Regulating with Honesty, Integrity and Transparency

TURKS AND CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION

BEAUTIFUL BY NATURE

2014 ANNUAL REPORT

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FINANCIAL SERVICES COMMISSION

ANNUAL REPORT 2014

Reporting Period April 1, 2013 to March 31, 2014

Directors of the Financial Services Commission

Seated Left to Right:
Neville Grant; Errol Allen (Chairman); Athenee Harvey (PS of Finance).

Standing Left to Right
J. Kevin Higgins (Managing Director); Anthony Roberts (Retired); Oswald Simons (Deputy Chairman)

Missing from Photo:
Kevin Mann

Directors and **Senior Management**

Board Of Directors

Errol Allen – Chairman

Oswald Simons – Deputy Chairman

Athenee Harvey – Permanent Secretary, Ministry of Finance

Anthony Roberts – Director

Neville Grant – Director

Kevin Mann - 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

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 Coleman – Head, Designated Non-Financial Businesses and Professions

Cathrice Williams – Head, Information Technology

Deborah Ashton – Deputy Registrar of Companies

Karlene Ferrier – Deputy Registrar of Companies

Nadene Harvey – Office Manager, Grand Turk

Hyacinth Been – Office Manager, Providenciales

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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. He retired towards the end of the financial year.

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.

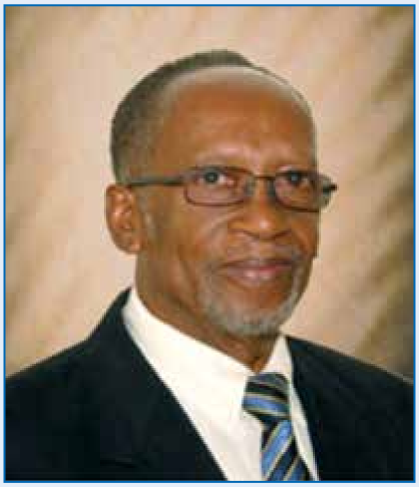
Kevin Mann

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

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

I am pleased to report that during the year under review, your Financial Services Commission was able to discharge its mandate with a modicum of success, despite challenges encountered on several fronts. Significant achievements were recorded in those efforts aimed towards strengthening of regulatory capacity first, by introducing critical guidelines to the banking sector and secondly, by advancing the completion of both the draft Banking Bill and the draft Insurance Bill.

One of the challenges to which I alluded was the need to place an Insurer into Court supervised Administration, in order to protect policyholders as it became clear the company was showing signs of being insolvent. It is hoped that policyholders will not suffer any losses arising from this unfortunate event.

Moving forward, we propose to seek further measures to strengthen the financial services sector. One such critical measure arose out of the decision of the Board of Directors of the Commission to have the banking sector implement the Basel II Accord. This will result in a fundamental shift in focus as the Industry currently operates on the Base I Capital Accord, which focusses primarily on credit risk exposure. The Basel II Accord, on the other hand, aims to align regulatory capital more closely with risk and to promote a more sophisticated approach to risk management. It seeks also to create a 'risk culture' within banks whereby the Institution and Senior Management in particular understand risk and remain alert to risk as a core issue.

Risk management has become one of the most important functions within banks and financial institutions today. Its role is even more important during the current world economic crisis, with the aim of saving assets and preserving future profits. Our primary objective of risk management is therefore to preserve operating effectiveness of the business entity.

In this new dispensation, greater emphasis will be placed on the banks own risk management strategies in the calculation of the risk weighted asset component for the capital adequacy test, and the Accord gives the supervisor a greater role to play in the determination of each bank's ratio. Enhanced disclosure is being required by banks.

In summary, Basel II will recalibrate how the capital adequacy ratio is computed. This process will take into account the quality of the loan portfolio, the market value of the assets, the operational risks inherent in each bank's operations and will provide a role for the supervisor to determine if the ratio so computed is appropriate, given all the available data and market information. There is therefore no doubt that by requiring banks to move to the Basel II framework, the regulator is seeking to enhance the reporting requirements and disclosure by banks but also to ultimately seek greater levels of protection for the investing public. An Adviser in the area of the Accords will be contracted to help guide the full roll out to the banks.

Concomitant with the increased regulatory oversight, we are of the view that continued training, not just for staff of the Commission but of the financial services providers themselves, is important. To this end the Board has formulated a framework for regular and professional based training in specified areas to be undertaken. A committee comprising employees of the Commission has been formed to submit ideas in this regard. The first area identified is that training should be granted in the area of credit and a seminar is to be held soon on this topic. Both staff and Industry members will be expected to attend. We will also work in tandem with CARTAC to identify other areas of training to which they can lend their support.

Financial assistance continues to be provided to all permanent employees in pursuit of staff-initiated programmes of study in areas which will further advance the Commission in its drive to become an effective regulator of the jurisdiction.

We recognize the need for the growth of the Industry and are willing to work with the Government to facilitate and encourage the orderly development of the various areas. One area already identified for growth and development is in relation to trusts. A new Trust Bill is soon to be enacted. In furtherance of the work we have

Chairman's Report *Cont'd.*

put in to enhance the Jurisdiction's profile will be our application to the International Organization of Securities Commissions (IOSCO) for membership. Such membership will help to facilitate the securities industry in the TCI as it will engender confidence that investors will be protected by strong and fair laws and regulations.

The Management and staff of the Commission continue to work assiduously in addressing those areas which still require attention. We recognize that more work needs to be done and we will be focusing our efforts in these areas during the coming year.

In closing I wish to recognize the contribution of the Governor, His staff, the Minister of Finance and all our international partners for their guidance, support and encouragement in our development efforts.

Errol Allen
Chairman

Managing Director's Report

J. Kevin Higgins
Managing Director

Policy Measures

The Commission continued with its drive to accomplish more of the goals it had set out for itself in its Action Plan 2012-2016 which was conceived and published in 2012. That Plan acts as a roadmap for the modernisation and development of the supervisory and oversight capabilities of the Regulator. Again, the Action Plan takes a three (3) pronged approach to the further development of the Commission: (1) Supervisory Methodology – enhanced reporting; issuance of guidelines; written manuals to guide the process (2) Legal Framework – improvement in existing laws and introduction of new laws where required and (3) Professional Resources – staffing the departments with individuals having the requisite technical and analytical skills to guide the processes.

Much progress has been made in respect of items 1 and 3. On item 2, The Domestic Insurance Bill was drafted and sent to the IMF for review and advice. Further amendments were then made and it has been sent to the Government for debate. It is expected to become law soon. This Bill proposes to carve out the Domestic Insurance Sector and treat it separately from the International Sector, which will have its own set of laws. In addition, the Banking and Trust Bills were drafted and await finalization in the upcoming period. Well experienced professional staff have been contracted in the areas of Banking, Insurance and Policy Analysis.

In relation to Item 1, Supervisory Methodology, enhanced reporting for Insurers has been put in place. Furthermore, as with Banks that use the CAMELS[1] framework for supervision, we will be undertaking examinations of domestic insurance entities starting early within the next financial year using a risk based supervisory framework based on CARAMELS[2]. Both these frameworks assess licensees based on certain technical and qualitative factors. Trust companies are now required to file statistics with the Commission. A number of guidelines or statements was issued for the banking sector such as Guidance for Auditors of Professional Trustees; Guidance on Consolidated Supervision and Guidelines for the Appointment of Compliance Officers, Money Laundering Reporting Officers, etc.

In addition to work on the Action Plan, a number of policy decisions were taken that will seek to strengthen the financial sector. As the world moves to recognize and deal with systematically important financial institutions, the Commission has realized that it has to do its own assessment of those institutions that may dominate the financial sector and whose actions may be able to cause a domino effect in the economy, should something go wrong. As such a study is to be conducted by the Regulator to assess the potential risk and identify any such institutions within our own jurisdiction. The findings of that study which will get underway early in the next financial year will guide us in crafting policy responses in this regard. A consultant to carry out the task has already been identified.

Company Managers play an important role in the jurisdiction by way of providing critical company management services and the facilitation of investments. As such we felt that there was the need to enhance the regulatory framework for these entities. A consultant was hired to provide technical guidance in this area. Arising out of the consultants work it was agreed that we should revise the regulatory regime for this sector. Extended regulatory reporting and enhanced inspections, using a risk based approach, will follow from this.

In addition to the work to strengthen oversight of the company management sector, the decision was taken that bearer shares pose significant money laundering risk to the jurisdiction. As such the Companies Ordinance was amended in January 2014 to abolish these types of shares. Transitional arrangements of six (6) months were put in place. Thereafter these shares will have no legal effect for the purposes of beneficial ownership.

Finally, the significant decision was taken that the jurisdiction should move ahead with implementing the Basel II Accord. The Chairman spoke at length about this in his report.

1. Acronym for: Capital Adequacy; Asset Quality; Management; Earnings; Liquidity and Sensitivity to Risk.
2. Acronym for: Capital Adequacy; Asset Quality, Reinsurance Programme; Actuarial Liabilities; Management; Earnings: Liquidity and Self- dealings (Related Party transactions).

Financial Sector Assessment Programmed (FSAP)

The Commission is currently preparing for a country review by the International Monetary Fund (IMF) and World Bank under their joint Financial Sector Assessment Program (FSAP). This is expected to take place towards the last quarter of 2014/2015. The programme aims to serve the dual purposes of gauging the stability of the jurisdiction's financial systems and assessing the potential for future growth and development.

A portion of the FSAP review will involve assessment of the Commission's policies and practices against the Core Principles for Effective Banking Supervision (often referred to as the Basel Core Principles) and the Insurance Core Principles. Both sets of Core Principles articulate international standard setters' minimum expectations of financial supervisory authorities, as well as their expectations in relation to governance and risk management mechanisms within banks and insurance companies. The principles cover issues such as the independence and powers of the supervisory authority; the approach, techniques and tools applied to supervision; and the strength of guidance and supervision over corporate governance, capital adequacy and/or solvency, and the robustness of risk management frameworks.

Preparation includes a self-assessment by the Commission of where its supervisory practices, policies and legal framework stand against those as set out in the Core Principles. Stemming from the self-assessment done so far we have identified a number of areas which need to be addressed and which we are addressing. One result of this was the need to issue a policy document entitled: 'Statement on Consolidated Supervision and the FSC's Role as a Host Supervisor', applicable to the banking sector.

We expect once the IMF and World Bank joint assessment is done the jurisdiction will receive a rating which indicates or reflects the hard work we have put in over the years since the last assessment done in 2003 and which will redound to the benefit of the economy and jurisdiction as a whole.

Enforcement

The Compliance Unit was beefed up during the year by the employment of additional personnel. The aim is to keep constant watch over the industry and so minimize the possibility of serious breaches of any financial services law. Notwithstanding, situations do arise from time to time. We however strive to move swiftly to reduce any contagion risk. In this regard we had to place one insurer under Court Administration due to its breach of the Insurance Law as it was deemed to be insolvent. It is hoped that the Administrators may be able to sell the long term liabilities to another Insurer in order to protect the policyholders.

In total, twenty three (23) Enforcement Actions were successfully carried out against licensees for various breaches. Actions resulted in revocation, suspension, and issue of directives or the imposition of penalties. The Dollar Value of penalties imposed amounted to $64,175. In the previous year a total of $175,000 in fines was imposed. The downward trend could be a good indicator of improved compliance.

International Co-operation

To guide the process of international co-operation a handbook, entitled Procedures for International Co-operation and Regulatory Assistance, was drafted by the Commission. This seeks to codify the provisions of the laws providing the gateways for co-operation and disclosure and set out written procedures on how we will seek to carry out our mandate. This is to ensure that the process is open, documented, and in compliance with all the stated laws.

We were requested by the Securities and Exchanges Commission (SEC) and the Ontario Securities Commission to provide assistance in certain matters, to which we acceded. We continued to work with other regulators in the sharing of information and as such a number of Memoranda of Understanding (MOUs) were either signed or the process was started with a view to signing.

We continued to work with the International Organization of Securities Commissions (IOSCO) with a view to bringing the jurisdiction in line with best practices in regard to international co-operation as it relates to the securities industry. I am happy to report that towards the end of the financial year we were close to finalizing the consultations. This will pave the way for the Commission to become a member of IOSCO, which will be a great stepping stone for the jurisdiction to develop its securities and investments sectors.

Training

Training continues to be considered as part of the critical tools used by the Commission to ensure that its staff are able to carry out their duties to the highest standards. This involves a multi-pronged approach:

1. Short courses, such as the one provided for twelve (12) clerical staff at the TCI Community College, focussing on skills for Professional Secretaries;

2. Continued financing of full term online courses and for staff to attend colleges to obtain Associates/BSc. Degrees or other certification. At the year-end some twelve (12) staff were enrolled;

3. Use of consultants in some cases to work alongside technical staff in the conduct of examinations of licensees. The idea is to further deepen the exposure and experience of in-house staff and

4. Training continued to be provided to both the Industry participants and staff in specified areas. Table 1 shows training conducted or facilitated during the period.

TABLE 1 Training for Staff and Industry Participants

Date Held	Topic of Seminar	Areas Covered	Attendees
April 2013	Anti-Money Laundering	Understanding the Code covering AML	58
June 2013	Insurance Regulation	Risk Management	65
June 2013	Insurance	Review of Actuarial Reports	4
August 2013	Trust	Trust Administration	25
October 2013	Customer Service	Customer Service	18
November 2013	Insurance	Captive Insurance Management[3]	90

Review of the Industry

The Banking Sector of the Turks and Caicos Islands remains strong. Capital ratio (measured by Total Qualifying Capital to Total Risk Weighted Assets) of the banking sector stood at 33%, as it was in the previous period. This is a very healthy ratio compared to the statutory minimum of 11%. The asset base of the sector grew by 3% to $1.8B. Strong oversight continues to be maintained over the banking sector and we will continue to do so as it forms the primary pillar of the economy.

The Insurance Sector maintained its position as that which contains the largest number of licensed entities. The international sub-sector which dominates grew by 12.5% over the previous period with the net addition of some 797 licences. One large domestic insurer had to be placed under Administration as it became clear that the Insurer was insolvent. We are hoping that the Administrators will be able to safeguard the interest of policyholders in this matter.

3. Jointly held in conjunction with the Captive Insurance Managers Association.

Table 2 provides data on select regulatory activities during the year under review.

Type of Activity	Banks	Insurance Entities	Trusts	Company Managers	Money Transmitters	Mutual Funds	Invest. Dealers	Total
Licenses Issued	-	834	-	2	-	3	2	841
Inspections	1	-	2	3	-	-	-	6
Revocation/ Surrender	-	37	1	1	-	1	-	40
Other Regulatory Action	-	23	3	3	4	-	3	36
Meetings & Discussions Held	7	-	9	28	-	-	-	44

TABLE 2 Activities (Regulatory) by Type for the Period

The Registries continue to provide the bulk of the revenues of the Commission, accounting for 78% of revenues in 2014 as it did in 2013. We are far advanced on the implementation of the KRegistry and KReview software, which provide for the online incorporation and filing of documents and electronic review of licensed entities, respectively. In respect of the KRegistry, we have launched Phase 2 and are ready to utilize it for over the counter submissions. Testing of Phase 3, online filing by clients, will begin shortly and should be rolled out fully within the next financial year.

Table 3 provides key select data in various areas for the Commission, all of which show an upward trend in these critical markers.

Type of Activity	2013/2014	2012/2013	2011/2012
Licenses Issued	841	769	558
Companies Incorporated	1,453	1,286	1,173
Business Names Registered	1,107	506	581
Annual Returns Filed	12,151	11,992	11,134
Number of Companies on the Register	14,548	13,296	13,104

TABLE 3 Select Indicators (Units) for the Period

The Commission remains financially stable with reserves of just under $6M. Having strong reserves helps to ensure the independence and stability of the Commission and provides the necessary resources to carry out its mandate.

Going Forward

Looking ahead, we continue to see a strong Regulator having all the necessary tools to provide effective oversight of the Industry and aid in the stability of the economy. This will go towards ensuring that the jurisdiction is viewed favourably by the international standard setters as well as by investors.

We hope to complete a number of objectives in the upcoming year:

a. Have in place the new banking law that provides a modern framework for the regulation of banking entities;

b. The putting into place of a framework for the resolution of problem banks, either through an Insolvency Law or by way of inclusion of provisions to that effect into the banking laws;

c. Relocation of the Grand Turk offices to better, safer and more convenient space for staff and the public

d. Implementation of the KRegistry and KReview projects and

e. Apply to become a member of IOSCO, which will enhance the profile of the jurisdiction.

I extend sincere gratitude to the Governor's office, Board of Directors, the various Industry Groups and staff for their continued support and look forward to continued co-operation and collaboration in the future.

Sincerely,

J. Kevin Higgins
Managing Director

Finance and Administration Report

Financial Review

The base revenue (income in respect of licences, annual returns and incorporations) of the Commission grew by some 7% points over the previous year. The growth in base revenue was attributable largely to the Insurance Sector which had significant improvement in the annual filing fees (coming mainly from the Producer Owned Reinsurance Companies –PORC- sub sector).

Total revenues, that is base revenues plus sundry fees and land share transfer duties, increased by some 12% points when compared to the previous year. During the current year land share transfer duty accounted for 14% of the total revenues compared to 8% in the previous year. At the same time, this category of income saw an increase of 93% when compared to the previous year. This increase was due mainly to two (2) large transactions.

Total revenues amounted to $8.3M compared to a budget of $6.9M, resulting in a positive variance of $1.4M. In the previous period, total revenue obtained was $7.4M while the budgeted amount was $7.0M, representing a $0.4M positive variance.

CHART 1 below gives a comparative analysis of the performance of actual and budgeted core revenues over the last three (3) years.

The Registries continue to generate the bulk of the cash flow for the Commission. The contribution remained stable at 78% for the last two (2) years. The contribution from the Insurance Sector went up by 1% to 14% while the banking and trust sector declined by 1% to 5%, due largely to the surrender/revocation of one (1) trust licence.

Chart 2 shows the dispersion of the revenues earned.

New fees were introduced by the Insurance Department through the imposition of a $150 fee for a special dispensation granted upon the application of a licensed broker to place insurance business overseas with a non TCI-licensed insurer. A total of Fifty Six (56) such dispensations were issued with fees collected totalling $8,400 for the period October 2013 to March 2014. The amendment came into effect in October 2013.

There was a 15.8% increase in the asset base of the Commission,

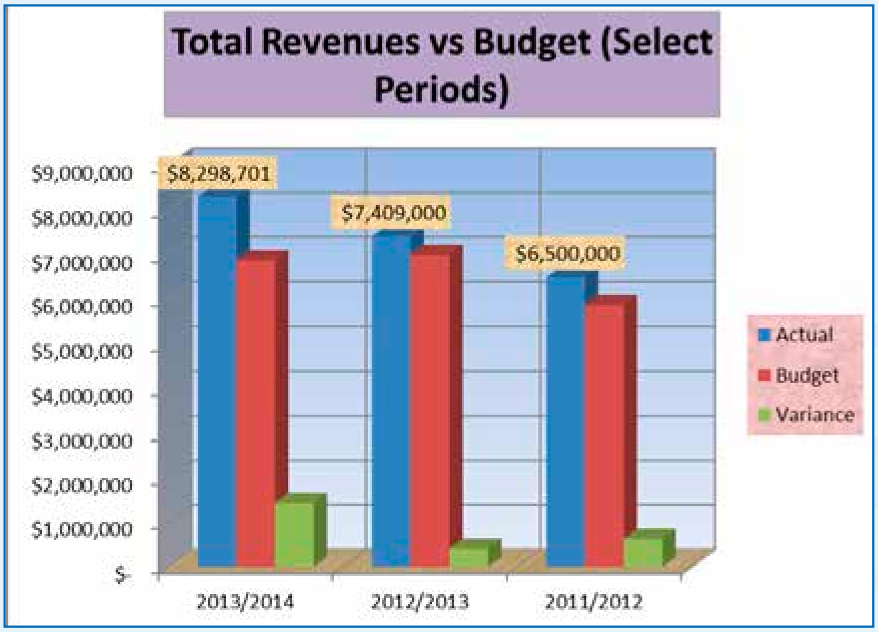


CHART 1 Revenue vs. Budget

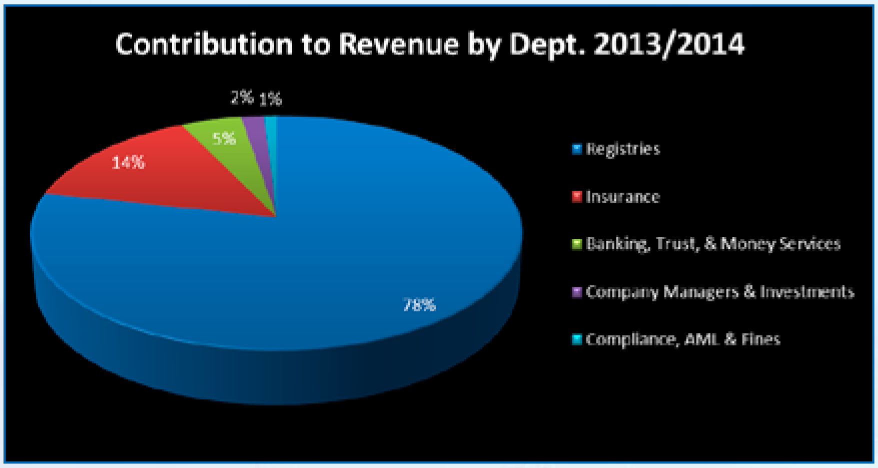


CHART 2 Percentage Contribution by Sector to Revenues

excluding fixed and intangible assets. Movements in the Reserve Fund of some 6.7% partly account for this increase in the asset base. Amounts set aside for the Government's share of the surplus increased by some 38% due largely to the fact that the Commission only needed to increase its Reserves base by just under 7% and hence allowing for a larger transfer of the net surplus generated for the year to the Government.

For the year under review the Commission had set a consolidated expenditure target of $5.3M. Actual expenditure incurred was $4.6M, which resulted in a positive variance of $0.7M. This positive variance was driven largely by training and consultancy costs being far less than the targeted amounts.

Administration Review

During the year under review the Commission saw an expansion of its staff complement as it continued to build out its supervisory and regulatory capacities. Sixty Six (66) persons were in employment at the end of the review period compared to Sixty Three (63) for the previous. The Banking Department moved into its new location after renovations were carried out on the unit acquired during the previous period. The layout of the unit is consistent with the other properties owned and it aims to provide a comfortable work environment in which staff will be better able to perform their duties.

The staff complement by each department is reproduced in Table 4 below.

Department	2013/2014	2012/2013
Managing Director's Office	2	2
Banks, Trusts and Money Services	7	7
Insurance	11	14
Company Managers and Investments	4	3
Companies, Patents, Trademarks and Business Names Registries	18	18
Finance & Administration	9	9
Information Technology	12	7
Designated Non-Financial Businesses & Professions	1	1
Legal and Enforcement	2	2
Total Number of Employees at Year End	**66**	**63**

TABLE 4 Employees by Department

The system that was in place over several years for the evaluation of staff was revamped as it was felt that it (a) did not provide a proper basis to objectively assess the performance of employees and (b) it did not provide the platform to identify shortcomings in employees' abilities and how those shortcomings will be corrected. The new system was approved by the Board and is expected to cover the next evaluation exercise January to December 2014. Employees will be assessed on a quantitative and qualitative basis and which will produce a numerical score. This score will allow employees to gauge their performance against a benchmark. An employee will be able to determine where he or she falls out of a total score of 100 and we feel that this will be a better guide for performance evaluation and management.

Work started on the revision of the staff manual to ensure that it is up to date and able to meet the needs of the expanded workforce. Changes thereto were deliberated at the HR meetings held during the period and legal opinion was sought and received on the document. Suggested changes include interviewing practices and disciplinary procedures. It is projected that the revisions will be completed by the middle of the next financial year.

Education and training continue to be a major focus of the management and board of directors. During the year a committee was formed to

Finance and Administration Report *Cont'd.*

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 Business Studies	TCI Community College	Jan-13	May -15
1	Project Management Course	The Bahamas Institute of Financial Services	Feb-13	Dec-14
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
1	Bachelor of Science Business Studies	TCI Community College	Jan-13	Jan-15

TABLE 5 Staff Development/Training

provide guidance to the Board on what the training needs of the regulatory departments are. Suggestions were made and it was determined that one of the first areas to be addressed will be "Credit Granting and Management" for employees of the Banking Department. This is to take place in the next period.

The Commission continued to provide assistance to those staff members who applied for financial support in furthering their education.

Table 5 above provides data on the programmes being pursued as at fiscal year-end.

In addition, three (3) employees from the Banking Department were enrolled in the Society for Trusts and Estate Planners (STEP) professional certification programmes covering international trust management, trust creation law and practice and trust administration and accounting. Twelve (12) employees at the clerical level were enrolled in a short course at the Community College on the top of "Professional Skills for Secretaries".

The Registrar of Companies, Mr. John James, retired at the end of the financial year after serving the Commission for more than ten (10) years. We thank him for his years of dedicated service and for the camaraderie and leadership given to staff, who all appreciated having worked with him.

Banks, Trusts and Money Transmitters Report

Overview

During fiscal year 2013/14 the Banks and Trusts Department (B&T) completed a series of on-site examinations and follow-up visits on trust companies and money service businesses, which had begun in the previous fiscal year. Beginning with the latter part of 2013, the B&T Department introduced a series of meetings with the management of bank and trust licensees as part of its "Risk Based" approach to supervision. Among other things, the meetings focused on issues surrounding corporate governance, strategic direction, financial performance, regulatory and compliance concerns.

Going forward these meetings will be held semi-annually for banks and annually of trust companies. Consistent with that approach to supervision the B&T department has also been leveraging the internal reporting provided to the Board of Directors, by requiring licensees to submit copies of their compliance and internal audit reports to the Commission.

In order to extend aspects of the Commission's "Risk Based" approach to supervision to the trust sector, quarterly reporting on operations was introduced to trust companies with effect from December 31, 2013.

The Commission retained the services of international accounting firm Deloitte & Touche Limited to conduct a Foreign Account Tax Compliance Act (FATCA) readiness survey of the banking sector in the Turks and Caicos Islands. The overall conclusion of the survey indicated that the banks are in various stages of preparing for FATCA compliance. They have outlined formal and informal plans to perform the necessary activities and are in the process of updating policies and procedures to facilitate compliance.

Licensed Financial Institutions

The number of licensed financial institutions supervised by the B&T Department declined from twenty four (24) to twenty three (23) over the fiscal year, as one (1) trust company surrendered its licence. Accordingly, at March 31, 2014 institutions regulated by the Commission and supervised by the B&T Department comprised 7 banks, 11 trust companies and 5 money service businesses.

On-site Examinations

During the year under review the B&T Department focused on following-up on outstanding matters arising from the on-site examinations conducted of trust companies. As a result, only three new examinations (1 bank and 2 trust companies) were conducted in fiscal year 2013 /2014. Several on-site examinations are scheduled for fiscal year 2014/2015.

Legislative Progress, Guidelines and Statements

As a continuation of the Commission's commitment to consult with licensees on matters that affect them, a revised draft of the Trust Bill was circulated to the trust industry for comment in December 2013. Considerable progress has been made on the new Banking Bill, which was commissioned during the previous fiscal period. It is expected that the Bill will be in readiness for industry consultation by end of August 2014.

A number of guidelines and/or statements were also issued to the bank and trust sectors, after taking into consideration the feedback provided by these industry groups on each subject matter. The guidelines / statements were as follows:

- Guidelines for the Audit of Professional Trustees
- Guideline for the Appointment of Regulatory Licensees Compliance Officers, Money Laundering Compliance Officers and Money Laundering Reporting Officers
- Statement of Guidance: Principles for Controlling Large Credit Exposures for Banks
- Statement of Guidance on Consolidated Supervision and the FSC's Role as a Host Supervisor.

At the close of the fiscal year, a guideline for the appointment of external auditors and the conduct of external audits and another on minimum requirements for internal audits of banks and trust companies were circulated to the both industry sectors for comment and were in the final stages of drafting.

To facilitate quarterly reporting on operations by trust companies, Trust Supervisory Returns with their accompanying guidance notes were developed and issued to all trust companies, after a round of consultation with that industry.

Domestic Systemically Important Banks

The international financial regulatory community has, following the financial crisis of 2008, begun to see the need to have special regulatory regimes for large complex financial institutions. The Financial Services Commission too has seen the need to understand such entities and the impact they may have on the local financial services sector. To better understand the relevant issues, a consultant was engaged during the latter quarter of fiscal year 2013/2014 to make a determination of the banks that should be categorized as systemically important in the Turks and Caicos Islands and to conduct an assessment of the risks posed by these institutions. The study is to get underway early in the next financial year.

Banking Sector Highlights

Assets

The total assets of the commercial banking sector increased by 3%, to approximately $1.8B, during the financial year. Although loans remain the largest asset category of the sector as can be seen from Chart 3 below, the upward movement of the sector's asset base over the past four years was largely as a result of increased deposit holdings (placements) at affiliated institutions. Over the fiscal year, placements at parent and other affiliated companies remained high, as there was only moderate credit demand and limited investment opportunities.

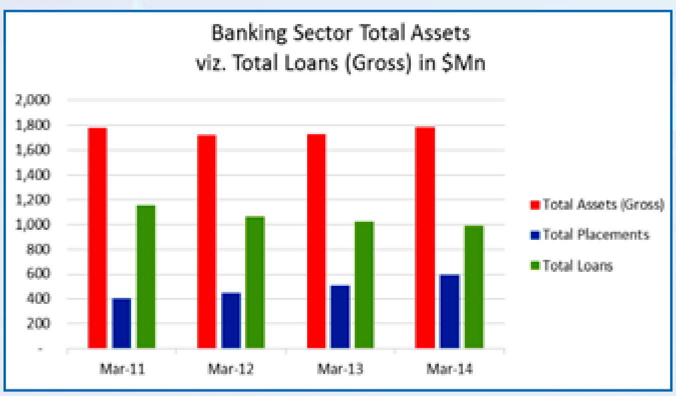


CHART 3, Banking Sector Assets

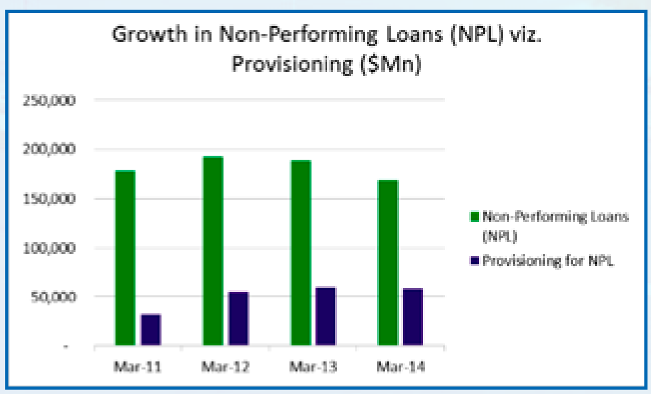


CHART 4, Non-Performing Loans

At March 31, 2014, loans and placements accounted for 88% (58% and 30% respectively) of the total assets of the banking sector, as was the case at the end of fiscal 2013 (59% and 29% respectively). The investment portfolio of the sector remained modest at $124.3M ($119.3M in 2013) and represented 7% of the total assets.

Credit Quality

The banking sector's improvement in the management of loan delinquency during the year under review was evidenced by the 11% decline in the value of non-performing loans from $188.5M at March 31, 2013 to $168.1M at year-end 2014 (see Chart 4 below). The movement in the ratio of Non-performing Loans to Gross Loans to 17% from 18% a year earlier was less significant however, as the total loans of the sector also declined by 3% year on year.

Non-performing loans remained concentrated to businesses in the construction and land development sector (46%) and to consumers (36%) for home acquisition / renovation and other durable consumer goods. Noteworthy, is that even as non-performing loans have declined, the provisioning of the sector was maintained at 35% of non-performing loans at year-end as compared to 33% in 2013.

Funding

Funding for the banking sector was derived from liabilities (82.8%) and capital (17.2%). During the year, total liabilities increased by 5% to $1.5B from $1.4B. Customer deposits of $1.1 billion, up by 7% from last year, (Chart 5) were the sector's primary source of funding. Given the low interest rate environment, deposits that can be withdrawn on demand represented the bulk of deposits in the system (54%), while deposits with specific maturities or withdrawal conditions accounted for 26% and savings deposits 20%.

Despite the banking sector's net income of $8.8M, which was 75% more than the $5.0M net income at March 2013, there was a decline in the total capital of the sector by 4.5% to $345.6M from $362.0M. The reduction in capital was reflected in the retained earnings of banks which were impacted from the payment of dividends.

Capital Adequacy

The regulatory capital ratio for the banking sector was satisfactory at 33% but remained flat (33% - March 2013), as the increase in total qualifying capital

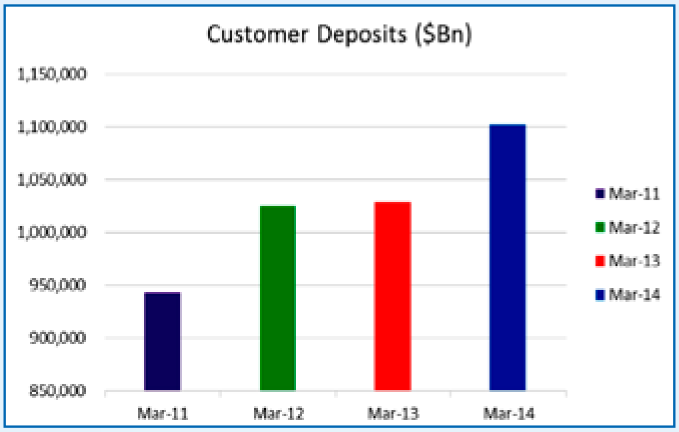


CHART 5 Customer Deposits

during the quarter was more or less proportionate with the decline in total risk adjusted assets.

Enforcement Actions

During the fiscal year disciplinary action was initiated against three (3) trust companies and two (2) money service businesses. Three (3) matters were concluded within the reporting period and resulted in the payment of penalties by three (3) companies.

Training

Staff of the B&T Department attended two Basel training programmes, as well as training for Trust and Corporate Service Providers. The department's staff also participated in a one day Trust Administration Seminar hosted by the Commission for the industry.

Staff Complement

The staff complement of the department remained unchanged over the prior year and consisted of seven (7) employees with varying degrees of technical and educational training.

Insurance Report

Overview

The Turks and Caicos Islands (TCI) Insurance Sector continued its positive growth trend during the year. Once again the International Insurance sector was the mainstay of the market as the industry was comprised predominantly of Producer Owned Reinsurance Companies ("PORCs") and Captive Insurers. For the year ended 31st March 2014, the international market accounted for 99.3% of the industry. Table 6 below summarizes all insurance licences for the past three years:

	2014	2013	2012
Reinsurers (PORCs)	6,954	6,161	5,494
Captives	80	88	97
Insurance Managers	6	6	7
Total International Insurers	**7,040**	**6,255**	**5,598**
Domestic insurance Companies	21	21	23
Brokers	13	9	10
Agents	11	14	12
Sub-Agents	3	3	3
Total Domestic Insurers	**48**	**47**	**48**

TABLE 6, Insurance Licences by Category

Domestic insurance companies and certain categories of international insurance companies are required to establish and maintain a Restricted Deposit. The Restricted Deposit provides additional protection to TCI policyholders and is held with licensed financial institutions within the Island. As an additional safeguard the funds are held to the order of the Commission and cannot be removed or reduced without the Commission's written approval. For the year ended 31st March 2014, the total Restricted Deposits held totalled $22.3 million.

International Insurance Sector

There were 7,040 active international insurance licences which represents an increase of 12.5% compared to prior year. A total of 828 new international insurance licences were issued for the year, comprising 824 PORCs and 4 Captive licences. However, during the period under review a total of 34 licenses were surrendered compared to 44 surrenders and 13 revocations during the prior year. Licenses surrendered for PORC's represented 89.3% of international license surrendered for the period. Additionally, 9 captives converted their licenses to become PORCs. Table 7 provides summary information on international licences:

Total International Insurance Licences in Effect as at 31 March 2014					
Categories	**Total**	**PORCs**		**Captives**	**Insurance Managers**
		Credit Life	**Non-Credit Life**		
New Licences	828	750	74	4	0
Revocations	0	0	0	0	0
Surrenders	34	29	2	3	0
Licenses Converted	9	0	0	9	0
Total Number of Companies	7,040	3,962	2,992	80	6
Licence Type as % of Total for Class	100.0%	56.3%	42.5%	1.1%	0.1%
Total Licences Previous Year	6,255	3,241	2,920	88	6

TABLE 7 International Insurance Licences as at 31 March 2014

Domestic Insurance Sector

As at 31st March 2014, the domestic insurance sector comprised twenty-one (21) insurance companies; including eight (8) long-term, eleven (11) general and two (2) composite insurers. Of these institutions, the Court appointed two joint administrators to take over and manage British Atlantic Financial Services Ltd under the provision of the Financial Services Commission Ordinance.

Gulf Insurance Limited[4] remains under administration.

During the period, the Commission approved the applications and issued new licences for four (4) new insurance brokers, one (1) agent and one (1) subagent. The other Domestic licences in force at the end of the period under review were thirteen (13) brokers, eleven (11) agents and three (3) sub-agents. Scotiabank (Turks & Caicos) Ltd Insurance Agent voluntarily surrendered its agency licence to enable application for a broker license which was subsequently approved. Two (2) subagents' licences w ere surrendered and consequently revoked prior to the 31st March, 2014.

Chart 3 below provides a pictorial breakdown of gross premium income for the industry on a comparative basis. The Commission continued its publication of the domestic insurance quarterly statistics and as at 31st March, 2014,gross premium written for the year decreased by 0.6% to $35.4 million (31st March 2013: $35.7 million).

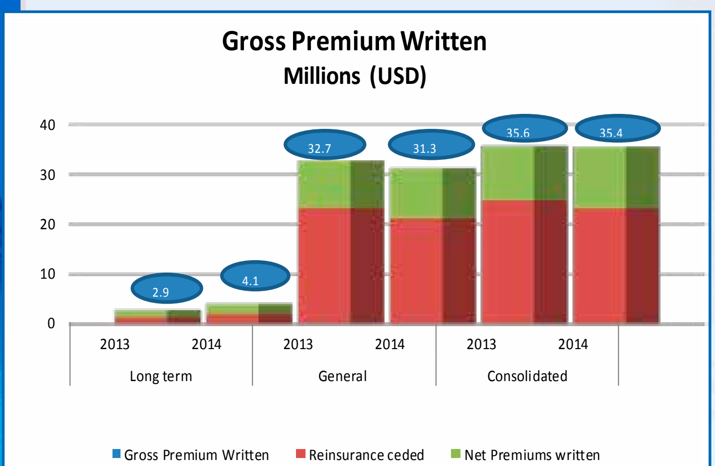


CHART 3 Gross Premium Income for the Domestic Insurance sector

Reinsurance ceded totalled $23.2 million compared with $24.7 million for the prior year ended 31st March 2013. This resulted in an 11.8% increase in Net Premium Income from $11.0 million in 2013 to $12.3 million in 2014.

Overall there was improvement in the profitability of the domestic insurance market. The long term insurance sector reported a net loss of $52,000 which was an improvement on net loss of $56,000 reported for the period ended March 2013. The general insurance sector continues to grow and reported a 62.8% increase in profitability with reported net profit of $5.7 million compared to $3.5 million reported for prior period.

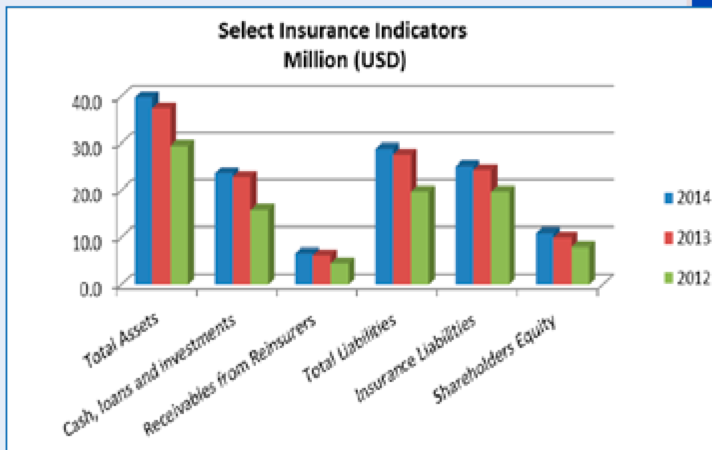


CHART 4 Select Insurance Indicators

Chart 4 above shows overall growth in the domestic insurance sector over the last three (3) years. For the year ended 31st March 2014 total assets for the domestic insurance sector increased by 5.9% to $39.7 million. Cash, loans and investments continued to represent the largest proportion (59.6%) of the industry's assets. A breakdown of the industry's assets for the periods 2014 and 2013 respectively is provided in Chart 5 below.

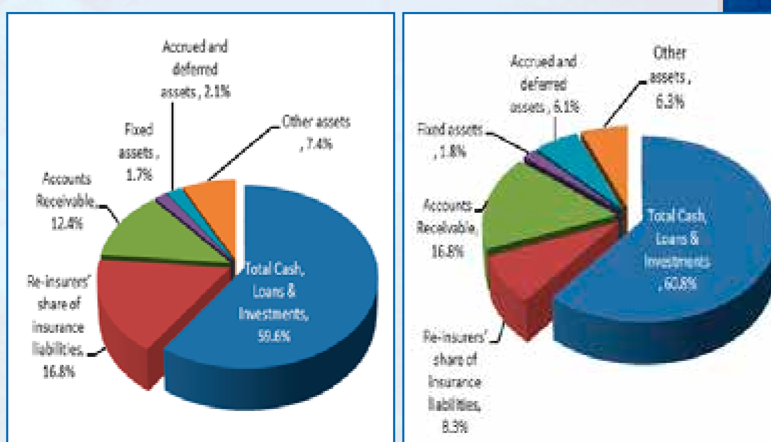


CHART 5 Composition of Domestic Assets

Effective July 2013 the approval of applications for Special Dispensation[6] was transferred from the International Insurance Department to the Domestic Insurance Department in order to streamline the process. During the period July 2013 to March 2014 the department approved sixty-one (61) applications for

4. Gulf Insurance Limited was placed under Administration on 10th October, 2012. The licence was subsequently revoked on 31st October, 2012
5. Sandjeep Jagger and Donna Jean Renae Fulford subagents licenses were surrender and revoked during the year.
6. Special dispensation refers to circumstances where an insurance broker seeks to insure TCI risk with an insurer who is not licensed to transact business in the jurisdiction.

Special Dispensation and rejected seven (7). Chart 6 refers.

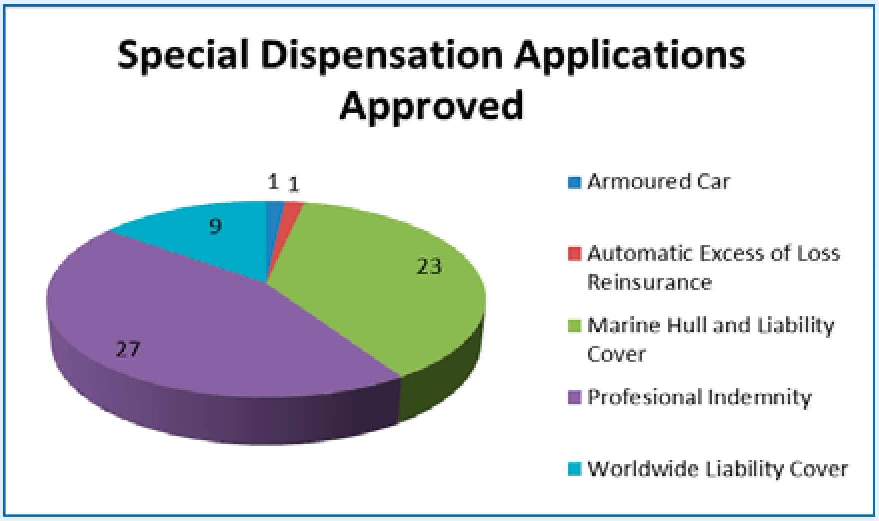


CHART 6 Special Dispensation Application Approved by Class of Business

On 30th September 2013 new legislation was introduced for a fee of $150 to be paid by insurance brokers for each special dispensation application that is submitted to the Commission.

During the period, guidelines on annual and quarterly reporting requirements were finalized and placed on our website. Additionally guidelines on Insurance Adequacy and Solvency, Corporate Governance, Asset Management and Investment Strategy and Risk Management and Internal Control were placed on the website for industry consultation.

The new 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 2014. The underlying principles supporting the new legislation conform to international and regional best practices. The Bill seeks to place emphasis on several prudential requirements including: Corporate Governance, Internal Controls, Capital Adequacy, Risk Management and the Actuarial Valuation of Insurance Liabilities. As part of the improvement of the Commission's regulatory framework the Caribbean Policy Premium Method Regulations was incorporated in the new domestic bill. The "Caribbean Policy Premium Method" refers to a method of computing policy benefit liabilities. This was done to ensure that there is consistency in actuarial practice and the methodology used in determining the actuarial liabilities of a life insurer in the jurisdiction. It is envisioned that these changes will enhance the regulatory standards in the TCI.

The regulatory framework was further enhanced by continued dialogue with other Caribbean insurance regulatory authorities. The Commission also participated in the College of Regulators meetings which were held to discuss insurance companies that are operating within the TCI and other Caribbean Islands. These insurance companies were deemed by the Caribbean Association of Insurance Regulators to be of systemic importance.

With its focus on implementing a risk based supervisory methodology which will maintain, or where appropriate raise, the regulatory standards of the TCI Domestic Insurance Sector, the Commission will be adopting the CARAMELS[7] Risk Based Assessment methodology. The CARAMELS methodology is an analytical framework that is used by Insurance Regulators to identify the risk profile of an insurer. To this end the Commission will be increasing its staff complement and will engage the services of an external consultant to ensure that onsite examinations will commence in the first quarter of the next fiscal year and that risk based supervision will be implemented in the jurisdiction by 31st December 2014.

Enforcement Actions

During the year under review there were thirteen (13) Notices issued to licensees advising them of our intention to take disciplinary action, mostly in relation to the failure to file financial statements or annual returns or to pay the annual license fee. Of that amount, seven (7) were carried to fruition, resulting in the payment of penalties of varying amounts.

One insurer was placed into Court Administration due to a continued breach of the requirements of its licence as regards solvency. That process is continuing.

Two (2) Cease and Desist directives were issued to two (2) entities in order to correct breaches that were observed in their operations.

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

Training

The Commission remains steadfast in its commitment to the development of its employees and as such continues to enhance its technical competencies in the Insurance Department. During 2013, employees attended:

a. the Captives Insurance Conference hosted by the Turks and Caicos Islands Association of Insurance Managers in conjunction with The Financial Services Commission;

b. Training workshop on "The Review of Actuarial Reports" for Life Insurance Companies which was hosted by the Commission; and

c. Caribbean Association of Insurance Regulators/ Caribbean Regional Technical Assistance Centre Workshop on "Risk Management through Group Wide Supervision and Reinsurance" (June 2013). This event was held in the TCI and hosted by the Commission. Participants from 22 Caribbean countries attended this event, which was geared towards enhancing insurance supervision and regulation in the Caribbean.

Staff Complement

The number of persons employed or assigned to the Insurance Department was eleven (11), down from fourteen (14) in the previous year. Staff assigned to the Department include those engaged in filing and database management. Two (2) technical staff resigned during the year and one (1) new technical staff was added.

Company Managers and Investments Report

Overview

The Commission, in its continuous effort to ensure the fit and properness of its licensees, continued its strategy to review submissions of regulatory information while proceeding with on-site examinations to assess the level of regulatory risk posed by licensees. A stronger approach toward non-compliance was adopted and as a result during the fiscal year two (2) Company Management licensees and one (1) Investment Dealer licensee had Legal and Enforcement actions taken against them while a fourth licensee, unable to satisfy the conditions of the licence, surrendered it.

New Supervisory Initiative

Company Managers and Agents are required to submit, among other reports, an annual list of their companies under management, including new ones added during the year and any they no longer represent. It has been noted that regulatory reporting by this sector is based on standards which have not kept pace with international regulatory changes and expectations and as such limits the information available to the Commission on the nature of the activities of licensees in the sector. As a result an independent consultant was engaged to review and make recommendations for the strengthening of regulatory oversight of Company Managers and Company Agent licensees. The review spanned the period June to December 2013 with particular regard to compliance with the requirement of Managers and Agents to maintain clients' beneficial information.

A supervisory questionnaire was designed to capture particular information about the operations of these Managers and Agents. Based upon the response follow up action was done with a view to design the new regulatory regime, with a phased emphasis for implementation to all in the sector. The revised regulatory regime arising from the consultant's work was introduced to Company Managers and Company Agents starting in October 2013.

Sectorial Review

Company Managers Subdivision

During the year two (2) new Company Managers licenses were issued. One (1) license was surrendered, as shown by Table 8 below.

Companies under management, as is required to be reported on by all Company Managers, account for approximately 97% of the total companies registered in the jurisdiction. As the result of increased emphasis on improving the integrity of company data, which includes updated annual returns, approximately 1,097 companies were reported struck from the Register. For the same period approximately 1,287 new companies were reported as being added by Company Managers and Agents.

Investments Subdivision

Investment opportunities are offered by licensed Investment Dealers and Mutual Fund Administrators. At March 2014 the combined value of clients' funds and investments under management by these licensees was reported at \$866,334,155. Of this amount, the value of clients' investments through licensed Mutual Funds was reported as \$255,793,904. At March 31, 2013 the combined value of clients' funds and investments under management was reported at \$817,583,907 while the

Licences by Type for Department

Activity	Company Management	Mutual Funds	Mutual Funds Administrators	Investment Dealers & Advisors	Total
At 31/3/2013	37	8	3	5	53
New Licences	2	3	0	2	7
Revocations	0	0	0	0	0
Surrenders	-1	-1	0	0	-2
At 31/3/2014	38	10	3	7	58

TABLE 8 Company Managers and Investments Licences in Force

amount attributable to Mutual Funds was $249,951,216.

During the year under review three (3) new Mutual Funds licenses were granted and two (2) new Investment Dealers licenses were granted. Refer to Table 8 for a summary.

Enforcement Actions

One Investment Dealer was fined for not complying with a request to submit certain information. A Company Manager was taken to Court to recover a debt due to the Commission arising out of the assessment of a surcharge in relation to the late payment of annual fees.

Upon the review of a Company Manager's operations it was determined that they were highly deficient in regards compliance with the rules, regulations and best practice standards. As such a Cease and Desist order was issued to that entity preventing it from accepting any new business.

Training

In April 2013 all members of the department participated in the Commission's annual Compliance Seminar delivered to directors and compliance officers of all licensees. The presentations addressed the content of the AML/CTF Compliance Policy including the process of submitting Suspicious Activity Reports (SARS) and also introduced the Business Risk Assessment as vital to the process of determining the type of risks that the businesses faced and the strategies required to be adopted to mitigate against such risks.

Staff Complement

An additional compliance officer was recruited in January 2014 to support the department from the Commission's Providenciales office. This was considered important as most of the participants in the sector are located on that Island and having an employee located there would facilitate better and more effective efforts at monitoring and dialogue. This increased the Department's staff complement to 4 servicing a total of 58 licensees supervised.

Legal and Enforcement Division Report

Policy Development and Legal Framework

This department has broad responsibility for the coordination of efforts to meet local and international required standards and handles request for amendments to existing laws or introduction of new laws. The department also works to develop the Commission's Anti-Money Money Laundering and Countering the Financing of Terrorism (AML/CFT) framework and works with the other departments within the FSC to develop and implement its AML/CFT policies in accordance within internationally acceptable standards, in satisfaction of Caribbean Financial Action Task Force (CFATF) requirements. The 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.

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

- Companies (Amendment) (No.2) Ordinance 2013
- Proceeds of Crime (Amendment) (No. 2) Ordinance 2013
- Financial Services Commission (Amendment) Ordinance 2013
- Companies (Amendment) Ordinance 2013
- Anti-Money Laundering & Prevention of Terrorist Financing (Amendment) (No. 2) Regulations 2013
- Company Management (Licensing) (Amendment) Ordinance 2013
- Abolishment of Bearer Shares Ordinance 2013
- Financial Services Commission (Amendment) 2014

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

- Domestic Insurance Bill
- Banking Bill
- Trustees Licensing Bill
- Voluntary Dispositions Bill
- Trade Marks Ordinance – Sections 21 and 72
- Companies Ordinance – Suffix Issue
- Trade Marks Ordinance – Section 3
- Financial Services Commission (Amendment) (No.2) Bill
- Certification Services Regulations
- Companies Ordinance – Section 46 and 63 – Annual Returns and AGM's
- Limited Partnership Ordinance – Annual Return
- Companies Ordinance – Fees for Continuation
- Companies Management (Licensing) Ordinance Regulations – Shadow Directions

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 procedures manual and implementation of the KRreview and KRegistry Programme. Assistance was also provided in the development of the Guidelines for Insurance Restricted Deposits and Banking Auditor's Guidelines. A Handbook and Procedures for International Cooperation and Regulatory Assistance was also developed to codify the laws and regulations providing for gateways to disclosures with other bodies and sets out the rules to be followed in carrying out those disclosures.

Enforcement and Compliance

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 the financial services business necessarily entails the application of sanctions and enforcement actions. The FSC 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 44 Notices of Intention to Take Disciplinary Actions during the period 1 Apri1 2013 to 31 March 2014. This resulted in 23 formal enforcement and remedial actions whether revocations, suspensions, legal actions, penalties and issuing directives. That is, 52% of the Notices were enforced against licensees. In the previous period, 33 Notices were sent out which resulted in 25 actual formal enforcement and remedial actions being carried out. That is, 76% of the Notices were carried out while the remaining 24% were withdrawn.

As Chart 7 below shows, sixty five percent (65%) of the actions were in respect of penalties imposed with 13% being in respect of the issuance of directives. All other enforcement actions are depicted in the chart for 2013/2014.

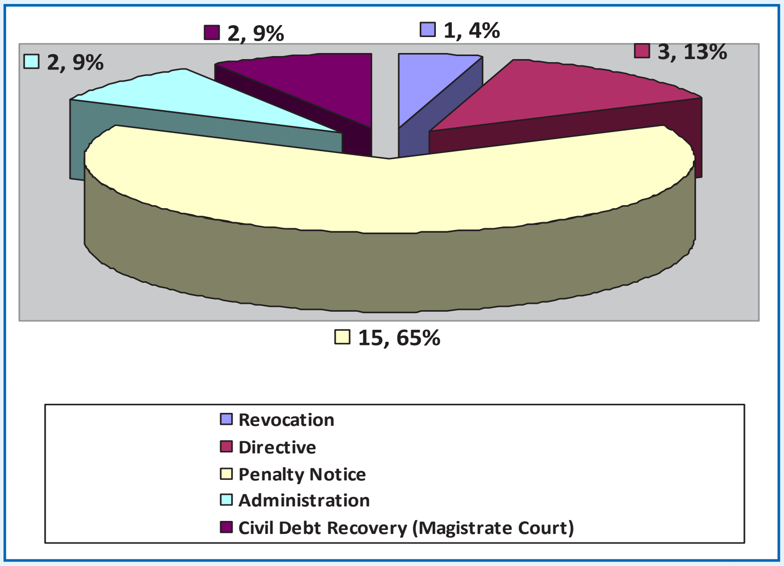


CHART 7 Categories of Enforcement Action

International and Domestic Cooperation and Other Initiatives

The FSC continues to operate within the mandate given by FSCO to cooperate with foreign regulatory authorities and domestic authorities who have regulatory and supervisory oversight functions to detect and prevent financial crimes respectively. The FSC serves as a member of the Money Laundering Reporting Authority (MLRA). This group meet at least once in every quarter for the year. The Authority considers issues of national policy and coordinates reporting obligations to such international bodies such as the CFATF and the Egmont Group.

The Department continues to work with the IOSCO Working Group to determine and overcome deficiencies in the TCI's cooperation regime. After four years of dedicated work by the Legal Counsel, the report of the Working Group has been finalized and the Commission is expected to receive its approval in the upcoming year. This would enable the Commission to move towards making a formal application for IOSCO for membership.

The FSC continues to provide support and assistance to domestic authorities involved in the oversight of financial misconduct. Assistance has been rendered to authorities such as the Integrity Commission, the Special Investigation and Prosecution Team, 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 FSC processed in excess of 218 requests for information from the Special Investigation and Prosecution Team (SIPT), 102 for the Integrity Commission, 51 from the Attorney General's Chambers and 3 requests from the Exchange of Information Unit. There has also been on-going dialogue with the Financial Intelligence Unit on a number of matters. Refer to chart 8 for a summary of this data.

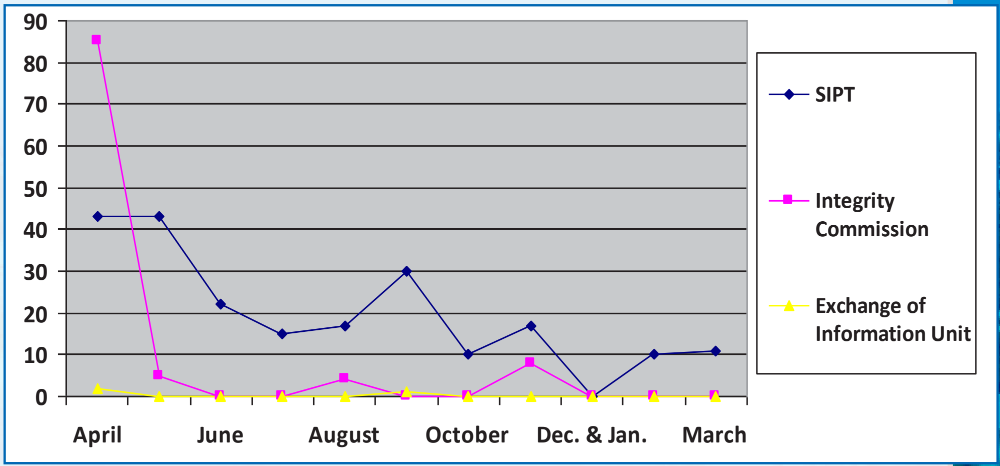


CHART 8, Data on Cooperation

The TCI Financial Services Commission received and responded to 2 requests from Foreign Regulatory Authorities. These were the US Securities and Exchanges Commission (SEC) and the Ontario Securities Commission. In addition, the Commission received 6 other non-regulatory requests.

Legal and Enforcement Division Report *Cont'd.*

Memoranda of Understanding

The Commission continues to negotiate Memoranda of Understanding (MoUs) with other Regulatory Authorities and during the year initiated and/or entered negotiation for MoUs with the:

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
5. Bermuda Monetary Authority
6. Superintendancy of Banks, Panama

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

The Legal Counsel continues 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 assessed under Phase I of the OECD Peer Review Process in 2011. The TCI's Phase 2 Assessment onsite visit occurred in March 2013. The report was finalized and agreed at the Peer Review Group Meeting in September 2013 and presented to the Global Forum on Transparency and Exchange of Information for Tax Purposes Plenary in November 2013. The result was an overall rating of "Largely Compliant" for 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 requested that the UK extend the Multi-Lateral Convention on Mutual Administrative Assistance in Tax Matters to the TCI. The extension came into force on December 1, 2013.

Caribbean Financial Action Task Force (CFATF)

The Legal Counsel 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.

The department continues to update the website with links 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. Notices of these updates are also sent directly to industry practitioners.

US Foreign Account Tax Compliance Act (FATCA)

The Commission through the Legal Counsel 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 TCI continues to work with the US Treasury and anticipates coming to an agreement in substance early in the new financial year.

Designated Non-Financial Businesses and Professions Unit Report

Overview

The key focus on activities within the Unit for the period under review was the need to raise public awareness of the existence of the Unit and familiarisation by persons of their responsibilities as provided for in the Proceeds of Crime Ordinance, the Money Laundering Regulations and other relevant ordinances and regulations. This took the form of public awareness campaigns by way of advertising, seminars and other training media.

Two (2) seminars were held which were open to both financial businesses and DNFBPs. In April 2013 one half day seminar was conducted and in October 2013 an all-day seminar, in conjunction with KPMG, was held. Sector specific training sessions were provided to the Bar Association and the Turks and Caicos Realtors Association.

In addition, written guidance was provided to the public by way of Sector Specific Guidance Notes, which were placed on the Commission's website.

Registration of Entities

Throughout the period 1st April 2013 to 31st March 2014 the Unit concentrated on two (2) key areas:

1. Continued registration of Designated Non-Financial Businesses and Professions (DNFBPs)
2. Preparation for the Commission's new role as Supervisor of Non Profit Organisations (NPO).

After two extensions the registration deadline was set at 31st August 2013. At the deadline date some 73 DNFBPs were registered with the DNFBP Supervisor.

Subsequent to the 31st August 2013 deadline searching out additional DNFBPs for registration continued with the registration of three (3) car dealers in Providenciales, and visits made to four (4) Jewellery stores in Grand Turk.

Non Profit Organisations

The Non-Profit Organisations (NPO) Regulations 2013 came into operation on 1st April 2013. These regulations included, inter alia, that the TCI Financial Services Commission be appointed NPO Supervisor and requiring the Supervisor to maintain a Register of all Non Profit Organisations. Regulation 20 speaks to a transitional provision which protects an NPO from prosecution if it fails to register until expiry of a six months period from the date of operation of the Regulations. The transitional period expired on 30th September 2013. Due to resource issues as well as a focus on the DNFBPs, the Commission agreed not to commence registration of NPOs until December 2013 or January 2014.

On 26th March 2014 the Attorney General advised the Commission that The Governor had taken the decision to extend the period of registration by 3 to 6 months. Up until 31st March 2014 therefore, the closure date of this Report, registration of Non Profit Organisations with the NPO Supervisor had not commenced.

The Commission commenced an outreach programme to inform NPO leaders of the rationale for and responsibilities contained in the regulations. The outreach commenced in 2013 and included the following:

- A presentation to the Rotary Club of Providenciales in September 2013
- Meeting with a number of church ministers in December 2013.
- Presentation made at the Commission's Annual General Meeting in December 2013.
- A series of television and radio appearances during the first quarter of 2014.

Staff Complement

Throughout the period in question (1st April 2013 to 31st March 2014) the Head of DNFBP operated alone. During the period assistance was provided with registration by other clerical staff members. However, the need for additional staff directly employed to the unit became apparent. That was seen as necessary if the Unit was to be able to fully carry outs its mandate. Therefore towards the end of the financial year advertisements were placed for a Compliance Officer and interviews conducted.

Report of the Registries

Companies Registry

As global economic conditions continued to improve the total number of incorporations in 2014 showed slight growth when compared to 2013. Incorporations increased by 13% with the highest growth taking place in quarter two and three (see Chart below for a graphical representation).

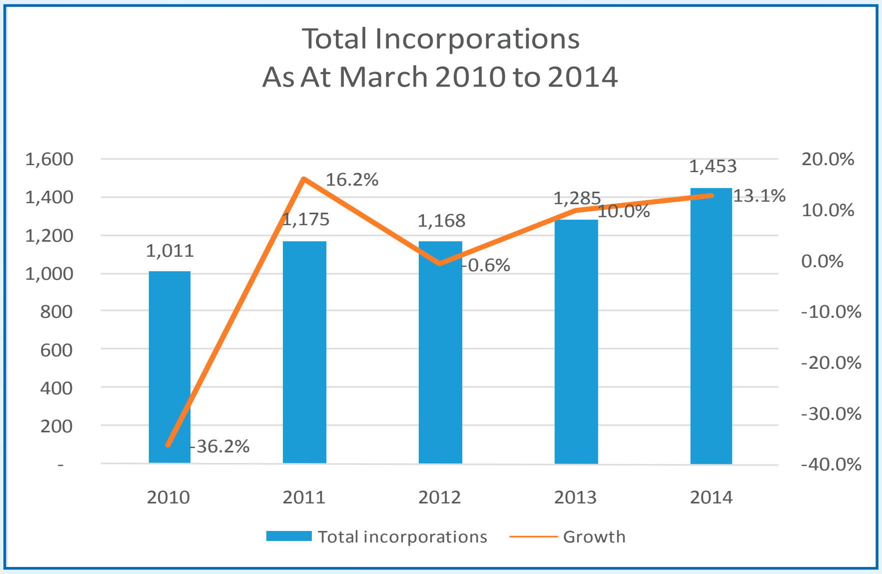


CHART 9 Quarterly Incorporations of Companies

Overall the Registry experienced an 11.0% improvement in the number of companies listed on the Register of Companies at the end of March 2014

Type of Entity	Incorporations			Registrations		
	2013/2014	2012/2013	%Change	2013/2014	2012/2013	%Change
Exempt	1,034	989	5%	9,533	8,503	12%
Ordinary	399	282	41%	4,693	4,296	9%
Foreign	13	10	30%	233	220	6%
Limited Life Companies	0	0		25	25	0%
Limited Partnerships	4	4	0%	61	57	7%
Protected Cell Company	3	0		3	0	
TOTAL	**1,453**	**1,285**	**13%**	**14,548**	**13,101**	**11%**

TABLE 9 Incorporations and Registrations by Year and Type

due to new incorporations, offset by companies being struck off the Register for non-payment of annual fees. At March 31, 2014 the total number of companies registered was 14,548.

Registration of exempt companies continued to account for the bulk of new incorporations and remained the largest category of companies by type on the Register. During the year three (3) Protected Cell Companies were registered, taking advantage of the law providing for this type of company which was on the books for several years.

During the year the Registry staff undertook to destroy all files of companies that were struck over the five year retention period. All files for companies struck prior to January 1, 2009 have been destroyed.

Trademarks & Patents Registry

The total number of trademarks registered during the year increased by 42% at March 31, 2014 to 430, up from 303 over the previous year. Registration of patents remained unchanged year over year, with a total of 21 patents being registered in both this and the prior period.

Business Names

Congruent with the growth in economic activity, registration of Business Names increased significantly from the previous year. Registration to March 31, 2014 totalled 1,107, up from 506 in the previous year.

Other Matters

On January 1, 2014 legislation abolishing the issue and use of bearer shares within the Turks and Caicos Islands came into operation. Any company which had issued bearer shares was required to within six months from January 1, 2014 recall such shares, and substitute them for registered shares. For those companies that do not recall or cancel within the period of six months any bearer shares shall thereafter be null and void and be without effect for all purposes of law. Essentially, effective 1 July 2014 such companies ceased to be bearer share companies.

The Registry continues to look forward to the development of KRegistry on-line functions which will significantly reduce the high volume of manual processes in the Department and provide information to customers in a more efficient and cost effective way. We expect that both Phases 2 and 3, providing for over the counter processes and online filing of returns and other documents, will be fully in swing within the next twelve (12) months.

Staff Complement

The staff complement of the Department remained unchanged at 18. At the end of 2014 the Registry bade farewell to the Registrar Mr. John James who retired after providing over ten (10) years of dedicated service to the Commission.

Information Technology Report

Database Systems

At the beginning of the year, the IT department embarked on a review of all its database systems in an effort to better support the strategic business needs of the Commission. As a result of this review, a number of database systems were developed and upgraded which has significantly reduced the administrative burden and produced more effective reporting. New databases were developed for Special Dispensations in the Insurance Department and Non Profit Organizations in the Compliance Unit. The Trademarks Database and Business Names Database were upgraded.

IT Security and Infrastructure

The increasing number of security breaches worldwide led to the growing concern of information security, hence the IT Department upgraded its security systems replacing necessary hardware and continually monitoring, re-evaluating and updating its policies and procedures to respond to new security threats.

The IT Department has also identified IT Strategic Priorities to include governance, disaster recovery, data back-up, staff's ease of use of the technology and data warehouse. An executive summary will be prepared and presented to Management for adaption.

KRegistry and KReview

We are well on our way in releasing various aspects of KRegistry. The Online Filing (Phase 3) test environment should be available to external users within a few months of the next financial year and preparations have already been made to begin using the Counter Processing (Phase 2) features internally. In relation to KReview, we deployed the Banking Programme in a test environment and conducted training with various Departments. We are therefore projecting that by the end of the next financial year both these programmes would have been in substantially use throughout the Commission and by the industry participants.

Training

During the past year, the Head of IT attended the 16th Cutter Consortium Summit: IT Executive Education in Cambridge, Massachusetts. The Summit comprised of IT professionals of varied experience, varied histories and varied cultural backgrounds. It focused on knowledge sharing and collaboration amongst experts in the IT field, inspiring IT professionals to implement new ways of using business technology.

The Junior Administrator, IT in the Grand Turk Office went on a short course put on locally by the National Insurance Board (NIB) focussing on the Windows Server 2008 environment and two additional applications. Such a course increased the officer's knowledge of the network server environment and various optional applications which can be used to enhance functionality.

Staff Complement

There are a total of five (5) Data Entry Clerks in the IT Department. One (1) clerk is being cross-trained in the department as a Help Desk Clerk and we are looking forward to making this exercise open to others, providing them with enhanced training and development opportunities.

The staff complement of the IT Department increased from seven (7) to twelve (12) during the year under review. This has become necessary as we provide support to various departments and there is an increased manpower needs to perform data entry duties with respect to various databases, including the KRegistry.

Section B

FINANCIAL SERVICES COMMISSION

STATEMENT ON INTERNAL CONTROL
&
CONSOLIDATED FINANCIAL STATEMENTS
FOR YEAR ENDED MARCH 31, 2014

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

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

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

The Directors have assessed the effectiveness of the internal control for the year ended March 31, 2014 and believe that the internal control over the financial reporting is effective based on:

1. Adequate segregation of duties are in place and are working;
2. Monthly financial reports are prepared consistently and presented to the full board;
3. Annual working papers are drawn up and schedules are prepared to support the major balance sheet items and financial statements are drafted for submission to the auditors for review within a reasonable time after the year end;
4. Appropriate account signing authorities and limits have been established and are being complied with;
5. Reconciliations of various accounts take place regularly within each monthly cycle and
6. The auditors have not made any serious findings in regard to a breakdown of the internal control environment during the recent audit carried out or reported that there was any incidence of fraud detected.

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, 2014 and the consolidated statements of comprehensive income, changes in sources of funding and cash flow 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, 2014 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 in accordance with the terms of our engagement letter 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 22, 2014

Financial Services Commission

Consolidated Statement of Financial Position
As at March 31, 2014
(Expressed in United States Dollars)

	2014 $	2013 $
ASSETS		
Current Assets		
Cash and cash equivalents	8,501,564	7,420,074
Other bank deposits	1,005,451	802,824
Trade receivables	138,137	80,406
Prepayments	71,090	67,624
Staff advances (Note 5)	129,302	130,663
	9,845,544	8,501,591
Intangible assets (Note 6)	349,625	322,553
Fixed assets (Note 7)	1,378,710	1,238,151
Total Assets	11,573,879	10,062,295
LIABILITIES AND SOURCES OF FUNDING		
Current Liabilities		
Accounts payable (Note 8)	3,735,737	2,699,413
Accruals	743,135	596,068
Deferred income (Note 9)	46,656	46,656
	4,525,528	3,342,137
Non-current Liabilities		
Deferred Income (Note 9)	181,568	228,224
Total Liabilities	4,707,096	3,570,361
Sources of Funding		
Reserve fund	5,910,777	5,535,928
Retained surplus	956,006	956,006
	6,866,783	6,491,934
Total Liabilities and Sources of Funding	11,573,879	10,062,295

Approved for issuance on behalf of the Board of Directors of the Financial Services Commission on August 22, 2014.

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, 2014
(Expressed in United States Dollars)

	2014 $	2013 $
Income		
Gross revenue	8,298,701	7,409,080
Release of government grants	46,656	51,370
Interest and other income	43,005	44,530
Total Income	8,388,362	7,504,980
Expenditure		
Staff costs (Note 10)	3,077,740	2,736,910
Professional and consultancy fees	218,601	308,130
Rental of buildings	170,972	158,336
Travel and subsistence (Note 11)	129,991	102,635
Depreciation and amortisation	189,851	148,576
Office expense (Note 12)	102,215	118,115
Repairs and maintenance expense (Note 13)	92,674	144,862
Utility charges (Note 14)	94,925	85,671
Communication expense (Note 15)	75,408	67,347
Insurance (Note 16)	45,510	34,274
Subscriptions and contributions (Note 17)	40,566	33,182
Audit and accounting	47,000	45,555
Training (Note 18)	110,273	48,889
Security expense	8,247	12,109
Other operating and administrative expenses (Note 19)	188,251	197,377
Total Expenditure	4,592,224	4,241,968
NET SURPLUS AND TOTAL COMPREHENSIVE INCOME	3,796,138	3,263,012

NET SURPLUS AND TOTAL COMPREHENSIVE INCOME	3,796,138	3,263,012
Transfers to Government	(3,421,289)	(1,952,207)
	374,849	1,310,805

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

Financial Services Commission

Consolidated Statement of Changes in Sources of Funding
For the Year Ended March 31, 2014
(Expressed in United States Dollars)

	Reserve fund $	Retained surplus $	Total $
As at April 1, 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
Comprehensive income:			
Net surplus and total comprehensive income	3,796,138	-	3,796,138
Sources of funding			
Transfers to Government	(3,421,289)	-	(3,421,289)
As at March 31, 2014	5,910,777	956,006	6,866,783

The retained surplus is not defined in the FSC ordinance of October 2007, and is the result of operations under the 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, 2014
(Expressed in United States Dollars)

	2014 $	2013 $
Operating Activities		
Total comprehensive income	3,796,138	3,263,012
Depreciation	189,851	148,576
Gain on disposal of fixed assets	-	(40)
Release of Government grants	(46,656)	(51,370)
Interest income	(26,476)	(29,561)
	3,912,857	3,330,617
Changes in working capital other than cash and cash equivalents		
(Increase)/decrease in trade receivables	(57,731)	41,972
Decrease/(increase) in staff advances	1,361	(51,465)
(Increase)/decrease in prepayments	(3,466)	244,861
Increase in accounts payable	1,036,324	217,564
Increase in accruals	147,067	92,554
Net Cash from Operating Activities	5,036,412	3,876,103
Investing Activities		
Increase in other bank deposits	(202,627)	(1,276)
Proceeds on disposal of fixed assets	-	40
Acquisition of intangible asset	(93,900)	(57,900)
Acquisition of computer equipment	(61,566)	(38,578)
Acquisition of office furniture	(21,977)	(34,161)
Acquisition of office equipment	(17,204)	(5,606)
Acquisition of building and improvements	(162,835)	(666,156)
Interest received	26,476	29,561
Net Cash used in Investing Activities	(533,633)	(774,076)
Financing Activities		
Transfers to Government	(3,421,289)	(1,952,207)
Net Cash used in Financing Activities	(3,421,289)	(1,952,207)
Net Increase in Cash and Cash Equivalents	1,081,490	1,149,820
Cash and Cash Equivalents at Beginning of Year	7,420,074	6,270,254
Cash and Cash Equivalents at End of Year	8,501,564	7,420,074

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, 2013 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 and on a going concern basis.

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 2013 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 consolidated 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)

2.6 Revenue Recognition (continued)

The FSC recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the FSC's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the transaction have been resolved. The FSC bases its estimates on historical results, taking into consideration the type of licensee, the type of transaction and the specifics of each arrangement.

(i) Financial Services Income
Income is recognised when the right to receive payment is established. Fees collected are shown as "Gross revenue" within the consolidated statement of comprehensive income in accordance with The Ordinance.

(ii) Interest Income
Interest income is recognised on a time-proportion basis using the effective interest method.

2.7 Government Grants

Grants are received from Government for development purposes and cover both capital and revenue expenditure. Revenue grants are recognised as income when the related expense has been incurred. Any grant relating to capital items is recognised as income to match the depreciation charged against the asset.

2.8 Financial Assets

The FSC classifies its financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, as they will be realised within 12 months of the consolidated statement of financial position date. The FSC's loans and receivables comprise cash and cash equivalents, other bank deposits, trade receivables and staff advances in the consolidated statement of financial position.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the FSC commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the FSC has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortised cost using the effective interest method.

If the market for a financial asset is not active, the FSC establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

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.

2.10 Fair Value

The amounts included in the financial statements for cash and cash equivalents, other bank deposits, trade receivables, staff advances and accounts payable reflect their appropriate fair values because of the short-term maturity of these instruments.

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.

3. Financial Risk Management (continued)

3.1 Financial risk factors (continued)

(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.

(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 nor impaired can be assessed by reference to external credit rating (if available) or historical information about counterparty default rates.

	2014 $	2013 $
Trade receivables and Staff loans		
Counterparties without external credit ratings		
Group 1	267,439	211,069
	267,439	211,069
Cash and cash equivalents and other bank Deposits		
Counterparties with minimum external rating of Aa3 or higher	9,402,950	8,121,639
Licensed financial institutions without external credit ratings	103,416	100,659
	9,506,366	8,222,298

Group 1 – Counterparties with no history of defaults.

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 financial counterparties approved by the Board of Directors.

3. Financial Risk Management (continued)

3.1 Financial risk factors (continued)

(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.

3.2 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.

4. Key sources of estimation uncertainty (continued)

(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."

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 $39,150 (2013: $26,861) due from key management.

6. Intangible Assets

Current year analysis

	Software development costs $
Cost	
Balance as at April 1, 2013	373,900
Additions	93,900
Balance as at March 31, 2014	467,800
Accumulated Amortisation	
Balance as at April 1, 2013	51,347
Amortisation	66,828
Balance as at March 31, 2014	118,175
Net book value	349,625

Prior year analysis

	Software development costs $
Cost	
Balance as at April 1, 2012	316,000
Additions	57,900
Balance as March 31, 2013	373,900
Amortisation	
At April 1, 2012	-
Amortisation	51,347
At April 1, 2013	51,347
Net book value	322,553

7. Fixed Assets – Current Year Analysis

	Building and improvements $	Office furniture $	Office equipment $	Computer equipment $	Motor vehicles $	Total $
Cost						
Balance as at April 1, 2013	1,081,372	214,614	94,885	269,980	92,554	1,753,405
Acquisitions	162,835	21,977	17,204	61,566	-	263,582
Disposals	-	-	(10,745)	-	-	(10,745)
Balance as at March 31, 2014	1,244,207	236,591	101,344	331,546	92,554	2,006,242
Accumulated Depreciation						
Balance as at April 1, 2013	67,255	104,949	58,997	205,516	78,537	515,254
Depreciation	60,181	15,697	7,164	34,181	5,800	123,023
Disposals	-		(10,745)	-	-	(10,745)
Balance as at March 31, 2014	127,436	120,646	55,416	239,697	84,337	627,532
Net Book Value						
As at March 31, 2014	1,116,771	115,945	45,928	91,849	8,217	1,378,710

7. Fixed Assets – Prior 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

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, $3,735,737 (2013: $2,699,413) was due to the Government in this regard. During the year $2,384,966 (2013: $1,734,652) was transferred to Government.

9. Deferred Income

Projects	Initial Capital Warrant Amounts $	Accumulated Amortisation $	Balance Remaining 2014 $	Balance Remaining 2013 $
No. 2714	24,693	22,183	2,510	4,023
No. 2878	358,746	133,032	225,714	270,857
Total	383,439	155,215	228,224	274,880

Deferred income to be released over the next 12 months will be $46,656 (2013: $46,656). Amounts to be released in over 12 months will be $181,568 (2013: $228,224).

a) 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 $3,964 was released immediately as it related to a direct expense.

b) 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, 2011 the Commission received a Development warrant of $50,000, which they used towards the said project.

During the year ended March 31, 2013 the Commission received a Development warrant of $50,000, which they used towards the said project.

9. Deferred Income (continued)

As at the year-end, work is still being carried out with a view to having the databases and software fully set up and functional. At the year-end these databases are used by management however they are not used to their full potential due to the ongoing work.

10. Staff Costs

This can be analysed as follows:

	2014 $	2013 $
Salaries and wages	2,573,489	2,278,926
National Insurance and National Health Insurance	153,164	140,063
Allowances	54,350	51,893
Gratuities	148,730	131,089
Pension Contribution	44,327	37,621
Directors' Fees and Expenses	103,680	97,318
	3,077,740	2,736,910

11. Travel and Subsistence

This can be analysed as follows:

	2014 $	2013 $
Accommodation and subsistence - local travel	4,686	8,120
Airfares - international travel	29,571	30,487
Accommodation and subsistence - international travel	46,705	36,223
Transport - air and sea fares	26,825	12,220
Transport - other	22,104	14,573
Other cost on international travel	100	1,012
	129,991	102,635

12. Office Expense

This can be analysed as follows:

	2014 $	2013 $
Office supplies	102,215	118,115
	102,215	118,115

13. Repairs and maintenance

This can be analysed as follows:

	2014 $	2013 $
General property maintenance	73,321	93,419
Maintenance - fixed assets/air conditioning	8,233	8,995
Maintenance of hardware	2,449	17,685
Maintenance of property	-	-
Maintenance of software	7,031	21,753
Repairs to office equipment	538	1,413
Service of vehicle	1,102	1,597
	92,674	144,862

14. Utility charges

This can be analysed as follows:

	2014 $	2013 $
Electricity charges	89,038	80,062
Water charges	5,887	5,609
	94,925	85,671

15. Communication expense

This can be analysed as follows:

	2014 $	2013 $
Telephone - local cost	21,669	19,759
Line rental	30,969	25,222
Telephone - international cost	8,172	11,506
Internet charges	6,312	6,312
Postage and courier	8,286	4,548
	75,408	67,347

16. Insurance

This can be analysed as follows:

	2014 $	2013 $
Employee medical	27,573	13,040
Peril insurance	15,682	18,209
Motor vehicle insurance	2,255	3,025
	45,510	34,274

17. Subscriptions and Contributions

This can be analysed as follows:

	2014 $	2013 $
Contributions to regional institutions	11,473	6,500
Subscriptions	10,096	3,497
Contributions to international institutions	18,997	23,185
	40,566	33,182

18. Training

This can be analysed as follows:

	2014 $	2013 $
Local	64,672	31,266
Overseas	7,995	14,123
Academic	37,606	3,500
	110,273	48,889

19. Other Operating and Administrative Expenses

This can be analysed as follows:

	2014 $	2013 $
Local hosting and entertainment	76,322	51,150
Advertising	81,603	107,594
Bank charges	24,822	19,366
Meetings and conferences	-	9,902
Other grants and donations	5,306	4,670
Other operating expenses	199	4,695
	188,252	197,377

20 Employee Numbers

The average number of people, both temporary and permanent, employed by the FSC during the year was 78 (2013: 64).

21. Related Party Transactions

Included with staff costs is $990,570 (2013: $813,925) relating to salary and allowances for directors and key management employees.

22. Commitments and Contingencies

Commitments as at March 31, 2014 consist of Application software as follows:

	Falling due within one year $	Total $
REFLEXIS Systems Inc.	175,000	175,000
	175,000	175,000

As at March 31, 2014 the FSC also are committed to pay rental of the office in Caribbean Place and legal fees amounting to $44,100 (2013: 205,686).

23. 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 financial year, and within fourteen days of the last working day, pay a sum equal to the excess to the Government.

During the year quarterly assessments of amounts due to be transferred to TCIG were performed but payments were not always made in full. As at the year end the excess balance payable to Government was not settled within fourteen days.

Financial Services Commission

Notes to Consolidated Financial Statements
For the Year Ended March 31, 2014

24. Comparison of Results with Budget

	Actual $	Budget $	Variance $
Revenue			
Gross revenue	8,298,701	6,871,590	1,427,111
Release of government grants	46,656	-	46,656
Interest and other income	43,005	18,000	25,005
	8,388,362	6,889,590	1,498,772
Expenditure			
Staff costs	3,077,740	2,920,655	157,085
Professional and consultancy fees	218,601	448,000	(229,399)
Rental of buildings	170,972	363,636	(192,664)
Travel and subsistence	129,991	234,710	(104,719)
Depreciation & Amortization	189,851	120,000	69,851
Office expense	102,215	128,600	(26,385)
Repairs and maintenance expense	92,674	181,566	(88,892)
Utility charges	94,925	118,529	(23,604)
Communication expense	75,408	80,489	(5,081)
Insurance	45,510	121,413	(75,903)
Subscriptions and contributions	40,566	45,560	(4,994)
Audit and accounting	47,000	46,000	1,000
Training	110,273	591,000	(480,727)
Security expense	8,247	12,880	(4,633)
Other operating and administrative expenses	188,251	122,900	65,351
	4,592,224	5,535,938	(943,714)
Net Surplus	3,796,138	1,353,652	2,442,486

Notes:

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