Regulations were incorporated in the Domestic Insurance Bill. The Caribbean PPM Regulations aim for consistency in actuarial practice and methodology used in the region to determine the actuarial liability of a life insurer and the requirements for risk based capital.

Additionally, the Commission intends to begin its examination of the domestic insurance companies by the fourth quarter of 2013. The regulatory framework was further enhanced by increased communication with the various industry stakeholders. There has also been increased dialogue with other insurance regulatory authorities within the Caribbean region and the Commission expects to sign three (3) additional Memoranda of Understanding with Caribbean regulatory authorities in 2013.

Training

To further improve its regulatory oversight the Commission continued to enhance its human resources with training throughout the period. Members of the Domestic Insurance

2 **Clico (Bahamas) Ltd.** has been in liquidation since 24th February 2009 after the Supreme Court of the Bahamas approved an order for the liquidation of the Company.

3 **Gulf Insurance Limited** was placed under Administration on 10th October, 2012. The licence was subsequently revoked on 31st October, 2012.

4 **Blue Crest Reinsurance Corporation** Limited surrendered their licence on 21st March, 2013. The revocation of this licence is pending.

5 **Caribbean Alliance Insurance Company** Limited's general insurance licence and **Scotia Insurance Company Limited's** long term insurance licences were approved on 15th December, 2012 1st March, 2013 respectively.

6 **Colonial Insurance Brokers Limited** licence was approved on 1st October, 2012.

Unit attended the following international workshops on insurance:

1. Caribbean Association of Insurance Regulators/ Caribbean Regional Technical Assistance Centre Workshop on Financial Analysis of Insurers (June 2012);
2. Toronto Centre International Program for Insurance and Pensions Supervisors on "Being Prepared for Uncertain Times- How to Learn from Others' Experiences" (July 2012) and
3. Malta-Commonwealth Third Country Training "Programme on Insurance Regulation and Supervision" (February 2013).

Financial Performance of Domestic Insurance Entities

The Commission continued its publication of the domestic insurance quarterly statistics. As at 31st March 2013 Gross Premium income for the year increased by 8.5% to $35.7 million in comparison to $32.9 million[7] for the previous year. Reinsurance ceded totalled $24.7 million and $19.5 million for years ended 31st March 2013 and 31st March 2012 respectively. As a result, Net Premium income fell to $11 million from $13 million in the 2012. Chart 6 below illustrates the breakdown of gross premium income for the industry on a comparative basis:

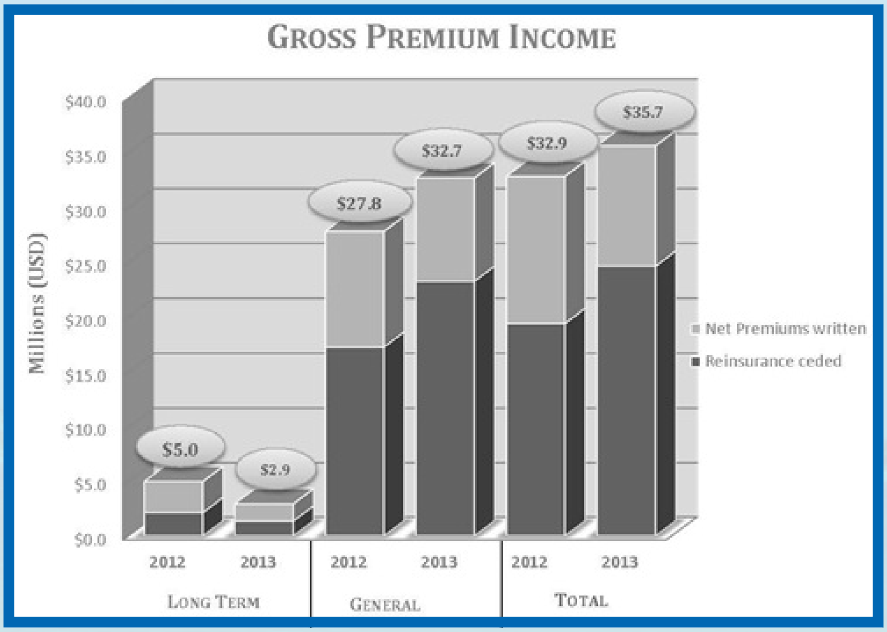

Chart 6: Gross Premium Income for the Domestic Insurance sector

As a result of the changes reported in premium income, the long term insurance sector reported a net loss of $56,000 in comparison to the net profit of $82,000 reported in 2012. However, for the year ended 31st March 2013 the converse obtained for the general insurance sector as that sector was significantly more profitable with reported net figures of $3.5 million.

Total Assets for the domestic insurance sector decreased by 4.2% to $82.4 million from $86.0 million as at 31st March, 2012. Cash in hand, loans and deposits with other financial institutions continue to represent the largest proportion (61%) of the industry's assets. A breakdown of the industry's assets for the periods 2013 and 2012 respectively is provided in Chart 7 and Chart 8 respectively below.

7 All figures reported in the 2012 report have been restated to capture the updated information submitted by the insurers.

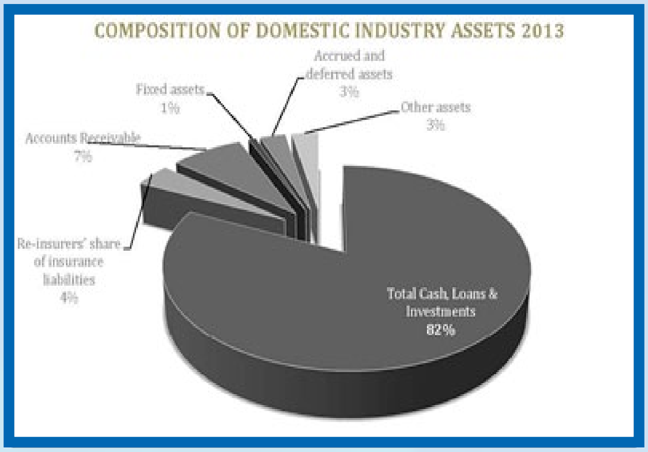

Chart 7: Domestic Industry Assets 2013

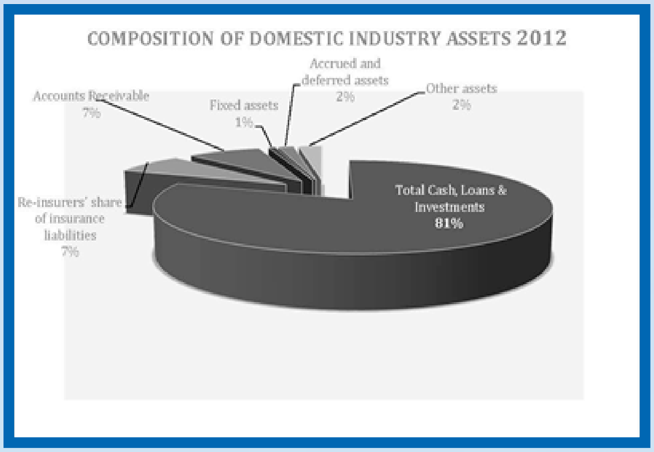

Chart 8: Domestic Industry Assets 2012

A Restricted Deposit is required to be maintained by domestic insurance companies in order to provide additional protection to TCI policyholders. The Restricted Deposits are placed with licensed financial institutions within TCI and the funds are held to the order of the Commission. For the year ended 31st March 2013, the total Restricted Deposits held were $8.9 million as compared to $7.6 million at the end of the previous year.

COMPANY MANAGERS AND INVESTMENTS REPORT

The Company Managers and Investments Department continued efforts to ensure holders of Company Management, Investment Dealers and Mutual Funds licenses achieve and maintain regulatory compliance.

These activities include the gathering and updating of biographic information on directors, shareholders and beneficial owners of licensees to ensure the fit and proper criteria are met. Additionally, considerable focus has been on testing the integrity of certain regulatory returns; an example would be the verification of reported companies under management to ensure anomalies are addressed for greater accuracy and efficiency going forward.

At its October 2012 Compliance Seminar the Commission, represented by its new Head of Company Managers and Investments, recommended the establishment of a local Compliance Association as an opportunity for compliance professionals to participate in and drive the value of the compliance function in the industry. The idea was well received and work commenced to establish the Compliance Association of the Turks and Caicos. A first meeting is expected during summer 2013.

Through a collaborative effort, headed by a Compliance Officer and a Bank and Trust Officer, new Guidelines for the appointment of Compliance Officers, Money Laundering Compliance Officers and Money Laundering Reporting Officers were produced. In addition, compliance officers worked across departments on the revision of certain regulatory forms for use by the Commission.

The Department introduced a schedule of on-site examinations which ensures that each of the 37 company managers is examined by March 2014. This approach, though ambitious, is necessary to form an assessment of the sector's level of regulatory compliance thereby allowing for the design of appropriate strategies to improve regulatory compliance.

In August 2012, following a reassignment exercise, the former Department Head was promoted to Senior Head and Legal Counsel and as a result, enforcement actions, involvement with OECD/Tax Information Exchange Agreements, CFATF and on-going negotiations with IOSCO are no longer part of the functions of this department.

Activity along all licences types within the department remained relatively flat throughout the year, with only two (2) new licences being issued. CHART 8 below captures the status of changes in the number of licensees throughout the year.

TABLE 8: Departmental Regulatory Activities

	Licences by Type for Department				
Activity	**Company Management**	**Mutual Funds**	**Mutual Funds Administrators**	**Investment Dealers & Advisors**	**Total**
At 31/3/2012	37	8	3	7	55
New Licences	2	0	0	0	2
Revocations	-1	0	0	0	-1
Surrenders	-1	0	0	-2	-3
At 31/3/2013	37	8	3	5	53

Company Management

During the year, two (2) new company management licensees were issued. In the same period however one (1) license was revoked and another surrendered. The revocation was a result of the department's continued oversight of licensees to ensure regulatory compliance and the surrender was an economic decision made by the licensee. These changes had the net result in the number of licenses remaining unchanged year over year.

Company Managers reported a total of 1,121 companies added under management during 2012. This amount represents a modest increase over the reported loss of 1,050 companies by company managers for the same period.

Investments

Offerings of Investments are provided through Mutual Fund Administrators and Investment Dealers. At March 31, 2013 the combined value of clients' funds and investments under management in this jurisdiction was reported at $817,583,907. Of this amount, the reported value of client funds offered through the licensed Mutual Fund Administrators was $249,951,216.

Mutual Funds licenses remained steady with no new licenses issued during the year however; modest growth is expected to be reflected by late 2013.

Investment Dealers recorded a loss of two licensees by March 31, 2013. The surrender of the two (2) licenses was a result of the regulatory oversight addressing issues of non-compliance.

At March 31, 2013 the licensed Investment Dealers reported investments under management at US$567,632,691. Notwithstanding the weak and uncertain global conditions, growth in this sector will continue to be monitored.

LEGAL AND ENFORCEMENT DIVISION

Policy Development and Legal Framework

Overview

This area of the Commission's work has broad responsibility for the coordination of efforts to meet the local and international policy issues and required standards facing the Commission, including policy considerations which require legislative changes. This area also has general responsibility for the Commission's Anti-Money Money Laundering and Countering the Financing of Terrorism (AML/CFT) framework and works with the other departments within the Commission to develop and implement its AML/CFT policies in accordance within internationally acceptable standards. The Senior Head and Legal Counsel, as the Managing Director's delegate, forms a part of the Commission's primary link with the Money Laundering Reporting Authority and the Attorney General's Chambers. The division also coordinates legislatives initiatives across the various departments within the Commission.

Legislative Developments

Over the year there has been a number of amendments to existing laws and introduction of new laws or regulations including:

- Companies (Amendment) Ordinance 2012
- Proceeds of Crime (Amendment) Ordinance 2012
- Financial Services Commission (Amendment) Ordinance 2012
- Companies (Amendment) Ordinance 2013
- Proceeds of Crime (Amendment) Ordinance 2013

- Companies (Fees) (Amendment) Regulations 2013
- Non-Profit Organizations Regulations 2013
- Anti-Money Laundering & Prevention of Terrorist Financing (Amendment) Regulations 2013.

Additionally, work is also being done to a number of other areas and laws including proposals for:

- Securities Bill
- Domestic Insurance Bill
- Banking Bill
- Trusts Bill
- Voluntary Dispositions Bill
- Company Management (Licensing) (Amendment) Bill
- Financial Services Commission (Amendment) (No.2) Bill
- Companies (Amendment) Bill
- Anti-Money Laundering & Prevention of Terrorist Financing (Amendment) (No. 2) Regulations
- Proceeds of Crime (Amendment) (No.2) Bill.

The Legal Department continues to assist the Commission across divisional lines with the development of policy. The Legal and Enforcement team assisted the Companies Registry and the Information Technology Department in the review, amendment and implementation of the Companies Registry procedure manual. In addition a new procedure for Name Search/ Clearance and Reservation was implemented as part of that review. The project has worked to make the processes more efficient. Assistance has also been given to the development of the Guidelines for the Appointment of Regulatory Licensee's Compliance Officers, Money Laundering Compliance Officers and Money Laundering Reporting Officers.

Further, the Legal and Enforcement Consultant assisted the Insurance department with the drafting of Restricted Deposit Guidelines, whilst the Senior Head has produced the Commission's Policy Regarding Complaints against the Commission and also hopes to commence work early in the New Year on producing guidelines in relation to the Commission's scope and ability to provide assistance both domestically and to foreign regulatory authorities.

Enforcement and Compliance

Overview

The financial services sector is vulnerable to manipulation for criminal and illegal purposes. For this reason regulators are called to be vigilant to protect the environment in which it operates and to ensure sound business practices which would mitigate these risks are used by the sector it governs. As a result proper regulatory oversight of financial services businesses necessarily entails the application of sanctions and enforcement actions. The Commission applies a ladder of sanctions which is meant to be dissuasive rather than punitive. Enforcement action is exercised to promote and ensure compliance and to demonstrate intolerance for the contravention of laws.

Enforcement action is taken against licensees in accordance with the provisions contained in the Financial Services Commission Ordinance (FSCO). The FSCO governs enforcement actions for non-compliance with all regulatory laws. The types of enforcement action that may be taken include but are not limited to, revocation of licence, suspension of licence, legal action to wind –up the company, imposition of a penalty and issuing a directive.

The Commission initiated 33 Notices of Intention to Take Disciplinary Action during the period 1 April1, 2012 – 31 March, 2013. This resulted in 25 actual formal enforcement and remedial actions being carried out. That is, 76% of the Intentions were carried out while the remaining

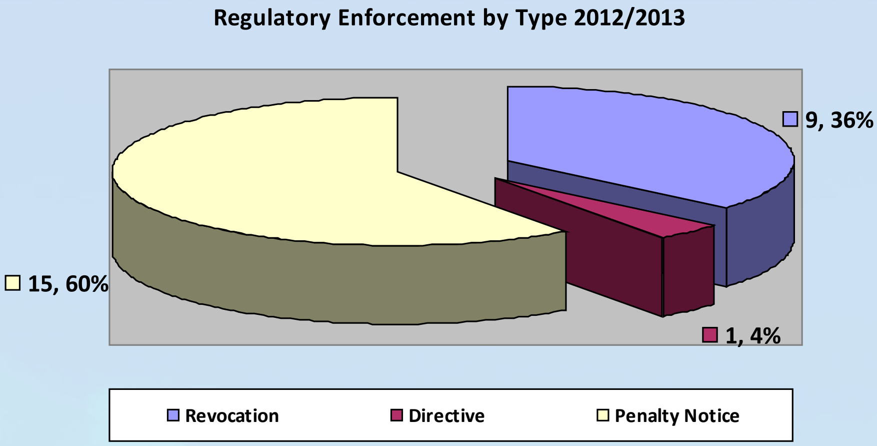

CHART 9: Enforcement Statistics

24% were withdrawn. CHART 9 gives a pictorial representation of the actions carried out by number and type.

International and Domestic Co-operation

The Commission continues to operate within the mandate given by FSCO to co-operate with foreign regulatory authorities and domestic authorities who have regulatory and supervisory oversight functions to detect and prevent financial crimes respectively. The Commission serves on the Money Laundering Reporting Authority constituted under the Proceeds of Crime Ordinance along with the Attorney General's Chambers, the Commissioner of Police, the Collector of Customs, and the Head of the Financial Crimes Unit. This group met at least once in every quarter for the year. The Authority considers issues of national policy and co-ordinates reporting obligations to such international bodies as CFATF and the Egmont Group.

The Commission also continues to monitor international developments in the area of AML/CFT by FATF and continues to review and revise its policies to take into account additional standards introduced by the FATF Recommendations which were issued in February 2012. In particular, the Commission has continued its sensitization efforts regarding the Risk Based Approach to supervision and regulation and the application of AML/CFT standards.

The Department continues to work with the IOSCO Working Group to determine and overcome deficiencies in the TCI's co-operation regime. It is anticipated that the report of the Working Group will be finalized in the upcoming year.

The Commission continues to provide support and assistance to domestic authorities involved in financial misconduct. Assistance has been rendered to authorities such as the Integrity Commission, the Special Investigation and Prosecution Team (SIPT), Financial Crimes Unit of the TCI Police Force, the Attorney General's Chambers and the newly established Exchange of Information Unit within the Ministry of Finance, to name a few.

During the financial year the Commission processed in excess of 200 requests for information for the SIPT, 150 for the Integrity Commission, as well as a number of requests from the Attorney General's Chambers and the Exchange of Information Unit. There has also been on-going dialogue with the Financial Intelligence Unit.

The Commission received and responded to two (2) requests from Foreign Regulatory Authorities.

Memoranda of Understanding

The Commission continues to negotiate Memoranda of Understanding (MoUs) with Regulatory Authorities and during the year initiated and continued discussion to establish MoUs with

1. Insurance Commission of the Bahamas
2. Financial Services Commission of Barbados
3. Financial Services Regulatory Commission – Antigua and Barbuda
4. Exchange of Information Unit – Turks and Caicos Islands

These MoUs are expected to be executed early in the next financial year.

OECD Global Forum on Transparency and Exchange of Information for Tax Purposes/ Tax Information Exchange Agreements (TIEA's)

The Senior Head and Legal Counsel continued to be a part of the team negotiating and vetting TIEA's on behalf of the TCI Government. The TCI's Legal and Regulatory Framework for transparency and exchange of information was also assessed under Phase I of the OECD Peer Review Process in 2011. In this regards a Phase 1 Report and subsequently a Supplemental Phase 1 Report was published by the OECD on the TCI. The combined outcome of these reports was a successful review for the TCI.

The TCI prepared for and was subject to Phase 2 onsite visit in March 2013. It is expected that the Phase 2 report will be finalized and made public in the upcoming financial year.

The TCI has concluded 16 TIEA's and is in the process of negotiation with a number of other countries for more TIEA's. The TCI has made a commitment to negotiating TIEA's with any country that wishes to enter such an agreement with the TCI.

In response to the call by the G20 and International Community to create greater measures to ensure that the financial system is not misused and to foster greater levels of transparency within the financial system, the TCI is also considering becoming a party to the Multi-Lateral Convention on Mutual Administrative Assistance in Tax Matters.

Caribbean Financial Action Task Force (CFATF)

The Commission continues to play an active role on the CFATF Working Groups on FATF Issues and has noted the changes that have been made to the FATF Recommendations on AML/CFT, the Accreditation Working Group and the International Cooperation Review Group. Attendance and participation at CFATF Plenaries likewise continues as well as work with the Money Laundering Reporting Authority to review laws and devise strategies and policies to ensure that the TCI is able to comply with the set international standards.

TCI currently remains on the enhanced reporting regime of the CFATF and must report bi-annually on the progress it has made in improving the country's AML/CFT framework.

Over the last year the Commission's website was enhanced under the AML/CFT tab to include a link to current versions of The FATF Public Statements as well as information on United Nations Sanctions and UK Orders extended to the TCI by Her Majesty in Council in exercise of powers conferred on her by various UK statutes.

US Foreign Account Tax Compliance Act

The Commission forms a part of a national committee on transparency and exchange of information matters relating to taxes. The TCI is moving towards engaging with the US Treasury to commence negotiation on an Inter-Governmental Agreement (IGA) to facilitate exchange of information with the United States of America. The Commission has facilitated awareness sessions with the industry during the year on FATCA and its impact.

Training

Staff of the division received various training opportunities during the period, both domestically and internationally. The Legal and Enforcement Consultant received formal training in AML/CFT. The Senior Head & Legal Counsel attended a number of conferences and received training in the area of compliance conducted through the International Compliance Association, the latter being exercised via a distance learning program of study. In total six (6) such training opportunities were received, two (2) being locally and four (4) overseas.

DESIGNATED NON-FINANCIAL BUSINESSES AND PROFESSONS

The department commenced on 19th November 2012 with the appointment of a Head of Designated Non-Financial Businesses and Professions (DNFBP). During the period in question (November 2012 to 31st March 2013) the Head of DNFBP operated alone. The recruitment and development of a compliance team is not planned until end of Q4 2013, at the earliest.

Registration

Immediate priority was the commencement of the registration of all relevant businesses with the Financial Services Commission. Registration is required as provided in the Proceeds of Crime Ordinance.

During the period to 31st March 2013, to achieve registration the following activities were undertaken:

- The application form was designed with the aid of consultation from business practitioners and
- Identification of the likely scope of registrants, following provision of information of business licences issued from the Business Licencing Department.

Raising Awareness of DNFBP responsibilities

A number of activities were undertaken amongst relevant businesses to raise awareness of the responsibilities of DNFBPs:

1. The development of relationships with key association leaders, Bar Council, Turks and Caicos Real Estate Association (TCREA) and Accountant Practitioners.
2. Discussions with other stakeholders such as The Bankers Association, Business Licencing Department, etc.
3. Training and awareness presentations provided to Turks and Caicos Real Estate Association and the Bar Council. In addition a presentation was made to a variety of potential DNFBPs at the Financial Services Commission's Annual General Meeting in December 2012.

Legislation and Regulations

Two changes were made to the Regulations which directly affected DNFBPs:

- The introduction of the one-time registration fee of $150.00 and
- Change of name from Non-Regulated Financial Business to Designated Non-Financial Businesses and Professions.

Non-Profit Organisations

The scope of the work of the Designated Non-Financial Businesses and Professions department was extended in March 2013 to include Non Profit Organisations. Legislation was passed effective April 1, 2013 to extend similar AML/PTF responsibilities to Non Profit Organisations. It has been agreed with the Managing Director to delay action in this regard until Q4 2013.

REPORT OF THE REGISTRIES

Companies Registry

During the period under review there was an increase in the number of companies incorporated of some 10% when compared to the prior period. As shown in Table 9 below, a total of 1,286 companies and partnerships were established which were 113 more than in 2011/2012. The majority of the incorporated companies, as has been the trend historically, were Exempt Companies.

TABLE 9: Incorporations by Company Type

Company Type	2012/2013	2011/2012	2010/2011
Exempt	**990**	**864**	**849**
Ordinary	282	297	311
Foreign	10	3	10
Limited Partnerships	4	8	5
Limited Life Companies	0	1	0
Total No.	**1,286**	**1,173**	**1,175**
Percent Change	**10%**	**0%**	**16%**

A total of 3,093 companies were struck form the register as a result of non-payment of annual fees. At the end of the review period, the total number of companies on the Register amounted to 13,296.

The Registry staff, in preparation for the KRegistry system, continued to undergo training along with the IT staff on the operations of the system and the uploading of data into that system. Additional staff were recruited for that purpose and efforts continued to be carried out to review records to ensure that they are accurate before uploading into the system.

Trademarks Registry

The Trademarks Registry increased its staff complement during the year to three (3) to facilitate an increase in activity. With the commissioning of the database to hold details on registered marks, better management is now expected of this critical area. We continued to process fees in relation to the annual maintenance charge, and this requires that a certificate of compliance is issued to trademarks holders, an uptick in activity in this area. Revenues have increased significantly, however there are instances of non-compliance and the only remedy available under the law is for the non-recognition of the mark during the period of abeyance until such fees have been paid.

The number of trademarks registered during the year numbered 303 compared to the 438 registered in the previous period.

Patents Registry

The number of patents submitted for registration from the UK declined slightly in this period to twenty one (21), compared to twenty three (23) in the prior period.

Business Names Registry

Amendments to the Business Names registration provisions implemented during the period introduced a new $50 annual fee. A total of 506 new business names were registered compared to 581 in the previous year.

INFORMATION TECHNOLOGY

During the 2012/2013 financial year work continued on KRegistry and KReview with a number of developments including –

- The appointment of a Project Manager at the start of the financial year to oversee the completion of the software;
- The completion of the first round of in-house KRegistry user training for users within the Companies Registry;
- Several updates to the Program User manual that would provide users with detailed instructions on how to utilize the system;
- Company Service Providers got an opportunity to get an introduction to KRegistry during the AGM meeting held in Providenciales in December 2012;
- A number of updates to the system as it relates to Registry data in preparation for the official rollout and
- There were several KReview programmes that have been reviewed and are currently in development.

There have been some minor delays to provide for data corrections which will ensure that the information provided is as accurate as possible, however work has continued on other aspects of the system to try to maintain target dates. In light of this Phase II and III are well on their way to being completed by the fall of this year. Phase II will provide for external users to perform searches and name reservations, whereas Phase III will facilitate online filing of statutory applications and notices.

FSC Website

Providing information to the stakeholders and the general public via the website has been amongst the IT department's top priorities. The IT department was instrumental in the redesign of the Commission's website. There were a number of features that were added that made the website more user–friendly and informative, a few include a search engine, a quick links bar and calendar of events held by the Commission.

DNFBP Database

The IT department developed a database for the Designated Non-Financial Businesses and Professions department. The data captured in this database will allow personnel to easily access information and analyze reports.

Networking of New Branch

The IT department played a vital role in the opening of another office building of the Commission, located in Providenciales. A sound networking environment was implemented and a secured connectivity between the three offices was established.

Training

In ensuring that an efficient technology based work environment is used to facilitate operations of the Commission, the IT Department endeavors to engage its staff in constant training. During the past financial year, IT personnel received training in Server 2008, Hyper V and Share Point. The Information Technology Department continued during the year to work closely with other Departments in providing the support needed for the fulfilment of the Commission's objectives.

SECTION B

FINANCIAL SERVICES COMMISSION

STATEMENT ON INTERNAL CONTROL

and

CONSOLIDATED FINANCIAL STATEMENTS

FOR YEAR ENDED MARCH 31, 2013

Financial Services Commission

Board of Directors Statement on Internal Control
[Issued Pursuant to S144(5) of the Public Finance Management Regulations 2012]

The Board of Directors is responsible for oversight of the Commission and to ensure that a strong system of internal control is in place. The overall objective is to ensure that the Commission's assets are safeguarded and risks are 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.

An Audit and Risk Management Committee of the Board has been established, and this Committee carries out certain oversight functions and provides 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 its 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 within 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 system of internal controls.

The Directors have assessed the effectiveness of the system of internal controls for the year ended March 31, 2013 and believe that the internal control over the financial reporting is effective based on:

1. Adequate existence of segregation of duties that are in place and working;
2. Monthly financial reports are prepared consistently and presented to the entire board;
3. Annual working papers are drawn up, 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 timeframe 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 and
6. The auditors have not identified any significant deficiencies in internal control during the recent audit carried out.

NATIONAL AUDIT OFFICE
South Base, Grand Turk

TURKS AND CAICOS ISLANDS
Tel: (649) 946-2801 Ext. 10208, Fax (649) 946-1794

2 October, 2013

Hon. Robert S. Hall, MHA
His Honour, the Speaker
House of Assembly
Hon. N. J. S Francis Building
Pond Street
Grand Turk
Turks and Caicos Islands.

Attention: **Clerk to House of Assembly, Tracey I. Parker**

RE: Audited Financial Statements for the Financial Services Commission (FSC)

In fulfilling my responsibility as Auditor General and as an Officer of the House of Assembly, I have relied on the work, statements and reports of PricewaterhouseCoopers Turks & Caicos (PwC) concerning the consolidated financial statements of the FSC for the year ended March 31, 2013.

PwC was appointed to express an opinion on the FSC's consolidated financial statements under Section 22 (1) of the National Audit Office Ordinance, 2012. I have been involved at a high level throughout the planning, fieldwork, reporting and finalization processes and have reviewed the work of PwC.

I consider that the professional competence of PwC in the context of this assignment is sufficient and they have performed relevant procedures to obtain sufficient appropriate audit evidence and conducted the work in accordance with International Standards on Auditing.

In my opinion, based on the procedures conducted, I conclude that the work of PwC can be relied upon. I therefore concur with the opinion of PwC.

Please find enclosed the management letter and 2012/13 Audited Financial Statements for the FSC.

Anand Heeraman FCCA
Auditor General
National Audit Office
South Base, Grand Turk, Turks & Caicos Islands

CERTIFIED FRAUD EXAMINER

cc Minister of Finance and the Board of Directors of the FSC

pwc

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the Financial Services Commission

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of the Financial Services Commission (the "Commission") and its subsidiary which comprise the consolidated statement of financial position as at March 31, 2013 and the consolidated statements of comprehensive income, changes in source of funding and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Financial Services Commission as at March 31, 2013 and its financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards.

Other matters

This report, including the opinion, has been prepared for and only for the Commission as a body and the Government of the Turks & Caicos Islands and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers Ltd.

Chartered Accountants
Providenciales, Turks & Caicos Islands

Date: August 28, 2013

Financial Services Commission

Consolidated Statement of Financial Position
As at March 31, 2013
(Expressed in United States Dollars)

	2013 $	2012 $
ASSETS		
Current Assets		
Cash and cash equivalents	7,420,074	6,270,254
Other bank deposits	802,824	801,548
Trade receivables	80,406	122,378
Prepayments	67,624	312,485
Staff advances (Note 5)	130,663	79,198
	8,501,591	7,585,863
Intangible assets (Note 6)	322,553	316,000
Fixed assets (Note 7)	1,238,151	590,879
Total Assets	10,062,295	8,492,742
LIABILITIES AND SOURCES OF FUNDING		
Current Liabilities		
Accounts payable (Note 8)	2,699,413	2,481,849
Accruals	596,068	503,514
Deferred income (Note 9)	46,656	51,370
	3,342,137	3,036,733
Non-current Liabilities		
Deferred Income (Note 9)	228,224	274,880
Total Liabilities	3,570,361	3,311,613
Sources of Funding		
Reserve fund	5,535,928	4,225,123
Retained surplus	956,006	956,006
	6,491,934	5,181,129
Total Liabilities and Sources of Funding	10,062,295	8,492,742

Approved for issuance on behalf of the Board of Directors of the Financial Services Commission on

August 28, 2013

Director

Director

The accompanying notes form an integral part of these consolidated financial statements

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Financial Services Commission

Consolidated Statement of Comprehensive Income
For the Year Ended March 31, 2013
(Expressed in United States Dollars)

	2013 $	2012 $
Income		
Gross revenue	7,409,080	6,552,461
Release of government grants	51,370	9,692
Interest and other income	44,530	65,627
Total Income	7,504,980	6,627,780
Expenditure		
Staff costs (Note 10)	2,736,910	2,385,042
Professional and consultancy fees	308,130	62,304
Rental of buildings	158,336	155,736
Travel and subsistence (Note 11)	102,635	102,162
Depreciation	148,576	94,843
Office expense (Note 12)	118,115	80,097
Repairs and maintenance expense (Note 13)	144,862	75,325
Utility charges (Note 14)	85,671	74,144
Communication expense (Note 15)	67,347	68,117
Insurance (Note 16)	34,274	75,668
Subscriptions and contributions (Note 17)	33,182	23,322
Audit and accounting	45,555	46,495
Training (Note 18)	48,889	40,436
Security expense	12,109	10,651
Other operating and administrative expenses (Note 19)	197,377	123,456
Total Expenditure	4,241,968	3,417,798
NET SURPLUS AND TOTAL COMPREHENSIVE INCOME	3,263,012	3,209,982

NET SURPLUS AND TOTAL COMPREHENSIVE INCOME	3,263,012	3,209,982
Transfers to Government	(1,952,207)	(4,551,585)
	1,310,805	(1,341,603)

The accompanying notes form an integral part of these consolidated financial statements

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Financial Services Commission

Consolidated Statement of Changes in Sources of Funding
For the Year Ended March 31, 2013
(Expressed in United States Dollars)

	Reserve fund $	Retained surplus $	Total $
As at April 1, 2010	5,566,726	956,006	6,522,732
Comprehensive income:			
Net surplus and total comprehensive income	3,209,982	-	3,209,982
Sources of funding			
Transfers to Government	(4,551,585)	-	(4,551,585)
As at March 31, 2012	4,225,123	956,006	5,181,129
Comprehensive income:			
Net surplus and total comprehensive income	3,263,012	-	3,263,012
Sources of funding			
Transfers to Government	(1,952,207)	-	(1,952,207)
As at March 31, 2013	5,535,928	956,006	6,491,934

The related surplus is not defined in the FSC ordinance of October 2007, and is the result of operations under prior ordinance.

The accompanying notes form an integral part of these consolidated financial statements

Financial Services Commission

Consolidated Statement of Cash Flow
For the Year Ended March 31, 2013
(Expressed in United States Dollars)

	2013 $	2012 $
Operating Activities		
Total comprehensive income	3,263,012	3,209,982
Depreciation	148,576	94,843
(Gain)/loss on disposal of fixed assets	(40)	19,525
Release of Government grants	(51,370)	(9,692)
Interest income	(29,561)	-
	3,330,617	3,314,658
Changes in working capital other than cash and cash equivalents		
Trade Receivables	41,972	(80,475)
Staff advances	(51,465)	1,688
Prepayments	244,861	113,647
Accounts payable	217,564	1,738,939
Accruals	92,554	193,403
Net Cash from Operating Activities	3,876,103	5,2,81,860
Investing Activities		
Increase in other bank deposits	(1,276)	(801,548)
Proceeds on disposal of fixed assets	40	-
Acquisition of intangible asset	(57,900)	(316,000)
Acquisition of computer equipment	(38,578)	(28,321)
Acquisition of office furniture	(34,161)	(43,543)
Acquisition of office equipment	(5,606)	(9,267)
Acquisition of building and improvements	(666,156)	(145,526)
Interest received	29,561	-
Net Cash used in Investing Activities	(774,076)	(1,344,205)
Financing Activities		
Transfers to Government	(1,952,207)	(4,551,585)
Net Cash used in Financing Activities	(1,952,207)	(4,551,585)
Net Increase/(Decrease) in Cash and Cash Equivalents	1,149,820	(613,930)
Cash and Cash Equivalents at Beginning of Year	6,270,254	6,884,184
Cash and Cash Equivalents at End of Year	7,420,074	6,270,254

The accompanying notes form an integral part of these consolidated financial statements

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1. General Information

The Turks and Caicos Islands Financial Services Commission (FSC or Commission) was established under the Financial Services Commission Ordinance of May 2001 and commenced operations on April 1, 2002. This was superseded by the FSC Ordinance of October 2007 (The Ordinance).

The purpose of the FSC is to administer the provisions of the Ordinance and subsidiary legislations which grant it the power to issue and revoke licences, supervise institutions engaged in financial services businesses and advise the Turks & Caicos Islands Government (Government) and the Governor of the Turks and Caicos Islands of changes needed to ensure the stability and security of the financial sector.

On March 23, 2012 the FSC established a 100% owned subsidiary "FSC Property Holdings Co. Ltd." for the purpose of holding real estate assets.

The FSC operates from both the Harry E. Francis Building, P.O. Box 173, Pond Street, Grand Turk, and Caribbean Place, Providenciales, Turks & Caicos Islands, British West Indies.

2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the FSC have been prepared in accordance with International Financial Reporting Standards (IFRS) and under the historical cost convention.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the FSC

There are no IFRSs or IFRIC interpretations that are effective for the first time for the current financial year that would be expected to have a material impact on the FSC.

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2012 and not early adopted.

There are no IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the FSC.

2. Summary of Significant Accounting Policies (continued)

2.2 Consolidation

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the FSC has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the FSC controls another entity. The FSC also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the FSC's voting rights relative to the size and dispersion of holdings of other shareholders give the FSC the power to govern the financial and operating policies, etc.

Subsidiaries are fully consolidated from the date on which control is transferred. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated.

2.3 Cash and Cash Equivalents

Cash and cash equivalents consist of cash in hand, and deposits held at call with banks and other financial institutions with original maturities of three months or less.

Fixed deposits with maturities greater than 3 months are included within other bank deposits on the statement of financial position.

2.4 Fixed Assets

Fixed assets are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the FSC and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

2. Summary of Significant Accounting Policies (continued)

2.4 Fixed Assets (continued)

Depreciation on fixed assets is calculated using the straight-line method to reduce the cost to their residual values over their estimated useful lives, as follows:

Building	40 years
Building improvements	10 years
Computer equipment	4 years
Office equipment	10 years
Office furniture	10 years
Motor vehicles	5 years

Depreciation is charged from the month of acquisition. The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated statement of comprehensive income.

2.5 Intangible Assets – Computer Software

Cost 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 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 products;
- 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.

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

2.6 Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the provision of services in the ordinary course of the FSC's activities.

2. Summary of Significant Accounting Policies (continued)

2.8 Financial Assets (continued)

The FSC assesses at each consolidated statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

2.9 Trade Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the FSC will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated statement of comprehensive income within expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against expenses in the consolidated statement of comprehensive income.

3. Financial Risk Management

3.1 Financial risk factors

The FSC's activities expose it to a variety of financial risks: market risk (including cash flow and fair value interest rate risks), credit risk and liquidity risk. The FSC's overall risk management programme seeks to minimise potential adverse effects on the FSC's financial performance and ability to continue operations.

Risk management is carried out by management under policies approved by the Board. The Board provides principles for overall risk management, as well as policies covering specific areas, such as interest rate risk, credit risk and investment of excess liquidity.

(a) Cash flow and fair value interest rate risks
The FSC's interest rate risk arises from fixed deposits with fixed interest rates, which expose it to fair value interest rate risk. Fixed deposits have maturities of 6 months or less, thereby reducing fair value interest rate risk.

The FSC does not have any material interest bearing assets and liabilities subject to variable interest rates and therefore is not exposed to cash flow interest rate risk.

3. Financial Risk Management (continued)

3.1 Financial risk factors (continued)

(b) Credit risk

Credit risk arises from cash and cash equivalents, other bank deposits as well as credit exposures on outstanding loans and receivables. Credit risk on cash and cash equivalents and other bank deposits is mitigated by only depositing with regionally recognised banks and financial institutions.

Credits quality of financial assets

The credit quality of financial assets that are neither past due not impaired can be assessed by reference to external credit rating (if available) or historical information about counterparty default rates.

	2013 $	2012 $
Trade receivables and Staff loans		
Counterparties without external credit ratings		
Group 1	211,069	201,576
	211,069	201,576
Cash and cash equivalents and other bank Deposits		
Counterparties with minimum external rating of Aa3 or higher	8,121,639	7,071,202
Licensed financial institutions without external credit ratings	100,659	-
	8,222,298	7,071,202

Group 1 – Counterparties with no defaults at year end.

Receivables are legally recoverable under the terms of the underlying applicable Ordinances to which the counterparties are subjected.

The FSC manages counterparty credit risk by having all counterparties approved by the Board of Directors.

(c) Liquidity risk

The FSC maintains flexibility in funding by maintaining the majority of its assets in short-term, highly liquid instruments.

Prudent liquidity risk management implies maintaining sufficient cash to pay liabilities as they fall due. Management monitors rolling forecasts of the FSC's liquidity on the basis of expected cash flow.

The FSC's financial liabilities at the year-end have contractual maturities of less than one year from the consolidated statement of financial position date.

Given the nature of FSC's operations, liquidity risk is considered minimal.

3. Financial Risk Management (continued)

3.2 Reserve risk management

The FSC's objectives when managing reserves are to safeguard its ability to continue as a going concern in order to provide both present and future benefits to the financial services sector.

The FSC is directed, by the Financial Services Commission Ordinance and provisions thereto, to create a reserve to fund expected recurrent expenditure.

4. Key sources of estimation uncertainty

The FSC makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below.

Reserve Fund
Section 17 of the Ordinance sets out that the Commission shall establish a reserve fund, defined as follows:

" (1) The Commission shall establish a reserve fund into which, subject to subsection (3), it shall pay monies:-

a) representing the Commission's operating surplus, calculated in accordance with the regulations; and

b) that are otherwise required by the regulations to be paid into the reserve fund.

(2) The Commission shall expend money from the reserve fund only for such purposes as may be permitted by the regulations.

(3) If on the last working day of any quarter within a financial year, the monies standing to the credit of the reserve fund exceed the expected recurrent expenditure of the Commission for that financial year, the Commission shall within 14 days of the last working day of the quarter, pay a sum equal to the excess to the Government for payment into the Consolidated fund:

Provided always that the monies standing to the credit of the reserve fund shall not fall below $5,000,000 as a result of any payment to the Government pursuant to this subsection.

(4) The regulations may:-

a) specify circumstances in which the Commission may expend money from the reserve fund only with the prior approval of the Governor-in-council,

b) provide for the investment by the Commission of monies in the reserve fund, and;

c) otherwise provide for the operation of the reserve fund."

4. Key sources of estimation uncertainty (continued)

Management have determined that the most appropriate measure of recurrent expenditure in accordance with the above requirement is the budget as approved by the Governor for the ensuing year, and maintain the reserve fund at that level.

5. Staff Advances

This amount represents Christmas advances as well as regular salary advances, taken by the members of staff to be deducted from their monthly salary.

Included in staff advances are $26,861 (2012: $25,800) due from key management.

6. Intangible Assets

	Software development costs $
Cost	
At April 1, 2011	-
Additions	316,000
At March 31, 2012	316,000
Additions	57,900
At March 31, 2013	373,900
Amortisation	
At April 1, 2011	-
Charge for the year	-
At April 1, 2012	-
Charge for the year	51,347
At March 31, 2013	51,347
Net book value	
Cost	316,000
Accumulated amortisation	-
At March 31, 2012	316,000
Cost	373,900
Accumulated amortisation	51,343
At March 31, 2013	322,553

The asset was brought into use on March 31, 2012, no amortisation was charged in that year.

7. Fixed Assets – Current Year Analysis

	Building and improvements $	Office furniture $	Office equipment $	Computer equipment $	Motor vehicles $	Total $
Cost						
Balance as at April 1, 2012	415,216	180,453	89,279	233,953	92,554	1,011,455
Acquisitions	666,156	34,161	5,606	38,578	-	744,501
Disposals	-	-	-	(2,551)	-	(2,551)
Balance as at March 31, 2013	1,081,372	214,614	94,885	269,980	92,554	1,753,405
Accumulated Depreciation						
Balance as at April 1, 2012	31,692	89,243	50,265	176,639	72,737	420,576
Depreciation	35,563	15,706	8,732	31,428	5,800	97,229
Disposals	-		-	(2,551)	-	(2,551)
Balance as at March 31, 2013	67,255	104,949	58,997	205,516	78,537	515,254
Net Book Value						
As at March 31, 2013	1,014,117	109,665	35,888	64,464	14,017	1,238,151

7. Fixed Assets – Prior Year Analysis

	Building and improvements $	Office furniture $	Office equipment $	Computer equipment $	Motor vehicles $	Total $
Cost						
Balance as at April 1, 2011	269,690	169,910	80,012	205,632	92,554	817,798
Acquisitions	145,526	43,543	9,267	28,321	-	226,657
Disposals	-	(33,000)	-	-	-	(33,000)
Balance as at March 31, 2012	415,216	180,453	89,279	233,953	92,554	1,011,455
Accumulated Depreciation						
Balance as at April 1, 2011	14,299	86,341	41,382	142,960	54,226	339,208
Depreciation	17,393	16,377	8,883	33,679	18,511	94,843
Disposals	-	(13,475)	-	-	-	(13,475)
Balance as at March 31, 2012	31,692	89,243	50,265	176,639	72,737	420,576
Net Book Value						
As at March 31, 2012	383,524	91,210	39,014	57,314	19,817	590,879

8. Accounts Payable

Under the terms of the Ordinance, any surplus in excess of recurrent expenditure is to be settled to the Government for payment into the consolidated fund. At the year-end, $2,699,413 (2012: $2,481,849) was due to the Government in this regard. During the year $1,734,652 (2012: $2,800,000) was paid to Government.

9. Deferred Income

Projects	Initial Capital Warrant Amounts $	Accumulated Amortisation $	Balance Remaining 2013 $	Balance Remaining 2012 $
No. 2061	72,143	72,143	-	2,580
No. 1905	22,833	22,833	-	1,713
No. 1902	7,147	7,147	-	420
No. 2714	24,693	20,670	4,023	5,537
No. 2878	358,746	87,889	270,857	316,000
Total	485,562	210,682	274,880	326,250

Deferred income to be released over the next 12 months will be $46,656 (2012: $51,370). Amounts to be released in over 12 months will be $228,224 (2012: $274,880).

a) Project No. 2061

During the financial year ended March 31, 2003, the Commission received a Development Warrant to the order of $72,263 of which $72,143 was for the purchase of office equipment and furniture for its new offices at the Harry E. Francis Building on Pond Street. The funds from the warrant are released to income on the same basis as the assets are depreciated. $118 was released immediately as it related to a direct expense.

b) Project No. 1905

During the financial year ended March 31, 2003, the Commission received a Development Warrant of $24,342 of which $22,833 was to purchase the telephone system for its new offices located on Pond Street. The funds from the warrant are released to income on the same basis as the assets are depreciated. $1,509 was released immediately as it related to a direct expense.

c) Project No. 1902

During the financial year ended March 31, 2003, the Commission received a Development Warrant of $35,300 of which $7,147 was to purchase a filing system for the Companies Registry Archive, which is located in one of the Franklyn Misick Buildings on Church Folly Road. The funds from the warrant are released to income on the same basis as the assets are depreciated. $28,153 was released immediately as it related to a direct expense.

9. Deferred Income (continued)

d) Project No. 2714

During the financial year ended March 31, 2006, the Commission received a Development Warrant of up to $53,410 to purchase furniture, equipment and vehicles. The funds from the warrant are released to income on the same basis as the assets are depreciated. $28,657 was received during 2006 of which $3,965 was released immediately as it related to a direct expense.

e) Project No. 2878

During the financial year ended March 31, 2006, the Commission received Development Warrants up to $300,000, for the Financial Services Commission E-Initiative of which $216,000 was paid as an initial deposit to KPMG and REFLEXIS Systems Inc. as per signed contracts for the supply of KReview and KRegistry Application Software. $200 was released immediately as it related to a direct expense.

During the financial year ended March 31, 2007, the Commission received a further sum of $42,810 in respect of the same project for the acquisition of a server. The sum of $65 was released immediately as it related to a direct expense.

During the year ended March 31, 2008, the Commission received a further sum of $50,000 in respect of the said project.

During the year ended March 31, 2012 the Commission received a Development warrant of $50,000, which they used towards the said project.

10. Staff Costs

This can be analysed as follows:

	2013 $	2012 $
Salaries and wages	2,278,926	1,963,379
National Insurance and National Health Insurance	140,063	59,279
Allowances	51,893	47,990
Gratuities	131,089	107,726
Pension Contribution	37,621	48,959
Directors' Fees and Expenses	97,318	157,709
	2,736,910	2,385,042

11. Travel and Subsistence

This can be analysed as follows:

	2013 $	2012 $
Accommodation and subsistence - local travel	8,120	8,669
Airfares - international travel	30,487	18,581
Accommodation and subsistence - international travel	36,223	45,419
Transport - air and sea fares	12,220	21,085
Transport - other	14,573	7,840
Other cost on international travel	1,012	568
	102,635	102,162

12. Office Expense

This can be analysed as follows:

	2013 $	2012 $
Office supplies	118,115	74,362
Printing & Binding	-	5,735
	118,115	80,097

13. Repairs and maintenance

This can be analysed as follows:

	2013 $	2012 $
General property maintenance	93,419	38,370
Maintenance - fixed assets/air conditioning	8,995	7,380
Maintenance of hardware	17,685	2,963
Maintenance of property	-	13,826
Maintenance of software	21,753	4,519
Repairs to office equipment	1,413	5,735
Service of vehicle	1,597	2,532
	144,862	75,325

14. Utility charges

This can be analysed as follows:

	2013 $	2012 $
Electricity charges	80,062	66,418
Water charges	5,609	7,726
	85,671	74,144

15. Communication expense

This can be analysed as follows:

	2013 $	2012 $
Telephone - local cost	19,759	21,336
Line rental	25,222	26,558
Telephone - international cost	11,506	8,398
Internet charges	6,312	8,374
Postage and courier	4,548	3,260
Facsimile - international cost	-	191
	67,347	68,117

16. Insurance

This can be analysed as follows:

	2013 $	2012 $
Employee medical	13,040	59,382
Peril insurance	18,209	12,950
Motor vehicle insurance	3,025	3,336
	34,274	75,668

Financial Services Commission
Notes to Consolidated Financial Statements
For the Year Ended March 31, 2013

17. Subscriptions and Contributions

This can be analysed as follows:

	2013 $	2012 $
Contributions to regional institutions	6,500	1,500
Subscriptions	3,497	1,019
Contributions to international institutions	23,185	20,803
	33,182	23,322

18. Training

This can be analysed as follows:

	2013 $	2012 $
Local	31,266	18,195
Overseas	14,123	9,241
Academic	3,500	13,000
	48,889	40,436

19. Other Operating and Administrative Expenses

This can be analysed as follows:

	2013 $	2012 $
Local hosting and entertainment2	51,150	54,023
Advertising	107,594	31,536
Bank charges	19,366	13,473
Meetings and conferences	9,902	-
Other grants and donations	4,670	4,899
Other operating expenses	4,695	19,525
	197,377	123,456

20. Employee Numbers

The average number of people, both temporary and permanent, employed by the FSC during the year was 70 (2012: 57).

21. Related Party Transactions

Included with staff costs is $813,925 (2012: $827,259) relating to salary and allowances for directors and key management employees.

22. Commitments and Contingencies

Commitments as at March 31, 2013 consist of Application software as follows:

	Falling due within one year $	Total $
REFLEXIS Systems Inc.	250,000	250,000
	250,000	250,000

As at March 31, 2013 the FSC also has capital commitments outstanding of $Nil (2012: 132,846), and have commitments for operating expenditure, that will be due in the following year of $77,200 (2012: 10,800).

24. Breach of the Ordinance

Under the terms of the Ordinance the FSC is required to make quarterly assessments of the monies standing to the credit of the reserve fund that exceed the expected recurrent expenditure of the commission for that finançial year, and within fourteen days of the last working day, pay a sum equal to the excess to the Government.

During the year these quarterly assessments were not performed, monthly reports are prepared which form the basis for the computation of amounts due to the TCIG as well as ascertain any surpluses. However the payment of these amounts has not matched the reports or been timely.

Financial Services Commission
Notes to Consolidated Financial Statements
For the Year Ended March 31, 2013

25. Comparison of Results with Budget

	Actual $	Budget $	Variance $
Revenue			
Gross revenue	7,409,080	6,968,380	440,700
Release of government grants	51,370	-	51,370
Interest and other income	44,530	18,000	26,530
	7,504,980	6,986,380	518,600
Expenditure			
Staff costs	2,736,910	2,672,276	64,634
Professional and consultancy fees	308,130	60,000	248,130
Rental of buildings	158,336	156,036	2,300
Travel and subsistence	102,635	214,090	(111,455)
Depreciation & Amortization	148,576	102,000	46,576
Office expense	118,115	84,300	33,815
Repairs and maintenance expense	144,862	191,508	(46,646)
Utility charges	85,671	105,392	(19,721)
Communication expense	67,347	78,849	(11,503)
Insurance	34,274	27,192	7,083
Subscriptions and contributions	33,182	80,910	(47,728)
Audit and accounting	45,555	45,000	555
Training	48,889	126,300	(77,411)
Security expense	12,109	15,376	(3,267)
Other operating and administrative expenses	197,377	140,580	56,797
	4,241,968	4,099,809	142,159
Net Surplus	3,263,012	2,886,571	376,441

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