TURKS AND CAICOS ISLANDS

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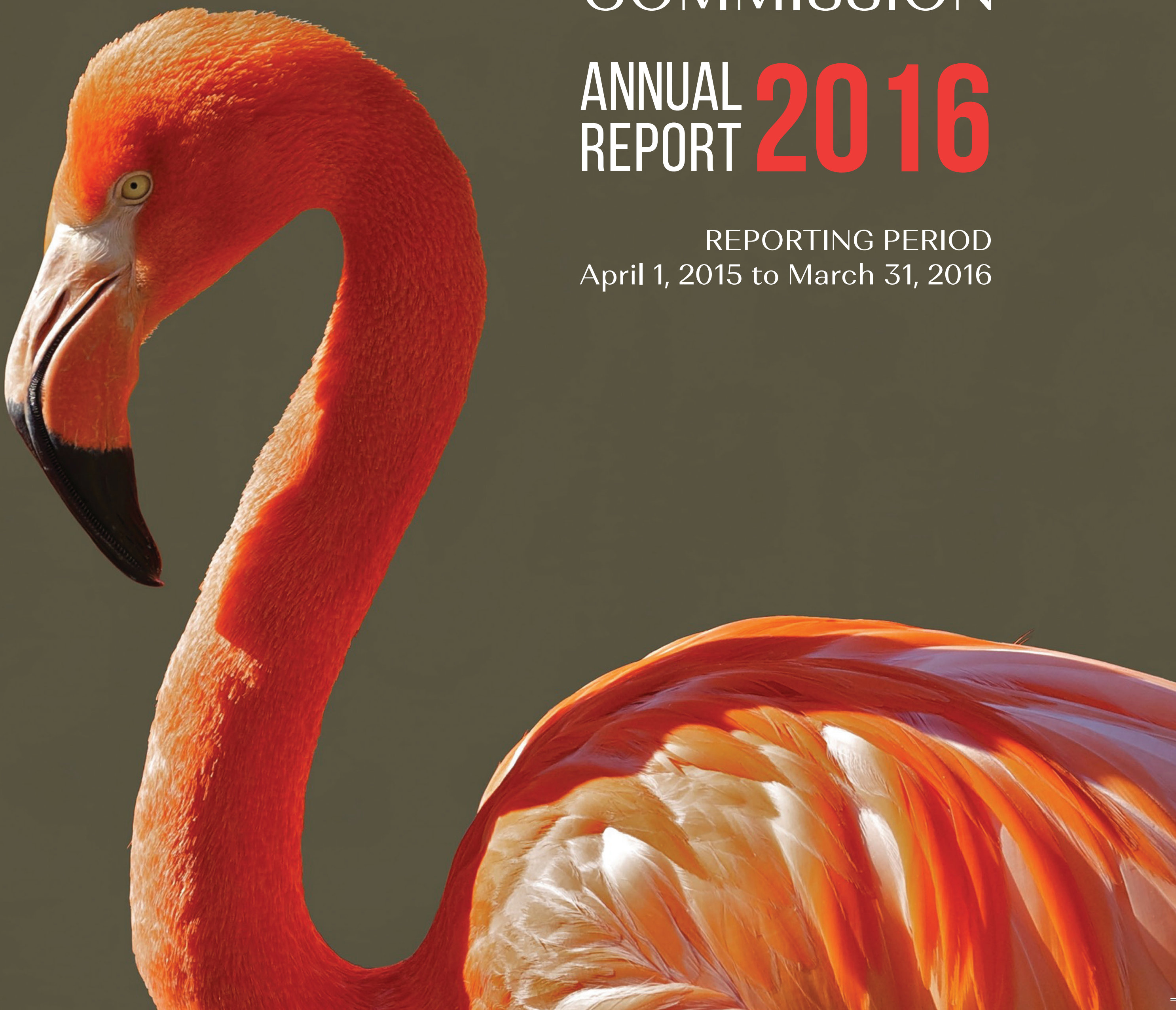
FINANCIAL SERVICES COMMISSION

ANNUAL REPORT 2016

REPORTING PERIOD
April 1, 2015 to March 31, 2016



DIRECTORS OF THE FINANCIAL SERVICES COMMISSION

Sir Errol Allen
CHAIRMAN

Mr. Oswald Simons
DEPUTY CHAIRMAN

Mrs. Athenee Harvey-Basden

Mr. Neville Grant

Mr. Kevin Mann

Mr. Niguel Streete
MANAGING DIRECTOR

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

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

SENIOR MANAGEMENT

Niguel Streete	-	Managing Director
Claudia Coalbrooke	-	Senior Head, Grand Turk Office and Head Company Managers & Investments
Desmond Morrison	-	Senior Head, Providenciales Office and Head Finance & Administration
Kenisha Bacchus	-	Senior Legal Counsel
Marlon Joseph	-	Head Banks, Trusts and Money Transmitters
Paul Coleman	-	Head Compliance
Corine Bolton	-	Manager Domestic Insurance Unit
Cathrice Williams	-	Head Information Technology
Karlene Ferrier	-	Senior Deputy Registrar of Companies

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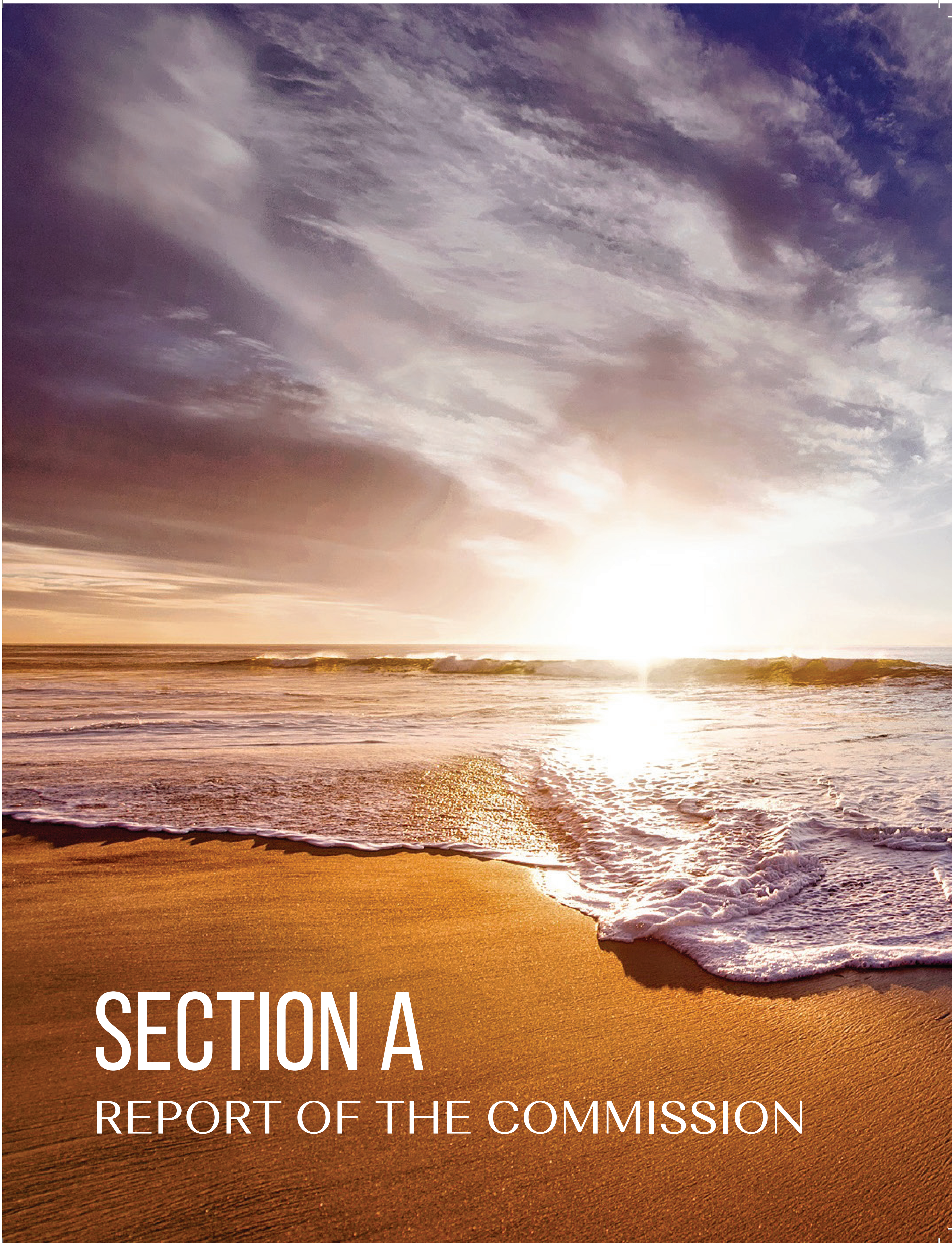


SECTION A

REPORT OF THE COMMISSION

PROFILE OF THE DIRECTORS

Sir Errol Allen

Sir Errol Allen is a former Deputy Governor of the Eastern Caribbean Central Bank. He is an economist and has worked with various Governments and was a special appointee for one year with the International Monetary Fund (IMF). Sir Errol 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.

Mr. Oswald Simons

Mr. Simons is a retired banker whose career spanned over 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.

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.

Mr. 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 British Overseas Territories. He has played a critical role in assisting territories in improving preparations for successful OECD, CFATF and IMF evaluations. Prior to joining the board he worked closely with TCI Agencies, Government and Officials and now works mostly as a consultant.

Mrs. Athenee Harvey-Basden

Mrs. Harvey-Basden 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. Mrs. Harvey-Basden has various degrees in Accounting.

Mr. Niguel Streete

Mr. Streete has extensive training and over 20 years experience in financial sector development, supervision and regulation. He held several executive positions in financial regulation in the region, including Deputy Executive Director of the Grenada Authority for the Regulation of Financial Institutions, Executive Director of the Anguilla Financial Services Commission, and Director of Bank Supervision and Advisor in the Governor's Office at the Eastern Caribbean Central Bank.

1.0 CHAIRMAN'S REPORT

1.1 Overview

The Financial Services Commission is once again pleased to report to the Governor and people of the Turks and Caicos Islands on its work and financial performance during the financial year ended March 31, 2016. This report is submitted in accordance section 22(4) of the Financial Services Commission Ordinance.

The much anticipated assessment of the jurisdiction by the IMF under its Financial Sector Assessment Programme (FSAP) occurred during the reporting period. The Report, which was made public, concluded that while the Commission had made tremendous positive strides over the last ten years, there were still a few areas needing improvement. In addition to the steps being taken to address the specific recommendations in the FSAP report, the Commission has commenced preparation of financial stability reports and stress testing for select financial institutions. The Commission has also committed itself to the development of a full-fledged risk based supervisory framework, which will allow for more efficient and effective deployment of scare resources in dealing with those entities that pose the greatest risk to their clients and/or financial sector stability. This effort will require detailed assessment of individual licensees and will take some time to be fully in place.

1.2 Strengthening the Oversight & Governance Framework

The last Annual Report indicated that an independent review of the Commission, known as the Johnson Review, was carried out at the request of the Governor to review, in part, accountability, transparency and information sharing. Following from that review, the Commission published its first annual business plan (referred to as Plans and Priorities 2016-2017), which established the following strategic objectives:

i) enhancement of the regulatory framework (through more intrusive means of supervision to include market conduct reviews, assessment of macro-prudential statistics and their potential impact on licensees);

ii) pursue a robust legislative framework (to include passage of key legislation to further strengthen the industry);

iii) development of a failure and crisis preparedness and response plan (develop a framework for crisis intervention and resolution for licensed entities); and

iv) Enhancement of organisational arrangements and operational efficiencies (through shared responsibilities and specialisation of functions).

In furtherance of the objective set out at iv) above, the Commission commenced an organisational structure and compensation review with the aid of consultants. The Commission has received the interim report. The findings showed that the organisational structure is too flat, focusing too many responsibilities on the Managing Director. The report contemplates additional support at the senior level by way of a Deputy Managing Director.

Such a structure would be in keeping with what obtains at some of our peer regulators and provides for greater operational efficiency. The report is also to consider the Commission's compensation levels and its ability to compete for, attract, and retain key staff. The report's findings and recommendations will be carefully considered by the Board.

Another critical aspect in relation to objective iv) above is the creation of a Staff Training, Development and Succession Plan. The focus of this Plan is to establish a structured approach to staff development and training, with the primary objective of ensuring that all staff are equipped with the tools and resources necessary to carry out their oversight functions. The Plan will also assist the Commission in identifying ambitious and competent staff to assume greater responsible and challenges within the organisation. As a medium term plan, the outcome will be realised over a number of years, subject to budgetary and human resources constraints.

The Board held its strategic retreat in October 2015 and examined a number of issues that it saw as important in the broader context of its mandate. Some of the issues discussed and agreed on, included: i) an overseas bank licensing framework that can potentially widen the number of such banking entities which would be allowed to operate from the jurisdiction, ii) a legislative programme that would seek to establish a framework with the TCIG on how to advance legislation going forward, and iii) establishment of a staff training and development framework to ensure that the Commission's staff remain adequately prepared for the local and international regulatory challenges.

In tandem with enhancements in the area of regulatory oversight, was a concerted effort to also bolster internal oversight and governance. In that regard, efforts were made to find an additional director to join the Board, one with broad experience in insurance and insurance supervision to complement the experience and knowledge of the other directors. One individual was shortlisted and discussions were in progress with a view to having him appointed, subject to the approval of the Governor.

The Board, through the work of the Audit and Risk Management Committee, has engaged the services of an Internal Auditor to ensure that the appropriate systems, controls and assurance functions are in place and working properly. This office will become fully functional at the start of the new financial year.

Discussions and plans were ongoing on the jurisdiction's move to the adoption of the Second Basle Accord (referred to as Basle II). The requirements are quite technical and require significant preparation on the part of both the regulatory personnel and licensees. In this regard technical support was being sought from the Caribbean Regional Assistance and Technical Training Center (CARTAC) to provide training and support in establishing a road map for this transition.

1.3 Looking Ahead

Towards the end of the review period there was a change in management at the Commission, with the departure of Mr. Kevin Higgins as Managing Director; Mr. Higgins held the reins for the past seven years. We use this medium to acknowledge the significant contributions he made towards the development of the jurisdiction over those years. In the same breadth, we wish to welcome our new Managing Director, Mr Niguel Streete, and pledge our support to him for the tasks which lay ahead. We note that part of his mandate will be to oversee the staff training and development programme, which we alluded to above.

As indicated before, staff development will be a major plank of our activities going forward and as such significant resources will be dedicated to this in the upcoming year. We expect as a result to see a more robust and self-confident cadre of professionals at the forefront of our organisation.

Despite the challenges over the past year we were able to meet many of our targets and in some cases surpass them. I therefore take this opportunity to thank the Management and staff for their contribution to these efforts in the past year and to acknowledge the contribution of the Governor for his sound guidance during the period under review.

Sincerely

Sir Errol Allen
Chairman

2.0 MANAGING DIRECTOR'S REPORT

2.1 Overview

The past twelve months have been an eventful and exciting period for the Commission, marked by numerous successes and steady progress towards most, if not all, of its supervisory and operational targets.

The 2015 financial year commenced with an intensive three-week review of the Commission's regulatory framework by the International Monetary Fund (IMF), under the aegis of the Financial Sector Assessment Programme (FSAP). Notwithstanding the still redounding impact of the 2007-08 global financial crisis on the banking and insurance sectors in the region, the mission highlighted the considerable progress made by the Commission since the jurisdiction's last review in 2003. This was reflected in improvements in the Commission's governance arrangements, regulatory framework, supervisory powers and financial resources.

The assessment did highlight areas of the Commission's operations and regulatory programme for improvement, key among these, the need to modernise legislation as well as for continued work to expand and intensify the frequency and scope of on-site examinations of banks and insurers. Against this backdrop, the Commission developed a targeted two-year action plan, Plans & Priorities 2016-17, to incorporate the IMF's and other recommendations and to signal the actions it will take through to 2017 and beyond to further strengthen financial sector supervision and operational efficiencies.

2.2 Policy Initiatives

During the year, the Commission sought to strengthen and enhance the regulatory frameworks governing bank capital and liquidity, through the introduction of additional requirements in respect of large credit exposures and liquid assets. Owing to the banking sector's size relative to the wider financial sector and the critical intermediation function it serves, the strength of that sector is critical to maintaining overall financial sector stability in the Islands. These measures were reinforced with the introduction of half yearly stress testing of banks' capital and liquidity. Stress testing is one commonly used analytical tool to predict the potential effects of simulated shocks at varying severities on the financial stability of an institution or system. Work continues to further refine the methodologies and expand the range of data available for these kinds of assessments.

Concurrent with these efforts, the Commission continued to work with banks to reinforce the resilience of the banking sector through implementation of a framework for entities which have been identified as systemically important in the domestic context. Since the initial exercise conducted in April 2014, which identified two branch banks to establish subsidiaries in the jurisdiction, the Commission continued to work with these entities to develop a suite of requirements, relative to their risk profile, to address their structure and other appropriate safeguards over the short to medium term.

Although formal responsibility for financial stability has not been assigned and a cohesive framework has not yet been developed, the Commission, in its capacity as supervisor and regulator of financial services, has begun a programme of monitoring the risks and threats to financial stability in the Islands. To this effect, the first Financial Stability Report (FSR) was published in December 2015, to present findings based on data up to June of that year. The report summarises the main risks to financial stability in the Islands, and presents an overview of financial system performance during the reporting period, the trend of which is also used to chart the Commission's stability outlook. As at June 2015, the financial system reflected marked improvement and signs of rebounding, following the domestic financial distress experienced in the wake of the 2007-08 financial crisis. Based on the modest but steady growth observed, the near- to medium term outlook for the system was assessed as positive.

Publication of the FSR represents only a first step in the development of a comprehensive financial stability infrastructure in the Islands. The Commission will continue to work with local authorities, licensees and other stakeholders in coming years to advance other necessary aspects of the programme, including implementing a suitable legislative architecture to govern this area, expanding the range of inputs and the quality of tools and approaches, and developing formal resolution and crisis management protocols.

2.3 Collaboration

The Commission remains unwavering in its commitment to collaborating with other regulators, both in the region and around the world. In November 2015, the Commission was admitted to the Group of International Financial Centre Supervisors (GIFCS), which was established to promote effective implementation of international regulatory standards. A few months later, in March 2016, the Commission also attained membership to the International Organization of Securities Commissions (IOSCO), a multi-jurisdictional body globally recognised as the standard setter for the securities sector. Our attainment of membership in both these bodies is indeed a milestone, demonstrative of the considerable strides the Commission has made in strengthening supervision and promoting adherence to internationally recognised standards. It is also an independent and objective validation of the quality of the Commission's regulatory framework. Perhaps even more importantly, the jurisdiction stands to reap significant benefit from the opportunities for input in international discourse on supervision and standard setting, and greater access to technical assistance which these memberships will afford.

2.4 Legislative Agenda

2015 ushered in a number of legislative changes. The Commission, together with industry and other stakeholders, worked to pass new Trust and Domestic Insurance legislation through the House of Assembly. Once passed, the three new Bills – the Domestic Insurance Bill, the Trust Bill and the Trust Companies (Licensing and Supervision) Bill – which are expected to come into effect in the second half of the 2016 calendar year, will reform the regulatory framework and further strengthen prudential safeguards in each of these sectors.

Work is ongoing to amend and revamp several other pieces of legislation which the Commission is responsible for administering, including the Banking Ordinance. It is expected that a new Banking Bill with accompanying Regulations and Code will be ready for consultation with the industry and subsequent tabling in the House in short order.

2.5 Management

The Commission experienced a change in management during the review period. The Commission's long serving Managing Director, Mr. Kevin Higgins, demitted office in December 2015. I succeeded Mr Higgins in February 2016.

2.6 Looking Ahead

We anticipate that the 2016 financial year will prove just as exciting, as we continue to work through the ambitious slate of reforms and initiatives targeted. In addition to the work of implementing risk based supervision, Basel II and finalizing the K-Registry project, the Commission, alongside other members of the Anti-Money Laundering Committee (AMLC), will be called upon to play a significant contributory role as the jurisdiction prepares for the upcoming 4th Round Mutual Evaluation by the Caribbean Financial Action Task Force (CFATF). The Commission further expects that its remit will continue to expand, as we await, among other things, passage of legislation providing for formal supervision of credit unions. Though we anticipate the upcoming year to be another challenging one, our principal focus will remain the delivery of high quality supervision to ensure the ongoing health of the Islands' financial system.

We look forward to working with all stakeholders – government, licensees, users of financial services and colleague regulators – in a spirit of partnership, collaboration, consultation and respect. The Commission recognises the shared interest of all stakeholders in the success of the jurisdiction and is committed to providing a regulatory framework that facilitates financial sector growth and stability.

In closing, I extend hearty thanks to my predecessor, Mr. Kevin Higgins, for his stellar contribution to the Commission. We owe him a debt of gratitude for the strong foundation he contributed to building for the Commission. I would also like to profoundly thank the Governor, Chairman and other members of the Board for their support and confidence. My thanks to the regulated sectors for their support, collaboration and partnership during the review period. Finally, I am deeply grateful to the staff of the Commission for their hard work and support thus far, and look forward to their continued commitment in the future.

Sincerely

Niguel Streete
Managing Director

3.0 BANK AND TRUST DEPARTMENT REPORT

3.1 Overview

During the financial year ended March 2016, the Bank and Trust Department (B&T) remained focused on achieving its objectives of improving it capacity and the quality of its supervision of banks, trust companies and money services businesses (MSB). In this regard, the Department conducted onsite examinations and held regulatory meetings; issued new policies and guidelines; proposed new legislation and amendment to existing legislation; and commenced work on implementing recommendations from the recent International Monetary Fund (IMF) Financial Sector Assessment Program. The external validation of the success of this work is reflected in the Commission's acceptance as a full member of the prestigious Group of International Financial Centre Supervisors (GIFCS) in November 2015.

During the review period, the number of financial institutions supervised by the B&T Department declined from 21 to 19. This movement reflected the surrender of three licences (one trust company and two MSBs) and the granting of one MSB licence. During the review year, the Department was responsible for the regulation/supervision of seven banks, nine trust companies and three MSBs. Of note, an application was received for a new trust licence in the second half of 2015, which remained under consideration at of the reporting period.

3.2 Action Plan 2012-2016

The B&T Department continued work on items from the Commission's 2012 – 2016 Action Plan. The department issued revised guidance on the treatment of large credit exposures by licensed banks. The guideline was accompanied by new reporting returns and instructions. The Department also continued monitoring banks' progress in implementing the updated guidance on liquidity and issued accompanying reporting return and guidance notes; it is anticipated that the consultation with the industry will result in further refinements to the Commission's framework for monitoring liquidity. Guidance for the Registration of Money Transmitters Sub-Agents was also issued.

Work commenced during the year on the following guidelines, which are expected to be completed in the 2016 financial year: Banking Licensing; Credit Classification and Provisioning; Corporate Governance; and Market Risk for Banks.

Emphasis was placed on the development of stress testing methodologies for credit and liquidity risks. Stress testing was conducted for internal monitoring purposes as the Commission continued to implement this framework. Preparatory work also commenced on the implementation of a risk based supervisory regime and the Basel II framework.

During the year, the Commission in collaboration with the Ministry of Finance and the Attorney General's Chambers commenced work on legislation and a supervisory framework for the licensing and regulation of credit unions in the TCI. This collaborative effort resulted in the development of a draft Credit Union Bill. The supervision of credit unions is expected to commence in the 2016 financial year with the passage of the Credit Union Bill. It is anticipated that credit union regulation will significantly expand the responsibilities of the Department.

3.3 Regulatory Activities During the Year

During the year, onsite examinations were conducted at two banks, one trust company and all three money services businesses. As well, regulatory meetings were held with the management of all of the Department's licensees to discuss matters of corporate governance, strategic direction, financial performance and other regulatory concerns. Table 1 below outlines these activities.

Activity	2015/2016	2014/2015
Licenses Issued	1	-
Inspections Done	6	1
Revocation/ Surrender of licenses	3	-
Other Regulatory Action	5	6
Number of Meetings & Discussions Held	14	10

Table 1: Regulatory Activities/Banking Division

3.4 Enforcement Actions

Enforcement action was initiated against three banks during the year, all of which were concluded during the reporting period. No action was taken against trust companies or MSBs in the period under review.

3.5 Legislative Agenda

As part of the review process, the draft Banking Bill was sent to the International Monetary Fund's legal department for its assessment against the Core Principles for Effective Banking Supervision, often referred to as the Basel Core Principles (BCPs). The comments are under review and will be incorporated in the finalisation of the Banking Bill and in the drafting of the Banking Regulations and Code.

Two new pieces of legislation to govern trust business – the Trust Ordinance and the Trust Company (Licensing and Supervision) Ordinance – were passed in the House of Assembly in the first quarter of 2016[1]. The consultation process for the supporting Regulations and Code has now concluded and both documents are being finalized, before being presented to the House of Assembly for passage.

3.6 Banking Sector

3.6.1 Capital Adequacy

The banking system's risk weighted capital adequacy ratio[2] (CAR) declined by five percentage points to 24.0 percent as at March 31, 2016, relative to the prior year. This decline was primarily influenced by a 27.0 percent reduction in the sector's qualifying capital, caused largely by a reduction of capital at one bank which was approved by the regulator. Nonetheless, all banks remained adequately capitalised with ratios above the 11.0 percent statutory minimum requirement.

3.6.2 Asset Quality

Total assets in the banking system declined by 8.9 percent to $1.7B during the financial year under review. The decline was reflected in a 91.7 percent reduction in 'other assets' held by one bank. Loans and advances, the largest asset class, declined by 4.9 percent to $903M ($947M in March 2015) due mainly to loan repayments, write-offs and a reduction in new loan origination. See Chart 1 below for key asset trends.

[1] These Ordinances were not yet operational.

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

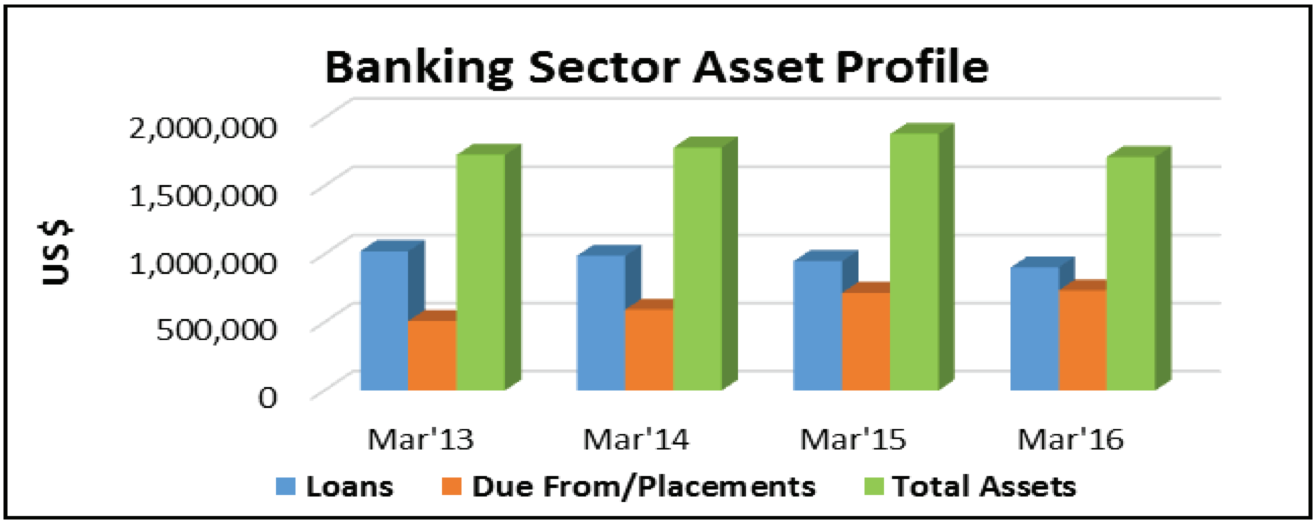


Chart 1: Banking Sector Asset Profile

Encouragingly, non-performing loans (NPLs) continued the downward trajectory seen over the last four years, amounting to $124.8M as at March 2016 ($169.8M in March 2015), or 13.8 percent of total loans (18.4 percent in March 2015). This decline was the result of a greater push by banks to address their stock of existing NPLs, improved loan underwriting standards, and improvement in economic conditions. Consistent with the contraction in NPLs, Loan Loss Provisions declined to $58.5M ($76.7M in March 2015), which provided cover for 46.8 percent of NPLs, relative to 45.1 percent at March 2015. NPLs were primarily concentrated in the construction and land development sector, (46 percent) and personal loans sector (37 percent). Chart 2 below displays the trend of NPLs and provisions over the period 2012/2013 to 2015/2016.

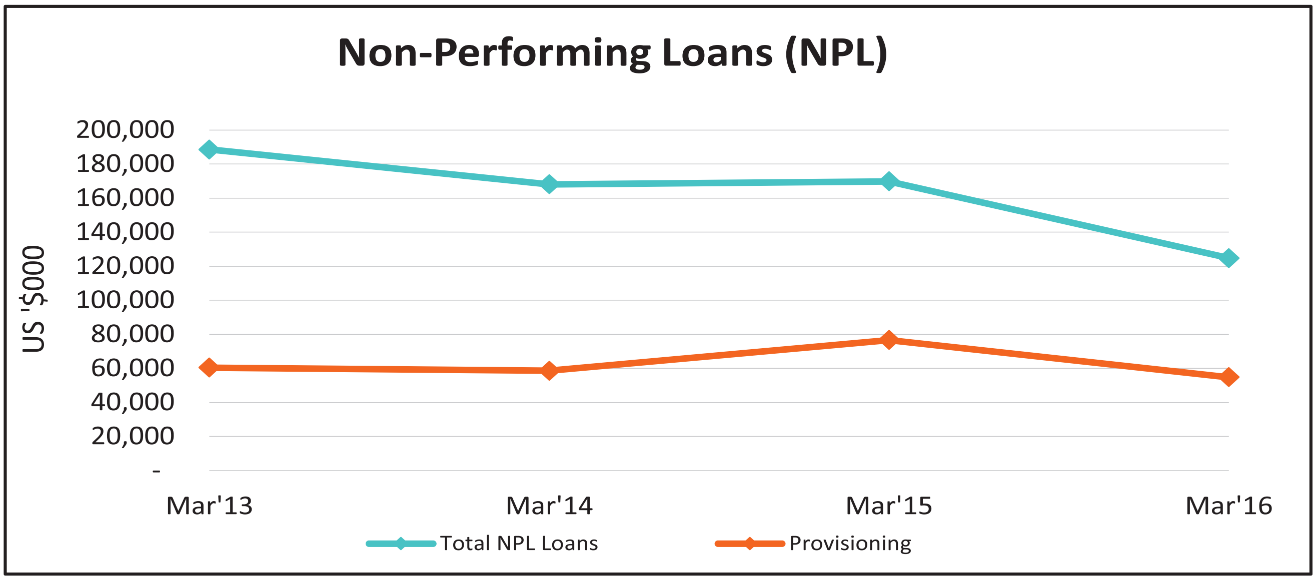


Chart 2: Non-Performing Loans

3.6.3 Earnings

Despite the reduction in overall assets, bank profits expanded by 125.0 percent to $34.2M for the year ended March 31, 2016, compared to $15.2M recorded in the previous year. All the banks reported higher profit in all four quarters. The sector recorded higher return on average assets and equity of 1.9 percent and 12.3 percent respectively, relative to 0.8 percent and 4.6 percent in 2015 financial year. This was indicative of more efficient management of assets and equity.

3.6.4 Liquidity

The stock of liquid assets in the banking system increased by 8.0 percent to $752.8M, even as a combination of deposits and balances due to financial institutions declined by 1.2 percent to $1.4B. As such, the liquid asset ratio (liquid assets as a percentage of deposits and balances due to financial institutions) increased by 4.6 percentage points over March 2015 levels, to 54.1 percent. Importantly, all banks exceeded the statutory minimum 12.0 percent liquid asset ratio. Additionally, liquid assets provided coverage for 70.0 percent of customer deposits (60.0 percent in March 2015) and represented 44.0 percent of total assets (37.0 percent in March 2015). The continued reduction in lending in the banking system along with the minimal increase in investments resulted in the banks having more funds held at other financial institutions, which are generally counted as liquid assets. The improvement in the ratios is indicative of a general improvement in liquidity conditions in the banking sector during the 2015/16 financial year.

3.7 Trust Sector

As at December 31, 2015[3], on-balance sheet assets of the trust sector amounted to $14M, while off-balance sheet items, i.e. assets under management, totalled $811.1M. The main components of the sector's assets were liquid assets and loans and advances (see Chart 3). Four companies controlled 77.0 percent of the sector's assets, while the remaining 23 percent was widely dispersed among the remaining companies. The sector's fiduciary activities predominantly involved the administration of trusts, management of companies and management of funds.

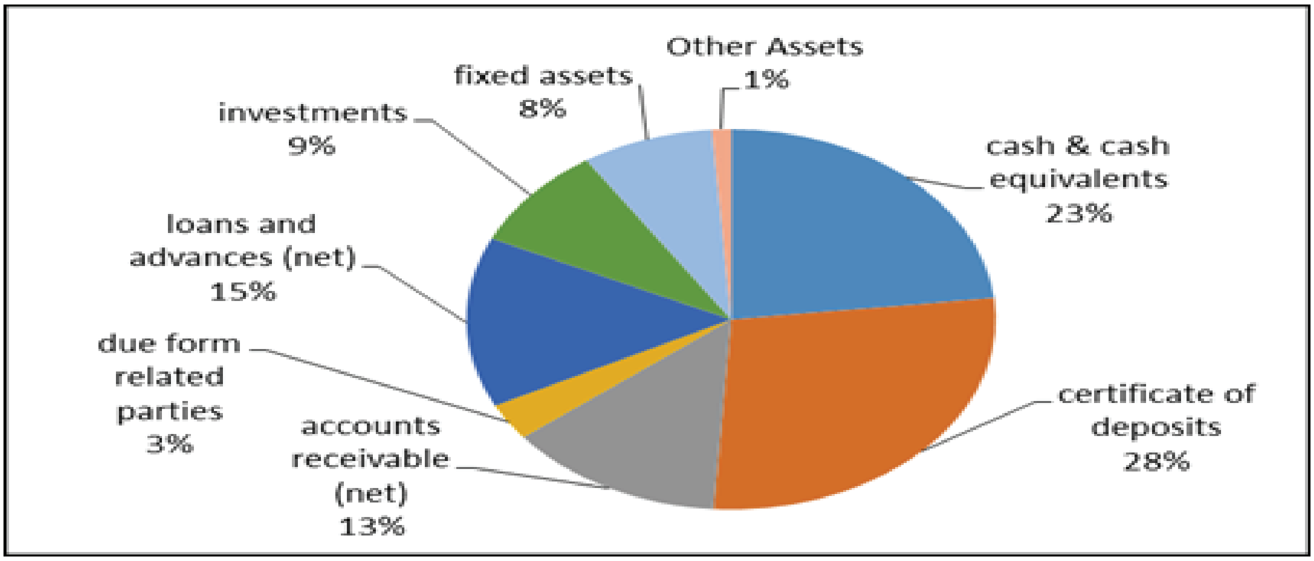


Chart 3: Distribution of Consolidated Assets in the Trust Sector

[3] Beginning in 2016, trust companies are required to submit financial returns bi-annually, in June and December.

Since 2010, there has been a notable decline in the demand for trust services in the TCI which has constrained that sector's profitability. Total profits decreased to $283K during the review period, compared to $1.28M recorded in the corresponding period of 2014. It is anticipated that passage of updated legislation, coupled with robust third party marketing and promotional activities, will revive the flagging market and serve to attract new investors.

3.8 Money Services Business Sector

As at 31 March 2016, there were three Money Services Businesses (MSBs) operating in the TCI with a combined asset base of $2.5M; a contraction of 13.0 percent when compared to the corresponding period of the previous year. Despite this decline, the sector's profitability increased significantly during the review period by 99.5 percent to $762,000 when compared with to $382,000 reported in the previous period. Two MSBs were the main contributors to this increase in profitability. The improved profitability was reflected in higher return on average assets and equity ratios of 29.0 percent and 73.0 percent respectively, relative to 14.0 percent and 47.0 percent in the 2015 financial year.

Funds transmitted through MSBs during the review period totalled $94.6M, of which 93.1 percent ($88.1M) were outflows. The outflows grew by 5.0 percent over the financial year ended March 31, 2016, while the inflows declined by 11.0 percent. As shown in Charts 4 and 5 below, Haiti and the Dominican Republic together accounted for 56.0 percent ($49.5M) of the total outflows and the United States of America accounted for the largest share of the remittance inflows at 45%.

3.9 Staff Complement

The Department was staffed by seven officers with varying degrees of technical, educational and regulatory training. The minimum qualification was at the bachelor's degree level.

3.10 Training Activity

During the review period, staff were exposed to training in credit risk management, trust administration, stress testing and liquidity risk management. Staff also had 24-hour online access to training material from the FSI Connect learning portal which covered a wide array of courses in banking supervision and financial risk management.

Chart 4: Remittance Outflow

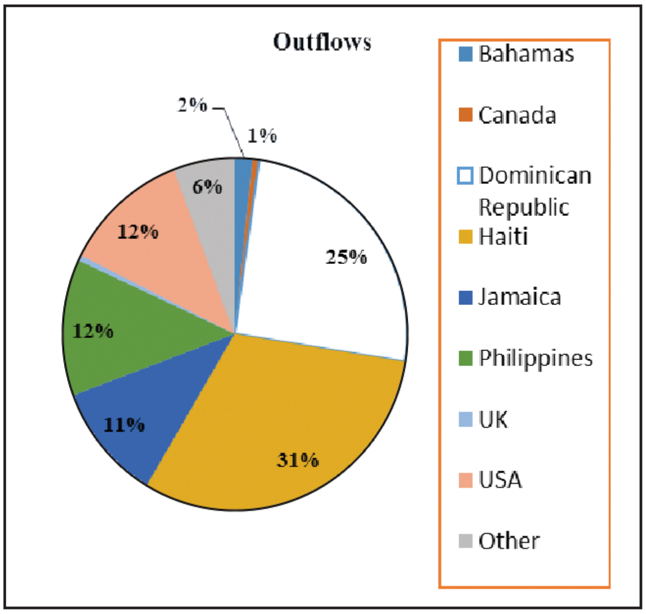
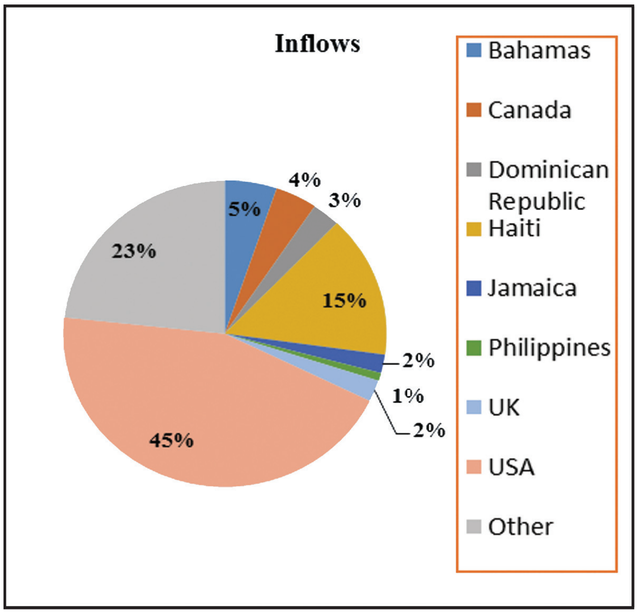


Chart 5: Remittance Inflow



4.0 INSURANCE DEPARTMENT REPORT

4.1 Overview

The review year was an active one for the insurance sector in the Turks and Caicos Islands; Producer Owned Reinsurance Companies (PORCs) continued to dominate the sector. As at 31 March 2016, there were 7,002 active international insurance licensees as compared to 45 active domestic licensees (including insurers and intermediaries). Table 2 provides details on insurance licensees over the last five years:

Licensees	2016	2015	2014	2013	2012
Reinsurers (PORCs)					
Credit Life	6,391	5,704	3,962	3,241	2,611
Non- Credit Life	538	448	2,992	2,920	2,883
Captives	66	65	80	88	97
Insurance Managers	7	7	6	6	7
Total International Licensee	**7,002**	**6,224**	**7,040**	**6,255**	**5,598**
Domestic Insurers	19	18	21	21	23
Insurance Brokers	13	13	13	9	10
Insurance Agents	5	5	11	14	12
Insurance Sub-Agents	8	4	3	3	3
Total Domestic Insurance licensees	**45**	**40**	**48**	**47**	**48**

Table 2: Total Active insurance licences in effect at 31st March, respectively

As the table above reveals, in the domestic sector there was an overall increase in the number of licensees on a comparative basis with the prior year. New licences were issued to one general insurance company, one insurance agent and four sub-agents. However, a life insurer voluntarily surrendered the licence for its insurance agent, thus resulting in no movement in the number of insurance agents as at the end of the review period.

In the international sector, 840 international insurers' licences were issued during the year, comprising 838 PORCs and two captive licences. The number of new PORC licences issued during this period represents a 3.0 percent reduction when compared to the prior period when 869 PORCs were licensed. During the review period 61 PORC licences were surrendered, along with one captive licence. Table 3 below highlights the movement of licensees in the International Insurance Sector.

Particulars	Total	PORCs (Credit Life)	PORCs (Non-Credit Life)	Captives
New licenses issued	840	729	109	2
Conversion of licenses	-	(2)	2	-
Revocations	-	-	-	-
Surrenders	62	40	21	1
Movement during the year	778	687	90	1

Table 3: International Insurance Sector Licences Movement Year to March 31, 2016

4.2 Action Plan 2012/2016

The department is happy to report that it has achieved all the goals set out in the 2012-2016 Action Plan for the Domestic Insurance Unit with the exception of the issuing of a guideline detailing the minimum requirements for an acceptable reinsurance programme. However, this guideline is scheduled to be circulated to the industry for consultation during the third quarter of 2016.

In respect of the International Unit, not all the objectives set out were accomplished. During the latter part of the review year, work commenced on revised Guidelines and Procedures for Licensing PORCs and Captive Insurers. Consultations will continue in the 2016 financial year with plans for implementation in that year. The purpose of the Guidelines is to allow for enhanced data gathering relating to applications for licences. Additionally, the Insurance Department will commence other elements of the 2012/2016 action plan relating to the International Unit, including:

- Preparing a Supervisory Manual for the International Insurance Unit to clearly document the current regulatory practices for captive insurers and PORCS. In particular there is a need for greater clarity in the definitions for each category of insurer and reinsurer.
- Introducing regulatory reporting for Insurance Managers; the provision of current information on the international insurers for which they are responsible.
- Drafting the new International Insurance Ordinance in accordance with international best practices for international insurance.

Arising out of the IMF FSAP, an action plan was developed to address the areas which the Mission recommended as requiring attention in order to further enhance the regulatory regime. Work commenced on addressing some of those issues and for the next period the Department will continue to focus its attention on achieving all the goals set out in this new action plan.

4.3 Supervisory Framework

The Department made significant progress in the regulation of the insurance sector. This included development of an enhanced framework for the supervision of domestic insurers, finalisation of an internal procedures manual, and establishment of enhanced procedures for insurance intermediaries (brokers and agents) and for the monitoring of compliance with applicable legislation, regulations, guidelines and regulatory directives.

Additionally, the Unit continued to participate in self-assessment and peer-reviews developed by the International Association of Insurance Supervisors ("IAIS"), which assessed current levels of observance of Insurance Core Principles and supervisory practices. This process was twofold, in that:

i) The Commission assessed its policies, procedures and legislative requirements against the internationally accepted Insurance Core Principles; and

ii) The IAIS assessed the self-assessments completed by its members and prepared a report of the overall level of observance of the relevant Insurance Core Principles. Further, the report also contained a summary of the level of observance by insurance regulators that are deemed to be our peers, that is, Offshore and Caribbean IAIS members.

4.4 Regulatory Activities during the Period

4.4.1 Regulatory Framework

During year under review, domestic insurers commenced submitting internal and external audit reports, and management letters to the Department. The information submitted was reviewed and included in the Annual Risk Assessment Report which was prepared for each licensee. The Annual Risk Assessment was based on the CARAMELS[4] Risk Based Assessment methodology. The CARAMELS methodology is an analytical framework that is used by Insurance Regulators to assess the risk profile of an insurer. Where deficiencies were identified during the review, a compliance letter was sent to the insurer describing the deficiencies, making appropriate recommendations and providing a timeline for them to be rectified. Additionally, the overall risk rating of a company was part of the determinants for an onsite examination.

The Department commenced the preparation of quarterly risk assessment reports for insurers, with the first such quarterly assessment completed during the January to March quarter. Going forward, each quarterly risk assessments will help with the timely updating of the risk profile of the insurer and will allow for more effective monitoring of changes in the insurers' financial condition and compliance with regulatory requirements.

The Department conducted onsite examinations of four domestic insurers during the period under review; three full scope and one targeted onsite examination. Table 4 below provides details on this and other areas of activity during the period.

Activity	2015/2016	2014/2015
Licenses Issued	6	2
Inspections Done	4	3
Revocation/ Surrender of licenses	1	10
Other Regulatory Actions – Warnings, Cease & Desist Orders	58	6
Number of Meetings & Discussions Held	13	-

Table 4: Regulatory Activities Domestic Insurance Unit

Brokers were instructed by means of a circular dated November 2014 to submit audited financial statements for the year ending 31st December 2014 and thereafter. The Department carried out a comprehensive review of the statements submitted by the brokers during the period.

[4] 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

The regulatory framework was further enhanced by continued dialogue with other regional insurance regulators. The Commission participated in four Colleges of Regulators meetings which were held to discuss cross border insurers with a presence in the TCI.

4.4.2 Guidelines, Circulars and Insurance Supervisory Returns

After consultation with the industry, four guidelines were issued during the review period. These guidelines are expected to improve the regulatory regime in the TCI. These were:

i) Actuarial Requirements Guideline for Domestic Insurers – this sets out the criteria used by the Commission in determining whether to recognise or approve an actuary and the minimum elements that should be included in the Actuarial Valuation Report.

ii) Guidelines for Head Office Oversight and Internal Controls for Insurers – this require Head Offices to develop supervisory systems which will oversee the insurer's TCI operation.

iii) Annual Compliance Report – this outlines the requirement for Compliance Officers of domestic insurance licensees to submit to the Commission relevant evidence of Compliance Reports presented to the Board of Directors, with respect to the licensee's compliance function.

iv) Licensing Guidelines for Domestic Insurance – this outlines the requirements for obtaining a licence to operate as a domestic insurer in the TCI.

4.4.3 Draft Domestic Insurance Bill

The Domestic Insurance Bill was passed in the House of Assembly during March 2016. The new Ordinance will introduce a number of provisions which are expected to modernize the legislative and regulatory framework for domestic insurance, and align these more closely with international standards. The 2016 Domestic Insurance Ordinance is also intended to strengthen existing protection, and provide additional ones, for policyholders.

A few noteworthy enhancements in the new Ordinance are:

i) A new requirement for the creation of a Statutory Fund to facilitate transfer of amounts equivalent to an insurer's net liabilities in the TCI, into suitable trust arrangements earmarked solely for the protection of policyholders in the TCI in the event of insolvencies or liquidations.

ii) Formalisation of the current requirement for the holding of restricted deposits, which purpose is to ensure the availability of funds in the jurisdiction to offset costs in the event of liquidation.

iii) Expanded provisions to improve and strengthen reporting requirements and prudential standards in respect of, inter alia, capital adequacy and actuarial valuation of insurance liabilities.

The accompanying regulations are expected to be issued during the 2016 financial year. The Ordinance is scheduled to come into effect to coincide with the issuance of the regulations. The Department will work assiduously to complete any necessary changes to the draft regulations with the view of circulating same to the industry for consultation and final submission to Cabinet during the fourth quarter of the next financial year.

4.5 Financial and Statistical Review of the Domestic Insurance Sector

During the review period, gross premium written by the sector increased by 19.4% to $38.9M. However, premiums ceded to reinsurers also increased by 42.1% to $28.3M, resulting in 16.4% decrease in net premium income. The main class of business underwritten in the TCI was property which was heavily reinsured, accounting for the high levels of premiums ceded to reinsurers. During the period under review gross premiums written for property risk represented 68.7% of the sector's gross premium written.

Non-life insurance business has always contributed the lion's share of the domestic insurance sector's net income, generating net income of $2.9M compared to losses of $0.08M generated by the life sector.

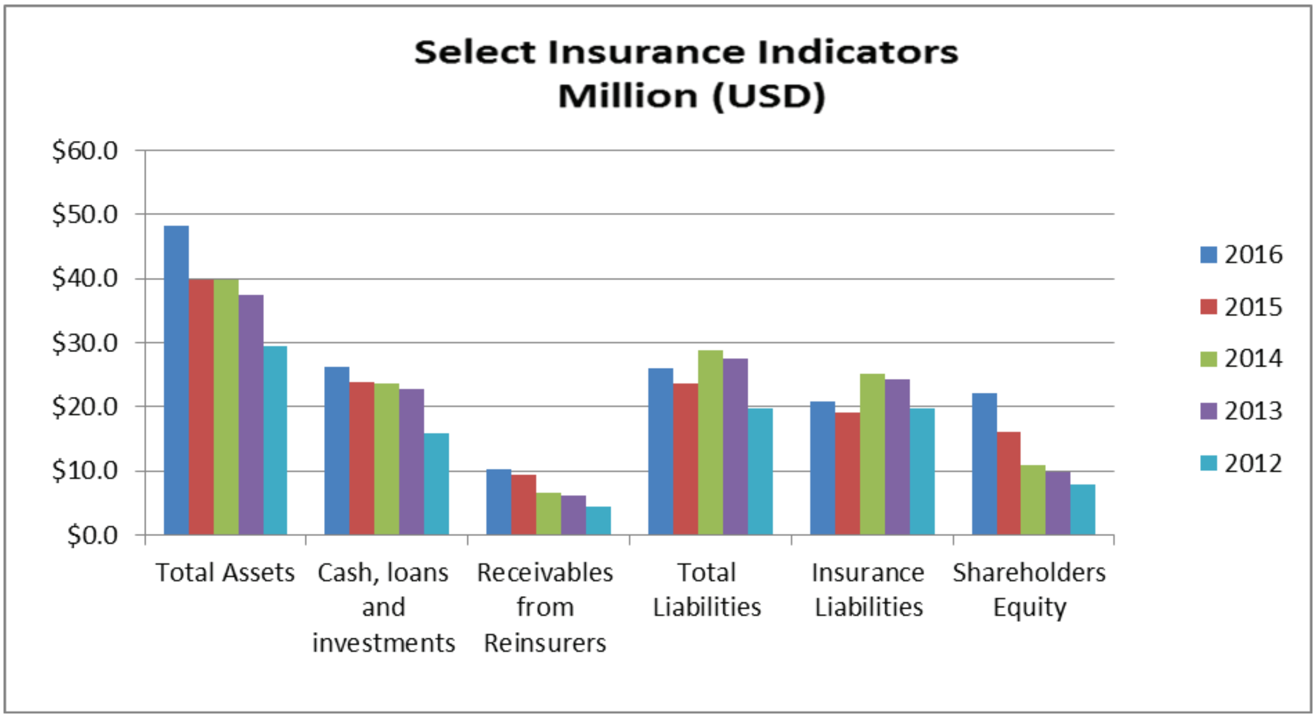


Chart 6: Select Insurance Indicators

Chart 6 above shows continuous growth in the domestic insurance sector over the last five years. For the year ended 31st March 2016 total assets of the domestic insurance sector amounted to $48.2M, an increase of 20.8% when compared to the corresponding period of the previous year. Cash, loans and investments continued to represent the largest proportion (54.3%) of the industry's assets. A breakdown of the industry's assets as at 31st March 2016 is provided in Chart 7 below.

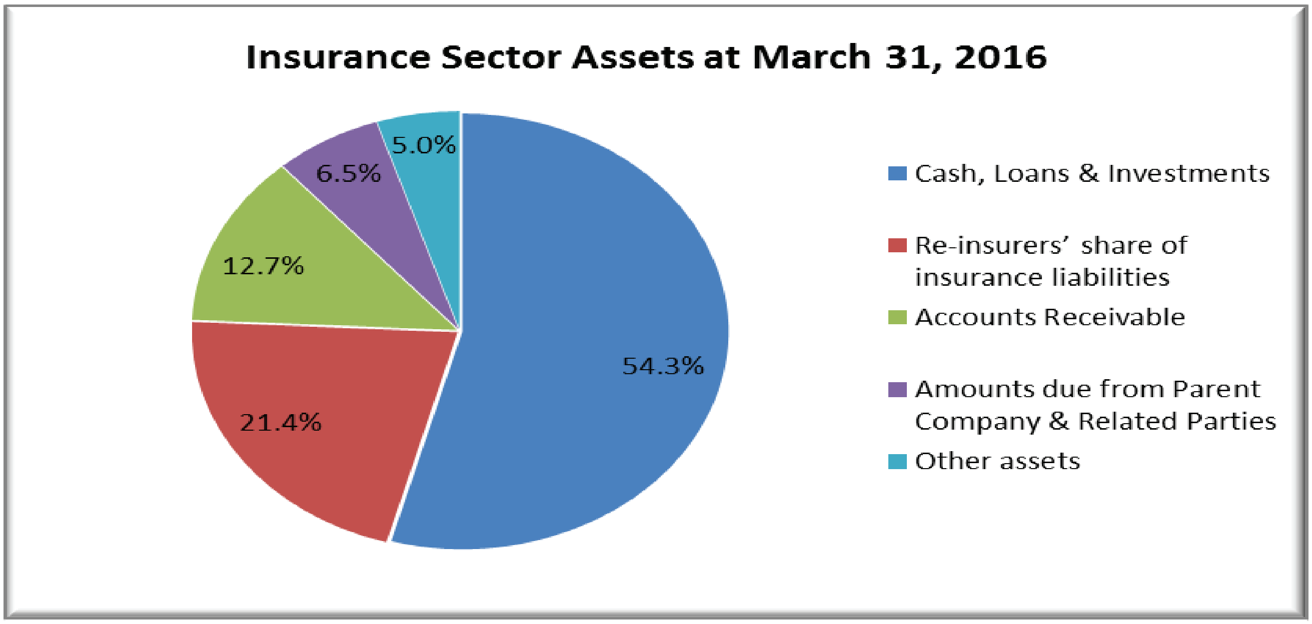


Chart 7: Composition of Domestic Industry Assets

4.6 Special Dispensation

Insurance Brokers are required to obtain special dispensation from the Commission prior to placing domestic insurance business with any insurer not licensed to operate in Turks and Caicos Islands. During the review period the Commission approved 139 applications for special dispensation and rejected three (See Chart 8 below).

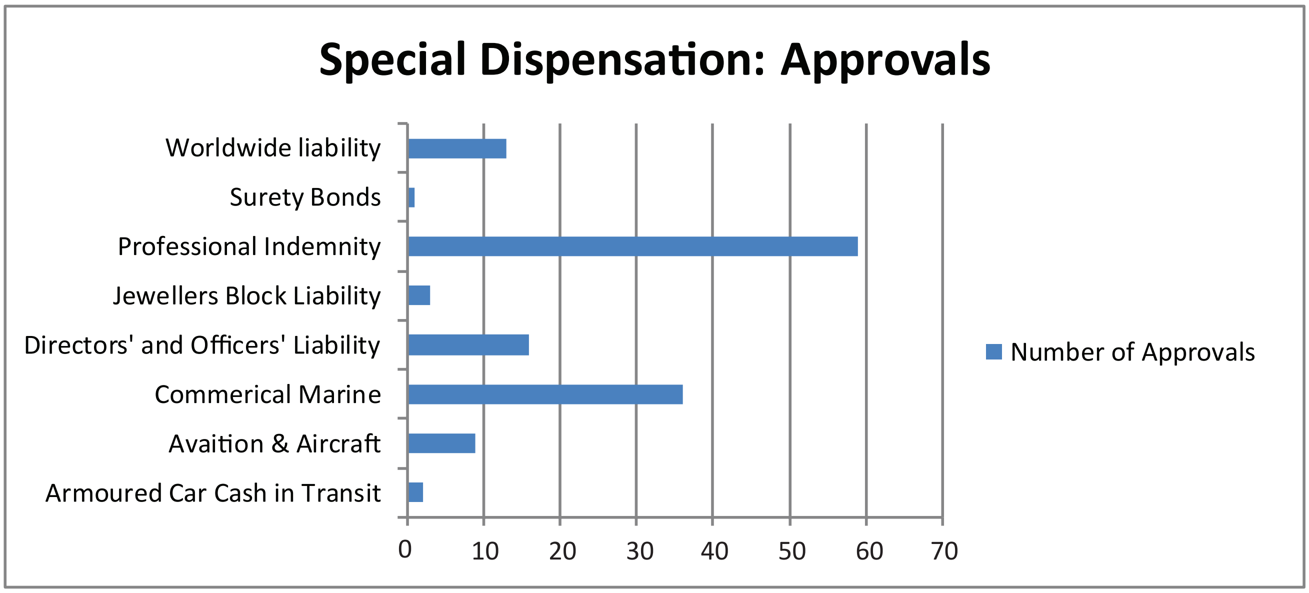


Chart 8: Special Dispensation Granted by Class

4.7 Restricted Deposits

Certain categories of insurance companies are required to establish and maintain a Restricted Deposit with a TCI licensed financial Institution. As an additional safeguard, the funds are held to the order of the Commission and cannot be removed or reduced without the Commission's prior written approval. For the year ended 31 March 2016, total Restricted Deposits held was $19.3M compared to $20.1M for the prior year.

4.8 Enforcement Action

The Commission issued 58 Notices of Intention to take Disciplinary Action, which resulted in 29 penalty notices being issued against insurance licensees.

4.9 Staff Complement

The Insurance Department was staffed by 13 officers with varying degrees of technical, educational and regulatory training. During the review period the Domestic Insurance Unit contracted by one officer while the International Unit expanded by one office.

4.10 Training

The Commission remained committed to the development of its employees, and as such, continued to enhance the technical competencies in the Insurance Department. During the review period members of the Department participated in online training courses including the FIRST ONE Programme, an FSI-IAIS Regulatory and Supervisory Online Programme (Virtual Seminar). Additionally, staff attended numerous training programs, including workshops and seminars facilitated by the Caribbean Association of Insurance Regulators/ Caribbean Regional Technical Assistance Centre Workshop, and Group of International Financial Centre Supervisors (GIICS).

Employees also attended training events facilitated by the Commission in association with the Insurance Institute of Barbados and the Insurance Institute of Bahamas. These training sessions covered the following topics:

- *Fundamentals of Financial Services*
- *Introduction to Insurance & Basic Underwriting Concepts*
- *Commercial Underwriting & Claims*
- *Trust Administration*
- *Law for Banking and Finance*

These short courses have helped the staff to develop their skills in the areas of insurance and to also expand their knowledge of the role played by the Commission in the financial services industry, especially as relates to banking and finance.

During the year, three staff members completed their Bachelors' Degree in Business Studies (Human Resource Management and Finance & Management) and two others have enrolled in the Associates Degree in Business Studies programme at the TCI Community College.

5.0 COMPANY MANAGEMENT AND INVESTMENTS DEPARTMENT REPORT

5.1 Overview

The Company Management and Investments Department began the year preparing for the IMF Financial Sector Assessment Program and finalising its initial contributions to the National Risk Assessments.

New regulatory reporting requirements for company managers were introduced in March 2015 and the response to this initiative was generally positive. There was increased communication with licensees during the year for information, clarification and guidance from the Commission. In March 2016, the Commission became a full member of the International Organization of Securities Commissions (IOSCO). It is anticipated that licensed investment businesses will leverage the recognition that comes with the Commission's membership in IOSCO.

As a result of administrative changes, there was a delay in the scheduling of on-site visits by the Department. Approximately 41.0 percent of company managers have been examined in the past three years, largely for Anti-Money Laundering/Prevention of Terrorist Financing compliance. The Department has scheduled its on-site examinations to re-commence in the latter half of 2016. The programme thereafter will be continued on a regular and risk-focused basis.

5.2 The Action Plan 2012-2016

The Commission's Action Plan for 2012-2016 provided for an amendment to the Investment Dealers (Licensing) Ordinance (IDLO) to facilitate the licensing of Investment Advisers as well as for the issuance of supervisory guidelines for investment businesses based on the IOSCO Core Principles[5]. The draft amendments, along with the guidelines, were completed with a view to being finalised during 2016.

In November 2015, amendments to the Company Management (Licensing) Ordinance, the Investment Dealers (Licensing) Ordinance and Mutual Funds Ordinance were passed by the House of Assembly and provided for administrative fees to be charged in relation to the licences issued under these Ordinances. The amended Ordinances were scheduled to come into operation on April 1, 2016. The fee schedules are to be rationalised and a submission will be made to Cabinet for consideration in the latter part of 2016.

5.3 Sectoral Review

One investment dealer surrendered its licence during the review period as the licence was no longer considered relevant to the entity's business model. Despite the loss of a licensee, the investment business sector (investment dealers and mutual funds operators) recorded growth in the value of asset under management. The consolidated value of their investment portfolios as at March 31, 2016 was $864,758,428. This represents an increase of $175,331,086 or approximately 25% over the previous year.

Table 5 below captures the number of licensed entities in force, action taken in relation thereto and other important regulatory activities conducted during the period under review.

[5] These are a set of standard rules issued by the International Organization of Securities Commissions (IOSCO), on how Regulators of Securities Businesses should conduct their regulatory activities to ensure effective supervision of those Securities Businesses.

Departmental Licensee by Type					
Type of Licensee	**licensees at 31/3/2015**	**New Licenses**	**Licenses Revoked**	**Licenses Surrendered**	**licensees at 31/3/2016**
Company Management	38	1	1	1	37
Mutual Funds (MF)	11	-	-	-	11
MF Administrators	3	-	-	-	3
Investment Dealers	7	-	-	1	6
Total	**59**	**1**	**1**	**2**	**57**

Table 5: Licenses by Type and Movements during Period under Review

5.4 Staff Complement

The Department had three member of staff, including the Head of Department. During the review period, the officer who operated from the Providenciales office was transferred to the Compliance Unit. At the same time a new officer joined in the Grand Turk office, thus maintaining staffing levels and the regulatory capacity of the Department.

5.5 Training

During the year all staff in the Department participated in several local and regional compliance and associated training. Details of those training are:

i) The Head of Department attended a Chartered Director Programme through the Caribbean Governance Training Institute in October 2015.

ii) Two compliance officers attended the Anti Money Laundering Examination Seminar sponsored by the Caribbean Group of Banking Supervisors and the Federal Reserve System hosted by the BVI FSC in May 2015.

iii) An officer was pursuing a diploma in Corporate Governance and Compliance through the International Compliance Association of the United Kingdom in association with Manchester University.

6.0 COMPLIANCE UNIT REPORT

6.1 Overview

The period under review represents the first full 12 month period of operation of the Compliance Unit since its inception in June 2014. The Unit was responsible for assessing compliance with the Anti-Money Laundering and Prevention of Terrorist Financing Regulations by regulated and supervised entities (financial and non-financial) in the TCI.

Chart 9 below provides a summary by sector of those regulated and supervised entities for which the Compliance Unit had supervisory responsibility:

i) 95 licensed financial institutions;

ii) 86 registered Designated Non-Financial Businesses and Professions (DNFBPs) in the Commission's capacity as the appointed DNFBP Supervisor; and

iii) 141 Non Profit Organisations (NPOs) in the Commission's capacity as the appointed NPO Supervisor.

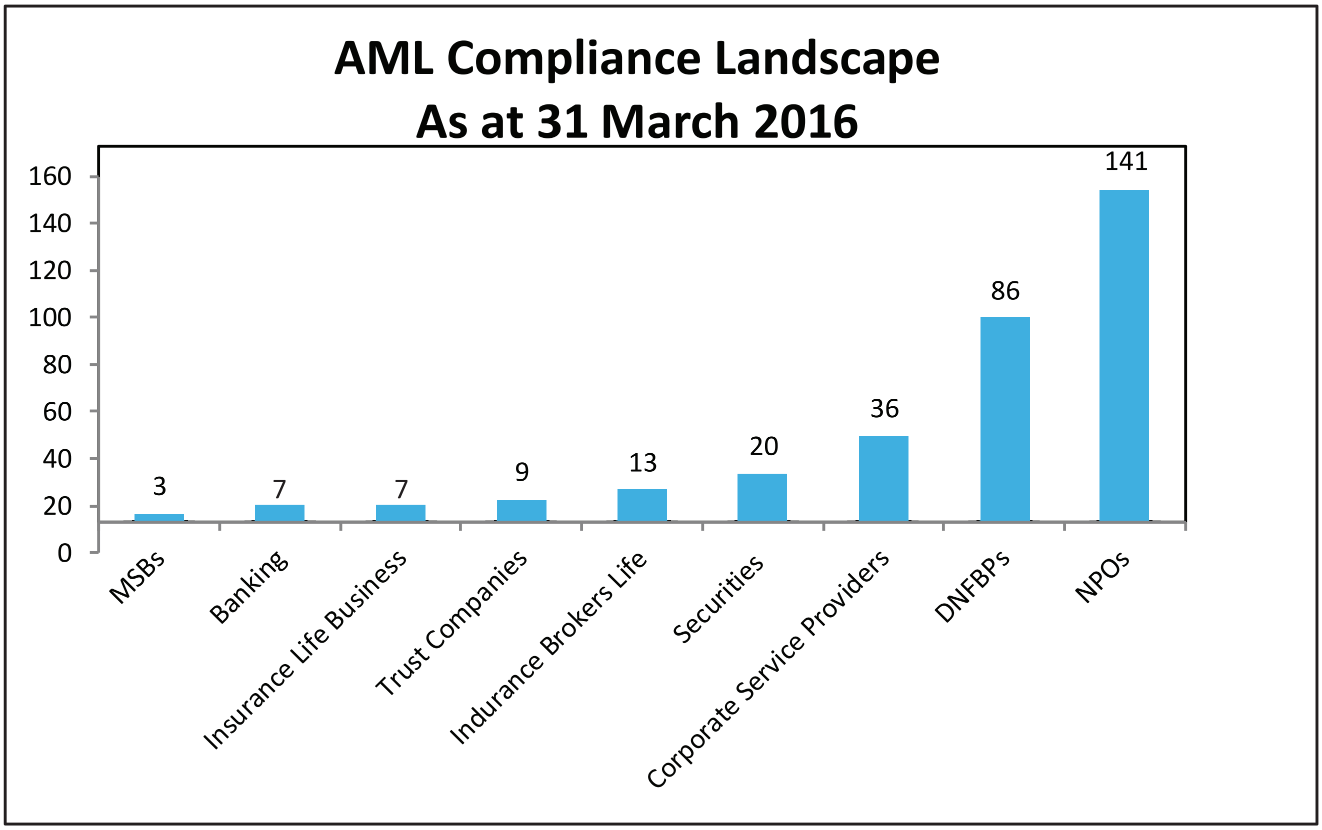


Chart 9: AML Supervisory Responsibilities by Type

6.2 Supervisory Activities

The Compliance Unit undertook risk based supervision by way of both onsite examinations and offsite surveillance. In addition to a quarterly monitoring regime of key statistics, the Compliance Unit committed in early 2015 to undertake annual on-site examinations of the licensed MSBs. All three MSBs were examined between March and June 2015.

The Commission commenced examination of licensees in the Company Management (Corporate Service Providers) Sector in June 2015. The Unit conducted 11 onsite examinations during the review period. The focus on the Company Management Sector was influenced by increased global scrutiny of company formation and the link to undisclosed beneficial ownership.

At the conclusion of each examination the licensee was provided with a report with a detailed commentary on those areas in the anti-money laundering and prevention of terrorist financing regime which required attention by management. At this stage the Unit has adopted a consultative approach and provided, where necessary, support to the licensee with the objective of achievement of "sustainable remediation".

As the supervisor of Designated Non-Financial Businesses and Professions (DNFBPs) and Non Profit Organisations (NPOs), the Commission continued the registration of new entrants into these sectors during the review year. As at 31 March 2016, there were 86 DNFBPs, with attorneys representing the largest portion at 40.0 percent.

Chart 10 below provides a breakdown of the composition of the DNFBP sector, showing totals of those groups which were registered as at the end of the financial year under review.

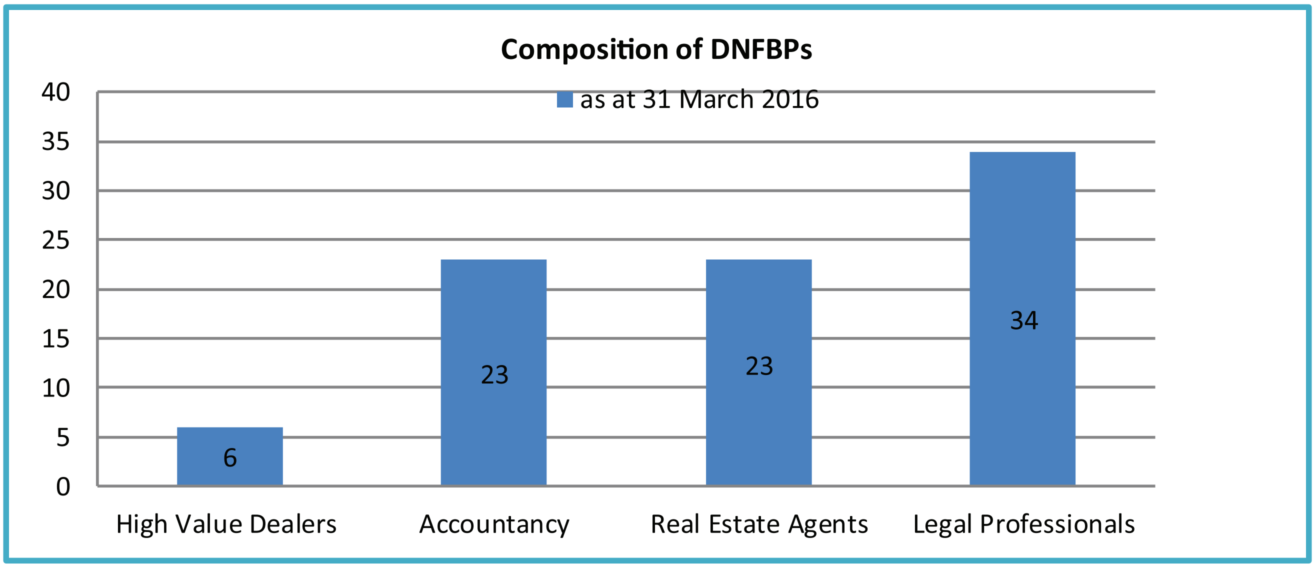


Chart 10: Total DNFBPs and Composition as at March 31, 2016

There were 141 NPOs, of which 45 (32%) were churches (see Chart 11 below).

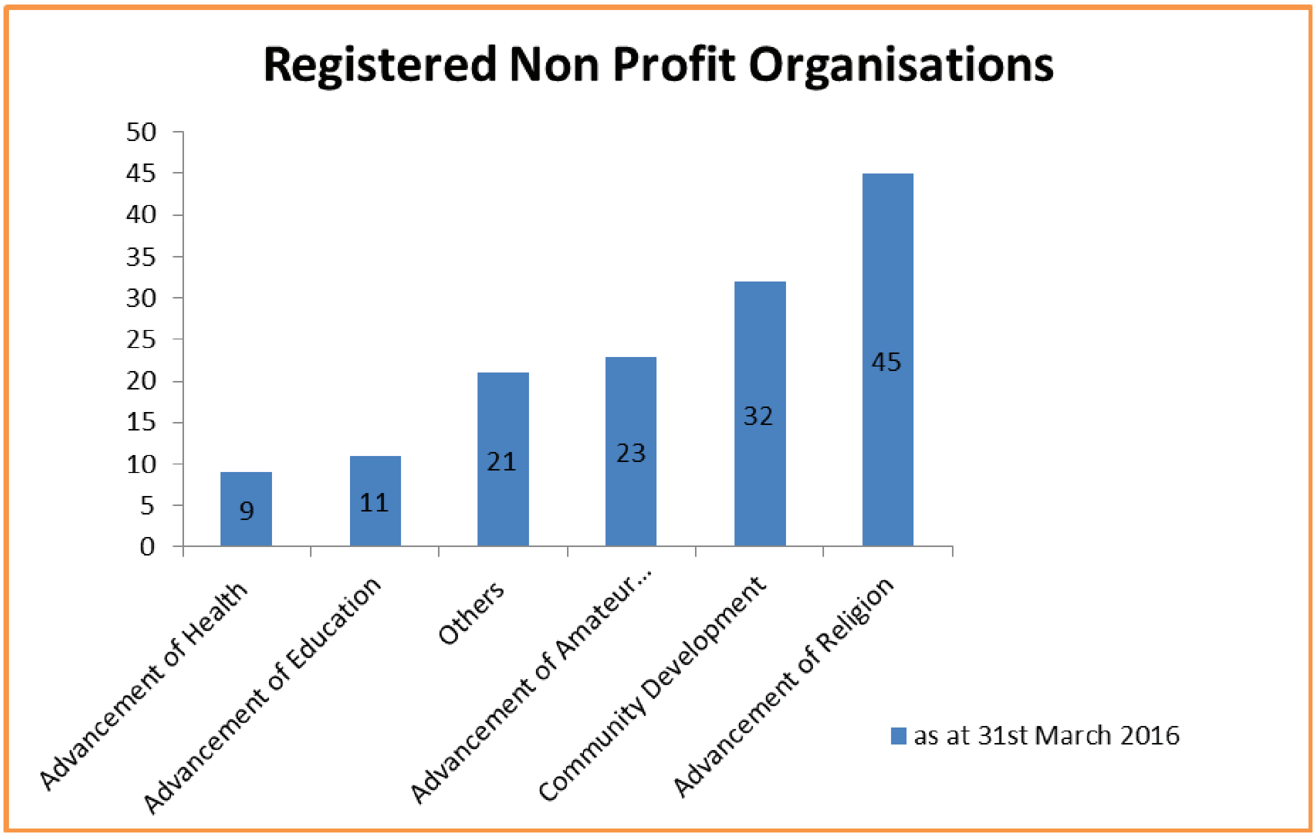


Chart 11: Registered NPOs Activity by Type at March 31, 2016

6.3 Legislation

The Unit played a key role in the consultation process in respect of the proposed amendments to Part V of the Companies Ordinance, specifically relating to Non-Profit Companies.

6.4 Money Laundering and Terrorist Financing National Risk Assessment

The Unit commenced work during the review period on the Turks and Caicos Islands National Risk Assessment (NRA) of the money laundering and terrorist financing risks faced by the jurisdiction. Upon completion of this exercise all stakeholders will have a clearer understanding of the jurisdiction's money laundering and terrorist financing risks and vulnerabilities. The jurisdiction will also be in a stronger position to enhance existing and, where necessary, introduce new measures to provide further protection.

The NRA, which commenced in October 2014, is an initiative led by the Attorney General and supported in the role of coordinator by the Head of Compliance at the Commission. Completion is targeted for the end of 2016, at which time a report will be prepared and recommendations provided to key stakeholders with focus on those areas of greatest risk for potential abuse.

6.5 Staffing

As at 31 March 2016, the Unit had a staff complement of five officers, an increase of one officer during the year. The staff comprised four Compliance Officers and a Head of Unit.

6.6 Training

The Unit continued to contribute significantly to training relevant staff of licensees on compliance with anti-money laundering and prevention of terrorist financing matters. In September 2015 the Unit, together with other Financial Services Commission staff, provided three speakers to support the first TCI Compliance Association AML/PTF Seminar.

Training of staff within the Unit was considered to be a priority, with focus not only on the pursuit of external professional qualifications in the field of anti-money laundering but also in-house training was provided on examination techniques based upon internal audit disciplines.

During the review period, the Head of Unit was awarded the Certified Advanced AML Audit Specialist (CAMS-Audit) credential from the Association of Certified Anti-Money Laundering Specialists (ACAMS). This award was the first such award to an individual in the Turks and Caicos Islands.

7.0 REGISTRY REPORT

7.1 Overview

The Registry continued to operate under the guidance of the Commission, which appoints a Registrar to oversee its operations. The Registry consists of the Companies Registry, Trademarks Registry, Patents Registry and Business Names Registry (the "Registries"). The Companies Registry has responsibility for the incorporation and processing of returns and documents in relation to companies, business names and limited partnerships.

7.2 Companies Registry

During the period under review, the Company Registry incorporated 1,412 (1,403 in 2014/15) companies. This was consistent with the level of incorporation during the previous financial year. Producer Owned Reinsurance Companies were the primary driver of new incorporations, accounting for approximately 62.0 percent (60% prior year) of total incorporations. Limited partnership registration continues to show very little activity, moving from 62 to 63. Reinstatements, strike-offs and dissolutions during the period resulted in a net gain of 299 companies. As at 31 March 2016 there were 15,864 companies and partnerships on the register broken down as per Table 6 below:

Companies Registry (Active Entities) Comparative Basis			
Type of Entity	**31 March-16**	**31 March-15**	**31 March-14**
Companies	**No.**	**No.**	**No.**
Ordinary	4,916	5,016	4,684
Exempt	10,633	10,230	9,554
Foreign Ordinary	67	65	66
Limited Life (Exempt) Company	21	21	25
Foreign Exempt	162	168	156
Protected Cell Company	2	2	2
Total Companies	**15,801**	**15,502**	**14,487**
Limited Partnerships	63	62	61
Total Companies and Partnerships	**15,864**	**15,564**	**14,548**

Table 6: No. of Entities on Companies' Registry (Comparative Basis)

During the review period, 12,184 returns were filed with the Companies Registry compared to 12,147 in 2015. Ordinary companies, under an amendment to the Companies Ordinance made in the previous year, now have until June 30 of each year to file their returns. This meant that the returns for 2015 were technically not due until June 30, 2016.

The Registry remained very active in processing requests, such as, certificates of good standing, searches, notices and resolutions.

7.3 Trademarks and Patents Registries

During the 2015/16 financial year there was a return to growth in the volume of new trade-marks registered, increasing by 14.7 percent to 422. As with the previous period, patent registrations contracted during the review period. During the 2015/16 financial year, 14 patents were registered, a 21.4 percent decline when compared to the previous year.

7.4 Business Names

Business names saw significant activity during the period, due largely to changes in Government's Business Licensing Policy of ensuring persons are first registered and up to date with their business name before being issued with a business licence. As a result, the registry received 881 new applications for registration, with 2,501 registrations being effected during the year.

7.5 Legislative Agenda

The Companies (Amendment) Ordinance 2015 was enacted in November 2015 and came into force on April 1, 2016. These amendments increased the number of restricted words that require formal approval prior to being included as part of the name of a company, and made it mandatory for every company, other than an ordinary company, to appoint a Registered Agent. Further, the Registered Agent of an exempted company must be licensed under the Company Management Licensing Ordinance. This change was made to ensure that a licensed person was responsible for due diligence and AML compliance.

The Registry, in consultation with the industry and the public, will begin the process of introducing and amending legislation in the following areas in the next year:

- Business Names Registration Ordinance – It is proposed that the Ordinance be amended to incorporate the need for registration by a company of any trade name it assumes for the purpose of its trading activities; make provision for the charging of different rates for a new registration as against a renewal; imposition of a penalty for late payment; the power being granted to the Commission for the making of rules applicable to various matters, such as, how names may be granted and requiring cross reference of names with the Trademarks Database.

- Companies Ordinance – repeal and replacement of the current Ordinance and introduction of separate Insolvency Laws.

- Trademark Rules – updating of these to coincide with the Trademarks Ordinance 2009

7.6 KRegistry

Work on the companies' registry electronic platform, the KRegistry, continued and there were a number of developments bringing us closer to a final, acceptable platform. A number of key change control features (specification amendments) relating to the overall functionality of the program were introduced. These will serve to make the graphical user interface more user friendly and make processing more efficient. The Commission was also nearing introduction of the KRegistry Business Name module (a platform applicable to trade or assumed names rather than incorporated companies), which will be available to both internal and external users. This will add to the suite of services that will be available over the counter and to online customers via the web portal. These services include the following:

i) Submission of statutory notices

ii) Processing of incorporations

iii) Application for name clearance and reservations

iv) Filing of annual returns

v) Application for Certificates of Good Standing and search requests.

The critical remote access modules of the platform were not yet ready for public use as the Registry eagerly awaited the passage of the Electronic Transactions (Certification Service Providers Relevant Criteria) Regulations. These

Regulations (Electronic Signing) were passed shortly after the financial year end and draft applications have been provided, clearing the way for the Commission to proceed with the development of the online filing and payment module. This puts us one step closer to the deployment of the long awaited E-Filing initiative that will give persons the ability to do business with the Commission uninterrupted for 24 hours a day from anywhere in the world. Registry staff will provide training to the industry. Also, the Registry will be soliciting the assistance of the industry in testing of the system.

Although the overall platform is yet to be launched, use continued to be made of the back-office portions of the KRegistry software, which were completed some time ago. The system is now much nearer to completion and is expected to go live during the coming financial year.

7.7 Staffing

Our team increased to 24 officers as at 31 March 2016, up from 20 in the prior period. Two staff members were promoted during the period.

7.8 Training

The Senior Trademarks and Patent Administrator travelled to Newport, South Wales in February 2016 to attend the UK Intellectual Property Office (IPO) Trade Marks and Design Training programme. The training comprised a two week trade mark examiner induction programme that the IPO delivers to all of its new trademark examiners, and a one week designs training package. The participant found the course to be very useful.

In addition to the sector specific training noted above, Registry staff continued to make use of the various training and development opportunities afforded by the Commission through enrolment in various academic programmes in several fields, ranging from associates degrees to masters' programmes at the local Community College and online universities, respectively.

7.9 Action Plan 2016-2017

The Registry plans to address the following during the 2016/17 financial year:

i) Revise and introduce new forms;

ii) Review and update the Trademarks and Patents databases and transition to a new, more user friendly platform which facilitates searches by third parties;

iii) Increase the efficiency of Registry processes and improve service level to the public; and

iv) Develop relationships with other Registries.

8.0 LEGAL AND ENFORCEMENT DEPARTMENT REPORT

8.1 Responsibility and Functions

The Legal and Enforcement Department (LED) is responsible for providing legal advice and support to the Commission, and for advising on enforcement and disciplinary action against licensees.

8.2 Disciplinary and Enforcement Actions

The Commission continued its efforts to ensure compliance with the various Ordinances, Regulations, Guidelines and Regulatory Directives by taking appropriate disciplinary and enforcement actions, where necessary. In this regard, during the period under review 63 Notices of Intention to take Disciplinary Action (NIDA) were issued; 32 penalties were imposed and 31 notices were withdrawn[6]. In addition, there were two instances in which directives were issued, with one being subsequently withdrawn. The following table shows the number of disciplinary and enforcement actions taken, broken down by Department and action type.

Disciplinary and Enforcement Actions April 2015 to March 2016						
Notices of Intention to Take Disciplinary Action (NIDA)				Other Enforcement Actions		
License	NIDA	Penalty Notices	Withdrawn	Revocations	Directives	Other
Banks	5	3	2[7]	-	1	-
Insurance	58	29	29	0		-
Total	**63**	**32**	**31**	**0**	**1**	**0**

Table 7: Disciplinary and Enforcement Action 2015-2016

[6] NIDAs were withdrawn for various reasons including subsequent compliance, orders from the Court, etc.
[7] These represent two NIDAs withdrawn after consideration of written representations

8.3 Legislation

The LED continued to work on new legislation and amendments to existing legislation. This work, in collaboration with the industry and the Attorney General's Chambers, resulted in the passage of the following Ordinances:

- Domestic Insurance Ordinance
- Trusts Ordinance
- Trust Companies Ordinance
- Companies Amendment Ordinance
- Company Management (Licensing) (Amendment) Ordinance
- Mutual Funds (Amendment) Ordinance
- Investment Dealers (Licensing) (Amendment) Ordinance

The Department will be working on the following pieces of legislation in the coming financial year:

- Banking Ordinance
- Banking Regulations
- Trust Companies Regulations and Code
- Domestic Insurance Regulations
- Business Names Bill
- Companies (Amendment) Bill

In respect of the Trust Companies Regulations and Code, and the Domestic Insurance Regulations, these are required to accompany the primary pieces of legislation which were passed during the review period.

It is anticipated that the above pieces of legislation and the Companies (Amendment) Bill will be ready for submission to the House of Assembly during the 2016/17 financial year.

8.4 Regulatory Cooperation

The Commission continued cooperating with local, regional and international authorities involved with financial regulation and supervision. During the year under review, the Commission provided assistance to the Financial Services Board of Pretoria, South Africa. The Commission continued to support domestic authorities by supplying limited information from the Companies Registry.

The Department is proud of the positive role that it has played in a number of key domestic and international initiatives. The Department, along with the Compliance Unit, continued to provide strong support to the TCI National Anti-Money Laundering Committee. The Department also continued to play its part in the Commission's Anti-Money Laundering and Countering the Financing of Terrorism programme, by helping to ensure that the recommendations of the Caribbean Financial Action Task Force (CFATF) are being addressed. A number of CFATF meetings were attended during the year and feedback provided to the Compliance Unit and other internal stakeholders of the Commission on progress being made on the Commission's review, which was carried out by the CFATF. The Senior Legal Counsel's work during the period extended to being an Assessor for the CFATF's International Cooperation Review Group (ICRG) and the Working Group on FATF Issues. This high level participation on CFATF initiatives was very helpful in preparing the Commission for the review of the TCI by the CFATF.

8.5 Memoranda of Understanding

In an effort to enhance its regulatory regime and to facilitate cross border supervision of licensees, the Commission continued work on establishing formal relationship with relevant overseas regulatory agencies. During the review period, the Commission entered into domestic and international Memoranda of Understanding (MoU) to assist in the achievement of this goal.

The following international MOUs were in the process of finalisation:

- IOSCO MMOU: The Commission was able to satisfy the requirements for membership in the organisation.
- MOU with Antigua and Barbuda Financial Services Regulatory Commission: The draft has been reviewed and approved; it is anticipated that the MOU will be signed in the 2016/17 financial year.
- Caribbean Association of Insurance Regulators' MOU: draft reviewed and work continues to facilitate execution.

The Commission was working with the following agencies to establish domestic MOUs:

- Financial Intelligence Unit
- Exchange of Information Unit
- Attorney General Chambers
- Integrity Commission

8.6 Litigation

During the review period the Commission engaged in a number of litigation matters, some of which were ongoing from previous years. Two of the decisions handed down during the period were helpful in informing the Commission's future regulatory policies. In the first instance, the issue of how the FSC may act in relation to restricted deposits held to the order of the Commission was instructive, as it clarified the scope of the Commission's authority in relation thereto. The other matter indicated the need for more robust procedures in relation to the Commission's enforcement actions.

8.7 Staff Complement

The Department had a staff complement of two: the Senior Legal Counsel and the Legal and Enforcement Consultant.

9.0 INFORMATION TECHNOLOGY REPORT

9.1 Overview

The Information Technology (IT) Department played an integral role in the day to day operations of the Commission. With over 70 employees who rely on its services, it is vital that the IT Department works to ensure that key IT services, such as network access, email and document management, are maintained and accessible daily.

9.2 New IT initiatives

A number of new initiatives were undertaken by the Department during the period under review, all aimed at either protecting or improving its services to its clients. These included:

- Developing a number of policies and procedures in the areas of IT and information security, and implemented several technical and administrative controls for mitigating IT risk in the organisation.
- Assisting in developing, in collaboration with the commercial bank, a framework for an Automatic Clearing House (ACH). The objective of the ACH is to improve the efficiency of the clearing system for banks in the jurisdiction.
- Conducting a comprehensive review of the Commission's website and adding a number of new sections and modified existing ones to ensure that up-to-date information was always available to internal and external users.
- Establishing a Direct Internet Access line to facilitate more stable and secure data connectivity between the Grand Turk and Providenciales offices.

9.3 Continuing Initiatives

The Department continued to provide support and oversight in relation to the KRegistry[8] and Kreview electronic platforms. The Project Manager continued to work with the developers and third party vendors to facilitate the completion of software development. We anticipate that with the work which was advanced during the year these projects should now be completed by end of the next financial year.

9.4 Staff Complement

As at 31 March 2016, the Department had eight officers. One officer was promoted during the year from Junior Analyst to a Systems Administrator.

9.5 Training

Staff of the IT Department continued training in developing Oracle databases and CompTIA Security. The Head of the IT Department participated in a Cobit 5 introductory course. COBIT (Control Objectives for Information and Related Technologies) is a framework created by an international professional association, ISACA, for developing, implementing, monitoring and improving IT management and IT governance practices. These training courses are expected to enhance the capacity of the Department to provide the highest level of security for the organisation's IT resources, as well as enhancing the development and use of databases organisation wide.

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[8] This is the Companies Registry electronic data platform which was commissioned in prior years and which seeks to allow for the storage and retrieval of data electronically and remotely. Once complete, people will be able to incorporate companies online as well as file and view their returns remotely.

10.0 FINANCE AND ADMINISTRATION REPORT

10.1 Administrative Review

Towards the end of the review period there was a change in management at the Commission, with the departure of the former Managing Director, who served for seven years. We thank him for his contribution over those years. We also take the opportunity to welcome the new Managing Director.

The Commission's staff complement as at the end of the financial year is represented in the chart below. The numbers are reported as per the functional divisions of *Registries, Regulatory, Support & Administrative and Policy, Legal & Enforcement.*

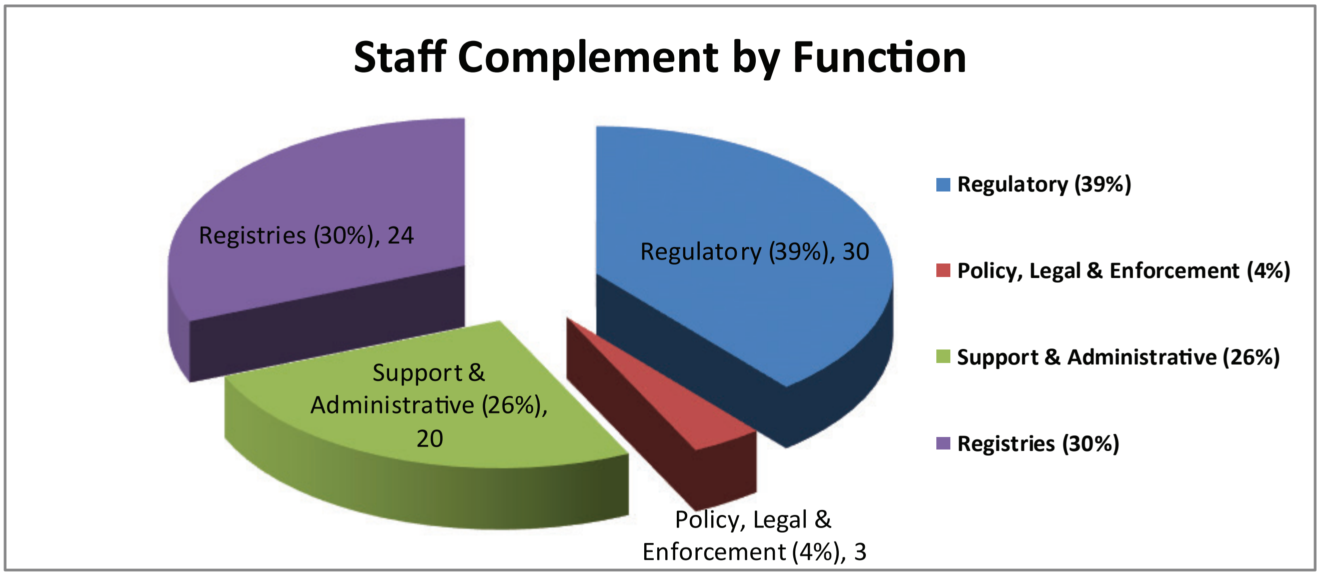

Chart 12: Staff Numbers by Functional Units

The staff complement grew by 7.0 percent during the period, with the net addition of five new members; two to the Compliance team and three to the back office support. Total staff complement at the end of the period was 77 (see Chart 12).

The Commission continued its efforts to develop its most valuable resources, its employees, and to that end attempts were made to document a process of training and development for staff. In addition, a succession plan was laid out that seeks to ensure that the necessary skills transfer is made by the expatriate staff to the local staff over a five year period. This document has been endorsed and approved by the Commission's Board.

As part of the training process, targeted opportunities for external training were utilised. Staff from the regulatory and compliance divisions were sent on a number of overseas courses. Those courses were seen as important in increasing the knowledge and exposure of the Commission's staff. These included:

- Anti-Money Laundering Seminar held in British Virgin Islands, May 8-4, three staff members attended.
- Egmont Supervisory Course, Jamaica July 13-16 covering Introduction to Supervisory Tools and Guidance, Supervisory Examinations in detail, Overview of Risk Assessment, Addressing Non-Compliance; one staff member attended.

- CEMLA Capital Planning and Stress testing May 18-22, Brazil; one staff member attended.
- GIICS Captive Insurance Training, Cayman Islands for the period 20th - 22nd October 2015; one staff member attended.
- UK Intellectual Property Organization Trademarks and Designs Training Programme January 25-February 26, 2016, UK; one staff member attended.

Efforts continued to be made to assist staff who were desirous of obtaining either a first or second degree in their chosen fields. Seven members of staff were successful in obtaining their certification during the period and were recognized by the Commission through the presentation of small gifts. The Commission continue to urge all staff to take advantage of the support, within the revised framework that is being developed. Eighteen members of staff continue to pursue their desired course. During the review period the Legal Counsel was successful in the completion of her post graduate certification, Masters in Law: International Corporate Governance and Financial Regulation. As a result of such accomplishment she was subsequently promoted to Senior Legal Counsel.

In addition to training for its staff, the Commission continued its drive to provide training and or support to the Industry. Various such events took place and are detailed in the table 8 below.

Industry Training Undertaken (April 2015 – March 2016)

No	Type	Date Held	Participants	Objective of Training	Trainer
1	Trust	Aug. 10-12	26	To assist practitioners & financial services professional in developing an in depth knowledge & understanding of trust laws and administration	Bahamas Institute of Financial Services
2	Insurance	Nov. 21-23	18	Examined fundamental concepts & techniques for dealing with risk & principles of insurance	Insurance Institute of Barbados
3	Insurance	Mar. 1-3	12	Introduce participants to concept of commercial underwriting and claims	Insurance Institute of Barbados

Table 8: FSC Sponsored Training-Industry

The Grand Turk staff, who for a while felt that their working environment was not of the highest standard, were relocated mid-way through the financial year to a new location at Waterloo Plaza. The new offices are spacious and well-appointed and as a result we expect to see improvements in our staff satisfaction and productivity levels going forward.

At the Providenciales location, work was started on the renovation of the unit which was acquired in the previous period. When completed, this unit will house the Compliance, Business Names, Information Technology and Reception staff. The completion is eagerly awaited both by employees and clients, who feel that the current space is too cramped. We expect this work to be completed by the second quarter of the next financial year.

An organisational review was commissioned last year, which is five years since the first one was done in 2010. The report has not yet been finalized and when completed we expect there to be recommendations which will help to guide the Commission in relation to a revised organizational structure and staffing requirements, which should be in keeping with current regulatory requirements.

10.2 Financial Performance

10.2.1 Revenue

Total Revenues[9] for the period under review was \$8.4M, compared to \$9.3M for the prior period; a 10% contraction. While the Registries accounted for the largest portion of the contraction, this decline was not in respect of core Registry

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

revenues (incorporations, annual fees and searches), which remained flat year over year, but is attributable to a 55% reduction in the revenue from land share transfer duties earned in respect of land shareholding companies[10]. Land share transfer duties amounted to $0.7M for the period under review, compared to $1.6M for the previous period.

The Commission is not able to determine or predict revenue from land share transfer duties as this is driven by the performance of the real estate market and whether companies are used to effect transactions.
Chart 13 shows the movement in total revenues over a four year period.

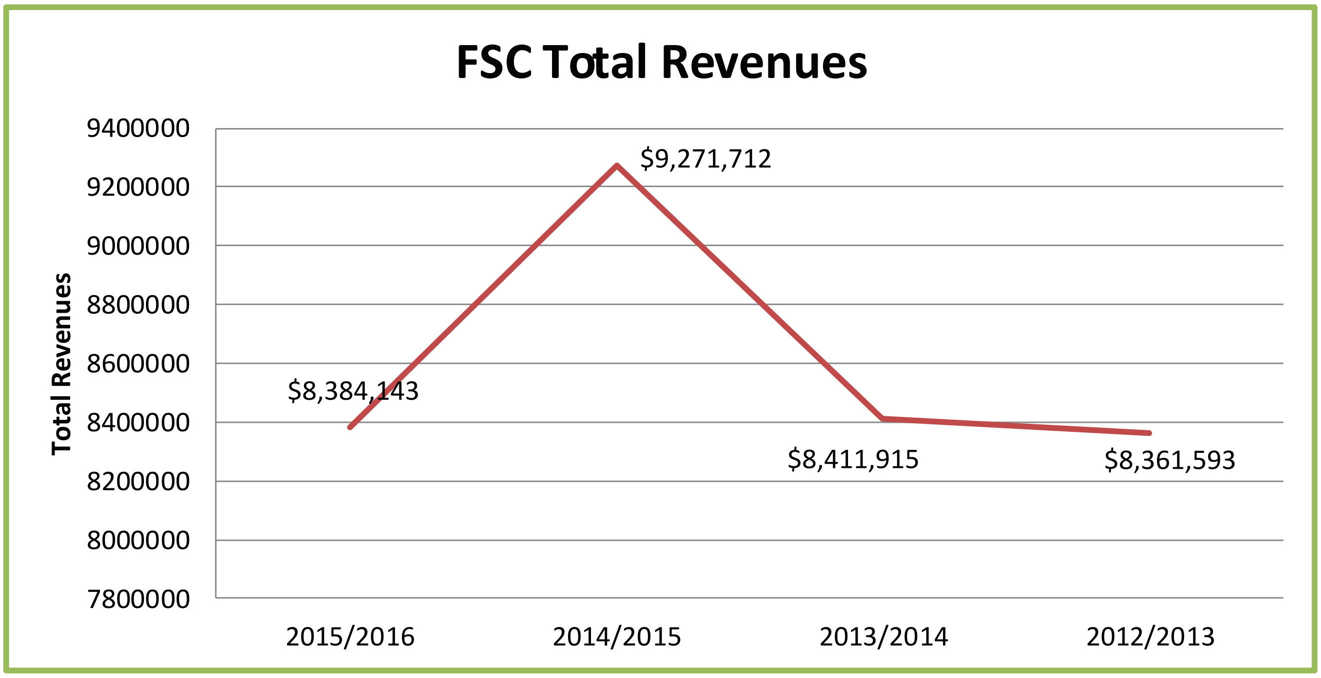

Chart 13: Total Revenues 4 year Period

The Registries[11] continued to account for the bulk of the revenue generated by the Commission at just about 75% ($6.3M), down from about 78% ($7.2M) in the previous period. The reduction in the Registries revenue is explained by the contraction in the land share transfer duties collected.

Despite the overall 3.0 percentage point reduction in the share of revenue contributed by the Registries, the Business Names Unit saw an increase of 19% in collections. This was due to the large number of registrations and renewals that were effected due to changes in TCIG Business Licensing policy, which now requires all entities to have their Business Names registration up-to-date prior to obtaining a business license. We expect this upward trend, albeit at a more moderate rate, to continue.

Revenue from the Insurance Department accounted for 18% of total revenue, compared to 15% in the previous period. The Producer Owner Reinsurance Companies (PORCs) continued to be integral to the operations of the Commission and were the largest revenue driver for that Department and the Commission. This was due to the number of incorporations and license fees collected, relative to other Departments. The PORC sector grew by over 9% year over year and accounted for the 3.0 percentage point movement in the Insurance Department's share of total revenues.

The Banking Division was the third largest revenue earner for the Commission, accounting for 4% of total revenues. Revenues from banks have remained flat over the last three years, due to no increase in the number of

[10] A company whose primary objective is the holding of land and the value of the transfer is assessed at 8% of the market value of the property transferred
[11] Companies, trademarks, Patents and Business Names

banks in the jurisdiction as well as to the fact that the fees have remained unchanged since 2009. At that level of contribution, the banking sector represented 25% of the revenue generated by the Insurance Division.

Company Management revenues, at just 2%, accounted for the smallest contribution, notwithstanding the fact that it has one of the highest number of licensed entities supervised (37), second only to the PORC insurance sub-sector (6,391).

Chart 14 below shows the relative contribution (by Dollar value) of each revenue generating department at the Commission. The chart shows that fee for Company Management and Other - such as those from designated non-financial businesses and professions - are minuscule compared to other revenue generating divisions.

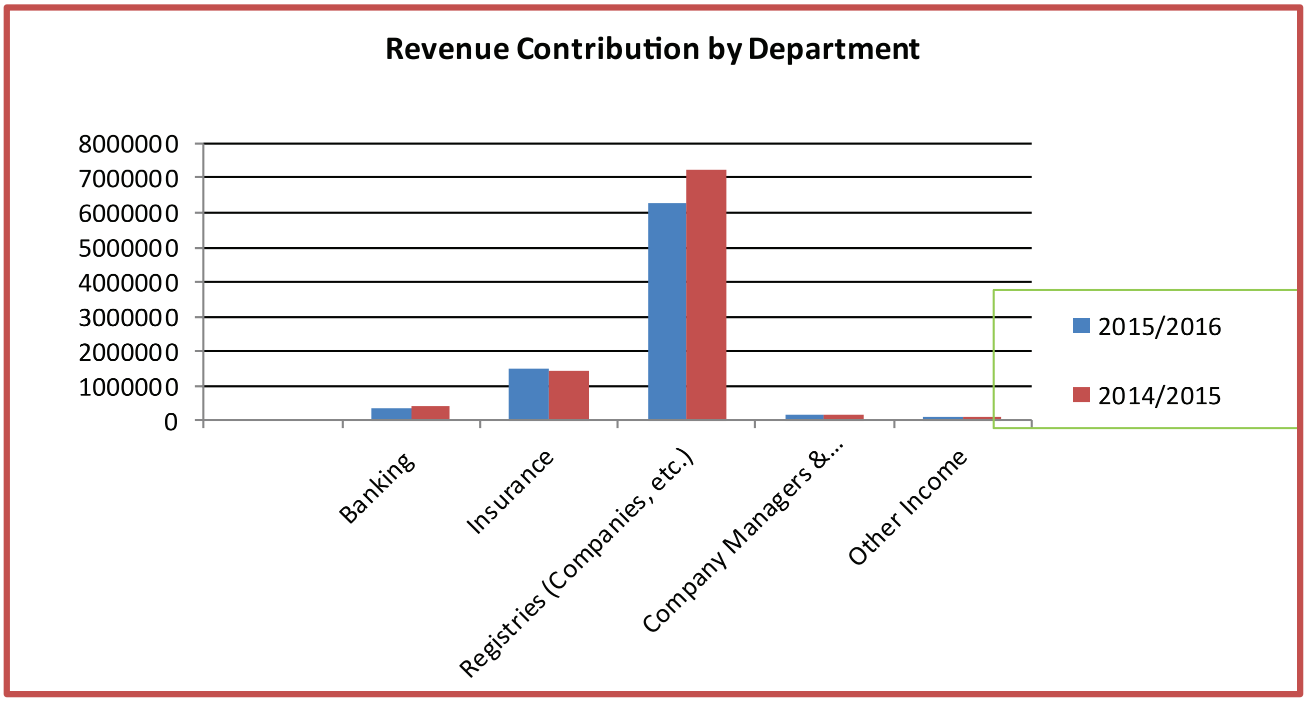

Chart 14: Revenue Contribution (Dollar Amount) by Departments

In terms of performance against budget, the outturn has fluctuated dramatically, as shown in Chart 15. The primary driver of the variance each year is the performance in relation to land share transfer duties and penalties imposed for late returns and breaches of regulatory provisions by licensed entities.

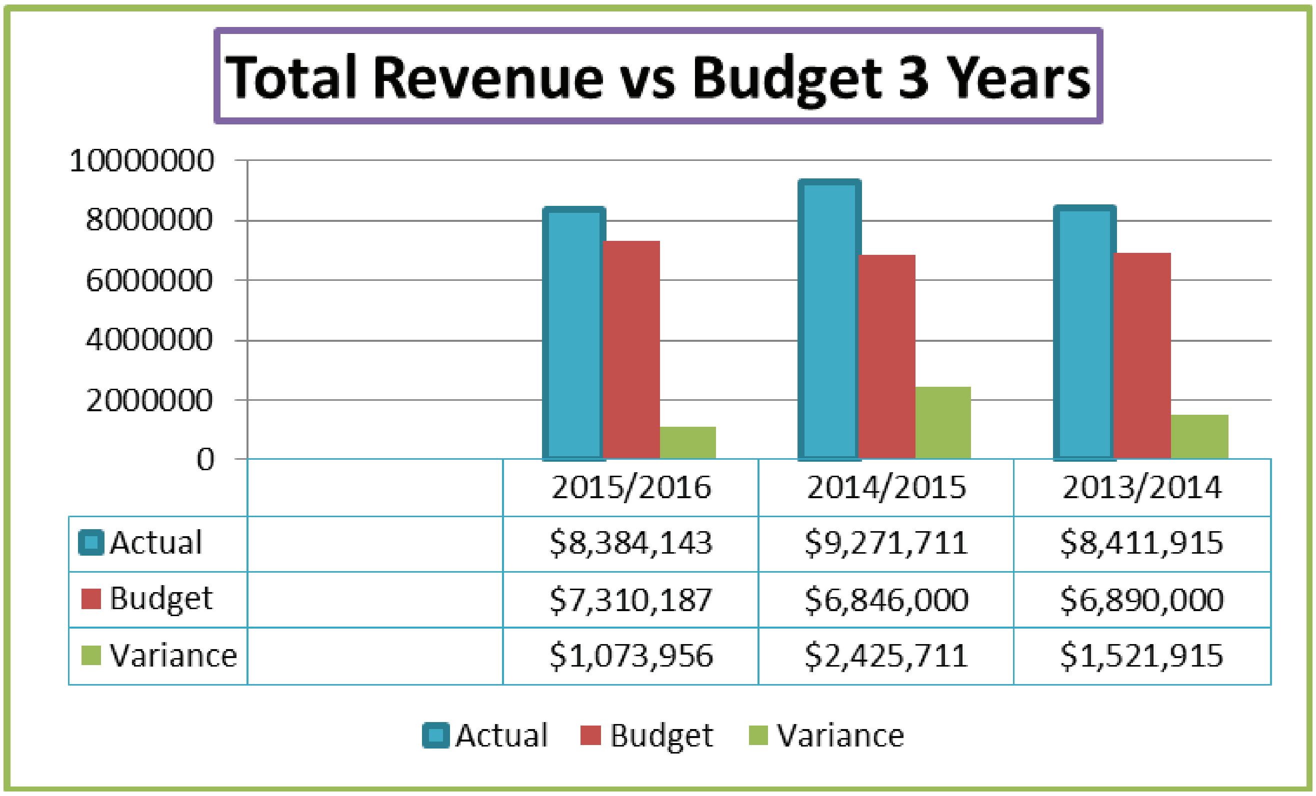

Chart 15: Total Revenue vs Budget 2013/2014 to 2015/2016

The 2014/15 period was exceptional for the Commission as it relates to revenue for land share transfer duties and penalties. The large variances each year are due to the fact that penalties are not budgeted for while land share transfer duties are always forecasted at a conservative level.

While *Total Revenues* fell by 10%, *Core Revenue*[12] increased by 3% over the period. This compares to a growth of 4% in core revenue in the previous period; which reflects stability in the Commission core revenue base[13] . Chart 16 below shows the growth in core revenues over the select periods, moving from $6.5M in 2013/2014 to $6.9M in 2015/2016.

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

[13] That is, as sundry fees from penalties and land share transfer duty are highly unpredictable and do not make sound bases on which to lay the revenue base of the Regulator

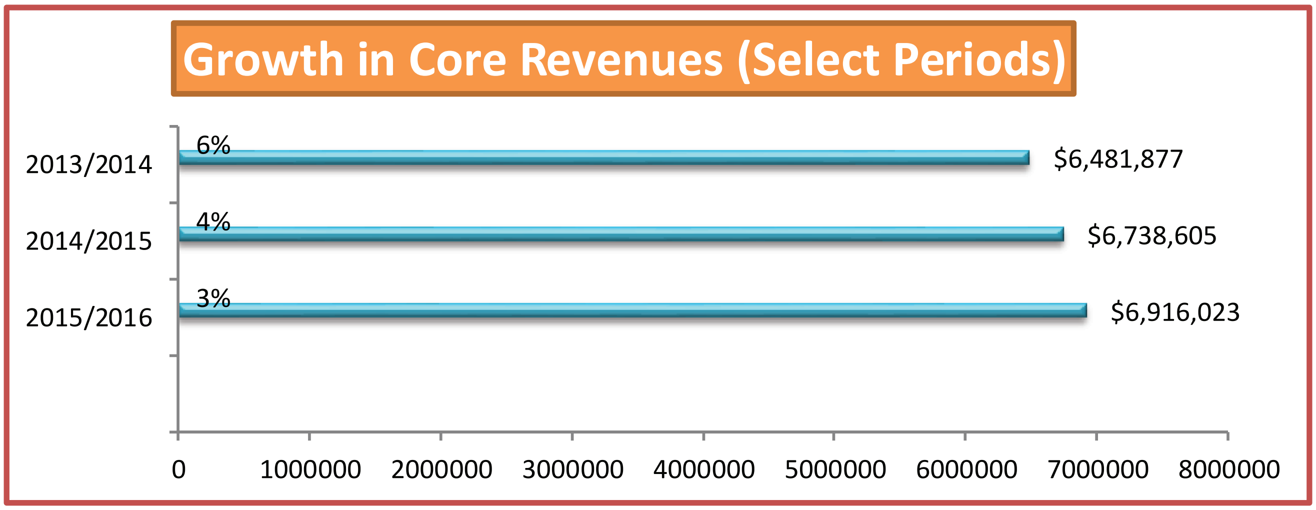

Chart 16: Revenue Growth (Core) for select periods

When the core revenue growth is disaggregated it shows that only the PORC sector has shown any marked increase over the period (insurance grew by 5%). Money transmitters contracted by 23%, due to entities exiting the market, while company managers remained flat over the period.

10.2.2 Measures to Grow Revenues

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

An administrative fee was introduced for licences issued to sub-agents of money remitters, as supervisory efforts are required to oversee these entities. As from February 2016 these licensees were required to pay a registration fee and an annual fee of $500 for each such sub-agency licence. As this policy was introduced towards the end of the financial year it had no meaningful impact on revenues. Going forward, given the relatively small number of entities, the impact will be limited. However, as oversight creates regulatory costs, the fees will help defray some costs.

During the last quarter of the financial year the Board directed that a study to be done on the unit cost of supervision so as to allow for a full understanding of the cost and revenue structure for each licence type. This study will help inform decisions regarding the Commission's appropriate fee structure going forward.

The completion of the KRegistry electronic platform should boost revenue, as the faster and more efficient service should lead to more company incorporations. This should make the jurisdiction more competitive. KRegistry should be completed within the next financial year.

10.2.3 Expenditure

Consolidated expenditure increased by 38% for the year, when compared to the previous year; a movement from $5.3M to $7.3M. This was primarily as a result of legal and professional costs relating to a number of legal matters which had to be addressed. This resulted in the percentage of total expenditure attributable to legal costs being 13% for the period, up from 1% for the previous period. This high level of legal cost is not expected to reoccur.
There were increases in other expenditure areas which are expected to be sustained in the future. These are in the areas of staff costs, training and rental expenses. In the case of staff cost, additional staff were hired in Compliance and Banking to help support the supervisory efforts. Staff costs for the period were $3.8M, up from $3.3M in the previous financial year. As to be expected, staff cost was the largest expense for the Commission, 62% in 2014/15 and 52% in 2015/16. When adjusted for the unusual legal costs, staff costs represented approximately 60% of total expenditure in the 2015/16 financial year.

The training expense reflects the Commission's continued effort to use internal and external training as part of the development of it staff. Additionally, the Industry was assisted in specified areas with training for its members. These efforts, while costly, will ultimately redound to the benefit of the Commission, the stability of the financial services industry and the jurisdiction. Concomitantly, the training budget and actual expenditure increased during the period (37% compared to prior period) and are expected to be sustained going forward.

Having relocated from its Pond Street address to Waterloo Plaza in Grand Turk, the Commission saw increased rental expenses of 160% monthly due to the much larger space now occupied. The upshot of this increased cost is increased staff and customer satisfaction.

10.2.4 Assets and Liabilities and Reserve Fund

Total Assets, excluding fixed and intangible assets, fell by 22% during the period (from $10.3M in 2015 to $8M as of reporting date). This was largely due to the pay down of balances due to the Turks and Caicos Islands Government (TCIG). Total cash and interest bearing assets amounted to 92% of the specified assets[14], down from 95% in the previous period. Investment holdings continued to reflect a mixed portfolio of local certificates of deposit and foreign treasury bonds of the highest ratings, with some cash. Treasury bonds accounted for 19% of the portfolio during the current period, up from 15% in the prior period. The increase was due largely to the reduction in the total cash and cash equivalents held, as explained by the pay down of previous year's liability to TCIG.

Overall, 8.6% was added to the Reserve Fund for the year, which brings the amount to just above $7.0M. The Reserve Fund is based on the level of expected recurrent expenditure, and the growth is as a result of the increased cost base of the Commission as reported previously in respect of expenditure.

10.3 Looking Ahead

Having now acquired the appropriate space to accommodate the needs of the Commission and its staff, focus will now be fully placed on continuing to develop staff capacity, including the programme of succession planning for those staff who are up to the task of undertaking more challenging roles within the organization. With new management in place to help develop this process, we are optimistic about the successful development of our staff and operating systems.

[14] Total assets excluding fixed and intangible assets

SECTION B

FINANCIAL SERVICES COMMISSION

Statement On Internal Control & Consolidated
Financial Statements For Year Ended March 31, 2016

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.

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

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

The Directors have assessed the effectiveness of the internal control for the year ended March 31, 2016 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.

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

September 6, 2016

Consolidated Financial Statements of

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Year ended March 31, 2016

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Consolidated Financial Statements

Year ended March 31, 2016

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KPMG

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INDEPENDENT AUDITORS' REPORT

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Turks and Caicos Islands Financial Services Commission and its subsidiary (together "the FSC"), which comprise the consolidated statement of financial position as at March 31, 2016, the consolidated statements of revenue, expenditures and other comprehensive income, changes in reserves and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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 (IFRS) and the requirements of the Turks and Caicos Islands' Financial Services Commission Ordinance (2007) (as amended) (hereafter referred to as "the Ordinance"), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

Turks and Caicos Islands Financial Services Commission
Independent Auditors' Report
March 31, 2016

Auditors' Responsibility, continued

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our 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, we consider 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, these consolidated financial statements give a true and fair view of the consolidated financial position of the FSC as at March 31, 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS and the requirements of the Ordinance.

Emphases of Matters

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

On a quarterly basis, if amounts held in a reserve fund, established under the terms of the Ordinance, exceed the expected recurrent expenditure of the FSC for the relevant financial year, the FSC is mandated to pay a sum equal to the excess to the Turks and Caicos Islands Government ("TCIG"), within fourteen days of the last working day of the quarter, provided always that the balance in the reserve fund does not fall below US$5 million as a result of any such payment to TCIG.

During the years ended March 31, 2016 and 2015 quarterly assessments of amounts due to TCIG were conducted but payments to TCIG were not always made in full within the time specified in the Ordinance. As at March 31, 2016 and March 31, 2015 the excess payable to TCIG had not been settled within fourteen days as specified in the Ordinance.

KPMG

Turks and Caicos Islands Financial Services Commission
Independent Auditors' Report
March 31, 2016

Emphases of Matters, continued

We also draw attention to note 34 to these consolidated financial statements. The comparative balances for accounts payable and accrued expenses, due to TCIG and deferred income on the consolidated statements of financial position have been restated to conform with International Accounting Standard (IAS) 18, *Revenue*, IAS 1, *Presentation of Financial Statements*, and the current year's consolidated financial statement presentations. Revenue and expenditures in the consolidated statement of revenue, expenditures and other comprehensive income, net surplus for year and net surplus for year transferred to TCIG in the consolidated statement of changes in reserves and associated balances in the consolidated statement of cash flows have also been restated for the same reasons.

As a result of the above restatements, at March 31, 2015 and March, 31 2014, the amounts previously reported as due to TCIG were overstated by US$792,725 and US$837,915, respectively, the amounts previously reported as accounts payable and accrued expenses were overstated by US$266,740 and US$258,992, respectively, and the amounts previously reported as deferred income were understated by US$1,059,465 and US$1,096,907, respectively.

Other Matters

The consolidated financial statements of the FSC for the years ended March 31, 2015 and March 31, 2014 were audited by another auditor who expressed an unmodified opinion on those statements on August 27, 2015 and August 22, 2014, respectively.

Intended Use of Report

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

KPMG LTD.

Chartered Accountants

Providenciales, Turks and Caicos Islands

October 24, 2016

TURKS AND CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION
Consolidated Statement of Financial Position

At March 31, 2016
with comparative figures at March 31, 2015 and March 31, 2014

		2016	2015	2014
			(as restated)	(as restated)
Assets				
Current assets:				
Cash and cash equivalents (note 5)	US$	5,237,268	7,531,137	8,501,564
Term deposit (note 6)		607,041	805,754	1,005,451
Accounts receivable (note 7)		483,678	257,932	138,137
Due from employees (note 8)		125,030	111,366	129,302
Current portion of held-to-maturity investments (note 9)		300,317	–	–
Prepayments and other receivables (note 10)		47,358	113,683	71,090
		6,800,692	8,819,872	9,845,544
Non-current assets:				
Held-to-maturity investments (note 9)		1,197,745	1,497,979	–
Intangible assets (note 11)		507,650	356,011	349,625
Property and equipment (note 12)		2,087,579	1,634,449	1,378,710
		3,792,974	3,488,439	1,728,335
	US$	10,593,666	12,308,311	11,573,879
Liabilities and Reserves				
Current liabilities:				
Accounts payable and accrued expenses (note 13)	US$	954,689	435,984	484,143
Due to TCIG (note 14)		417,259	3,185,569	2,897,822
Current portion of deferred income (note 15)		937,235	896,007	935,363
		2,309,183	4,517,560	4,317,328
Non-current liability:				
Non-current portion of deferred income (note 15)		282,799	345,026	389,768
		2,591,982	4,862,586	4,707,096
Reserves:				
Reserve fund (note 29)		7,045,678	6,489,719	5,910,777
Retained surplus (note 16)		956,006	956,006	956,006
		8,001,684	7,445,725	6,866,783
	US$	10,593,666	12,308,311	11,573,879

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

These consolidated financial statements were approved on behalf of the Board of Directors on October 24, 2016 by the following:

_______ Director _______ Director

TURKS AND CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION

Consolidated Statement of Revenue, Expenditures and Other Comprehensive Income

Year ended March 31, 2016
with comparative figures for year ended March 31, 2015

		2016	2015
			(as restated)
Revenue:			
Fees and charges (note 17)	US$	8,278,596	9,158,457
Government grants		46,139	46,656
Interest income		30,503	27,883
Other income		22,205	33,215
Gain on sale of property and equipment		6,700	5,500
		8,384,143	9,271,711
Expenditures:			
Staff costs (note 18)		(3,787,898)	(3,272,104)
Professional and consultancy fees (note 19)		(1,338,184)	(337,236)
Rental of buildings (note 20)		(328,752)	(243,936)
Depreciation (note 12)		(205,354)	(143,654)
Office expenses (note 21)		(177,987)	(171,356)
Training (note 22)		(175,447)	(127,624)
Travel and subsistence (note 23)		(171,194)	(87,176)
Communication (note 24)		(132,407)	(92,483)
Local hosting and entertainment		(120,516)	(100,593)
Directors' fees and expenses (note 25)		(113,457)	(156,868)
Repairs and maintenance		(111,289)	(105,429)
Other operating expenses (note 26)		(106,407)	(33,072)
Utilities		(94,166)	(95,291)
Amortisation of intangible assets (note 11)		(88,011)	(68,614)
Insurance		(74,153)	(61,192)
Audit and accounting		(69,907)	(50,000)
Advertising		(61,650)	(87,578)
Subscriptions and contributions		(54,965)	(63,454)
Security		(49,328)	(8,358)
Impairment loss on accounts receivable (note 7)		(37,885)	–
		(7,298,957)	(5,306,018)
Surplus before other comprehensive income		1,085,186	3,965,693
Other comprehensive income		–	–
Net surplus for year	US$	1,085,186	3,965,693
Net surplus for year transferred to:			
Reserve fund	US$	555,959	578,942
TCIG (note 14)		529,227	3,386,751
	US$	1,085,186	3,965,693

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

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Consolidated Statement of Changes in Reserves

Year ended March 31, 2016
with comparative figures for year ended March 31, 2015

		Reserve fund	Retained surplus	Total
March 31, 2014	US$	5,910,777	956,006	6,866,783
Net surplus for year (as restated)		3,965,693	–	3,965,693
Net surplus for year transferred to TCIG (note 14) (as restated)		(3,386,751)	–	(3,386,751)
March 31, 2015		6,489,719	956,006	7,445,725
Net surplus for year		1,085,186	–	1,085,186
Net surplus for year transferred to TCIG (note 14)		(529,227)	–	(529,227)
March 31, 2016	US$	7,045,678	956,006	8,001,684

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

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Consolidated Statement of Cash Flows

Year ended March 31, 2016
with comparative figures for year ended March 31, 2015

		2016	2015
			(as restated)
Cash flows from operating activities:			
Net surplus for year	US$	1,085,186	3,965,693
Adjustments for:			
Depreciation		205,354	143,654
Amortisation of intangible assets		88,011	68,614
Impairment loss on accounts receivable		37,885	–
Interest income		(30,503)	(27,883)
Gain on sale of property and equipment		(6,700)	(5,500)
Amortisation of discount on held-to-maturity investments		(83)	(1,223)
		1,379,150	4,143,355
Changes in operating assets:			
Change in accounts receivable, gross of impairment loss		(263,631)	(119,795)
Change in due from employees		(13,664)	17,936
Change in prepayments and other receivables		66,325	(42,593)
Changes in operating liabilities:			
Change in accounts payable and accrued expenses		518,705	(48,159)
Change in deferred income		(20,999)	(84,098)
Net cash from operating activities		1,665,886	3,866,646
Cash flows used in investing activities:			
Change in term deposit		198,713	199,697
Proceeds from sale of property and equipment		6,700	5,500
Additions to intangible assets		(239,650)	(75,000)
Additions to property and equipment		(658,484)	(399,393)
Interest income received		30,503	27,883
Acquisition of held-to-maturity investments		–	(1,496,756)
Net cash used in investing activities		(662,218)	(1,738,069)
Cash flows used in financing activity:			
Cash transferred to TCIG (note 14)		(3,297,537)	(3,099,004)
Net cash used in financing activity		(3,297,537)	(3,099,004)
Net decrease in cash and cash equivalents		(2,293,869)	(970,427)
Cash and cash equivalents at beginning of year		7,531,137	8,501,564
Cash and cash equivalents at end of year	US$	5,237,268	7,531,137

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

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

Year ended March 31, 2016

1. General information

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

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

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

2. Basis of preparation

(a) *Statement of compliance*

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

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

(b) *Basis of measurement*

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

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

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

Year ended March 31, 2016

2. Basis of preparation, continued

(c) *Functional and presentation currency*

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

(d) *Use of estimates and judgements*

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in these consolidated financial statements is included in the following notes:

- Note 7 – Accounts receivable
- Note 11 – Intangible assets
- Note 15 – Deferred income
- Note 29 – Capital management
- Note 31 – Contingent liabilities

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

(e) *Changes in accounting policy*

On April 1, 2015 the FSC changed its accounting policy with respect to recognition of revenue on certain annual licence fees from a modified cash basis of accounting to an accruals basis of accounting to comply with IAS 18. IAS 8 requires this change in accounting policy to be applied retrospectively when the effect of applying the new accounting policy is material. A more detailed explanation of the restatement of the previously reported 2015 and 2014 balances is provided at note 34 to these consolidated financial statements.

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

Year ended March 31, 2016

3. Significant accounting policies

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

Certain comparative amounts have been restated or reclassified, either as a result of changes in accounting policy or to conform with the current year's consolidated financial statement presentation (note 34).

(a) Basis of consolidation

These consolidated financial statements comprise the consolidated financial position of the Commission and its subsidiary as at March 31, 2016 and its consolidated financial performance and its cash flows for the year then ended.

(i) Subsidiary

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

(ii) Loss of control

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

(iii) Transactions eliminated on consolidation

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

(b) Non-derivative financial instruments

Non-derivative financial assets

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

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

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2016

3. Significant accounting policies, continued

(b) Non-derivative financial instruments, continued

Non-derivative financial assets, continued

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

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

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

(i) Loans and receivables

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

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

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

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

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

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

Year ended March 31, 2016

3. Significant accounting policies, continued

(b) Non-derivative financial instruments, continued

Non-derivative financial assets, continued

(ii) Held-to-maturity investments

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

Non-derivative financial liabilities

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

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

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

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

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

Year ended March 31, 2016

3. Significant accounting policies, continued

(c) Intangible assets

(i) Recognition and measurement

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

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

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

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

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

(ii) Subsequent costs

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the consolidated statement of revenue, expenditures and other comprehensive income as incurred.

(iii) Amortisation

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

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

Year ended March 31, 2016

3. Significant accounting policies, continued

(c) Intangible assets, continued

(iii) Amortisation, continued

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

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

(d) Property and equipment

(i) Recognition and measurement

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

Cost includes expenditures that are directly attributable to the acquisition of property and equipment.

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

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

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

(ii) Subsequent costs

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

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

Year ended March 31, 2016

3. Significant accounting policies, continued

(d) Property and equipment, continued

(iii) Depreciation

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

Estimated useful lives for the current and comparative periods are as follows:

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

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

(e) Provisions

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

(f) Government grants

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

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

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

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

Year ended March 31, 2016

3. Significant accounting policies, continued

(g) Reserve fund

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

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

Management have determined that the most appropriate measure of recurrent expenditure in accordance with the above requirement is the budget as submitted annually to the Governor of TCI for the following year, and maintain the reserve fund at that level.

(h) Revenue recognition

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

(i) Fees and charges

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

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

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

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

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2016

3. Significant accounting policies, continued

(h) Revenue recognition, continued

(ii) Interest income

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

(i) Employee benefits

(i) Short-term employee benefits

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

(ii) Post-employment benefits

The FSC operates a defined contribution pension plan for certain employees. A defined contribution plan, a post-employment benefit, is a pension plan under which the FSC pays fixed contributions into a separate 3rd party entity. The FSC has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions of the FSC are expensed in the consolidated statement of revenue, expenditures and other comprehensive income when incurred.

(j) Impairment

(i) Financial assets

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

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

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

Year ended March 31, 2016

3. Significant accounting policies, continued

(j) Impairment, continued

(i) Financial assets, continued

Financial assets measured at amortised cost

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

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

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

(ii) Non-financial assets

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

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

Year ended March 31, 2016

3. Significant accounting policies, continued

(j) Impairment, continued

(ii) Non-financial assets, continued

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

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

In respect of other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

(k) Operating leases

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

(l) Taxation

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

(m) Related parties

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

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

Year ended March 31, 2016

3. Significant accounting policies, continued

(m) Related parties, continued

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

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

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

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

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

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

Year ended March 31, 2016

3. Significant accounting policies, continued

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

New and amended standards adopted by the FSC

New standards, amendments and interpretations to published standards that became effective for the financial year beginning April 1, 2015 were either not relevant or not significant to the FSC's operations and, accordingly, did not have a material impact on the FSC's accounting policies or consolidated financial statements.

New standards, amendments and interpretations issued but not effective for the financial year beginning April 1, 2015 and not early adopted by the FSC

The following new standards, amendments and interpretations to published standards but not effective for the financial year beginning April 1, 2015 and not early adopted by the FSC are relevant to the FSC's operations:

- IFRS 9, *Financial Instruments* – IFRS 9, published in July 2014, replaces the existing guidance in IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

- IFRS 15, *Revenue from Contracts with Customers* – IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18, *Revenue*, IAS 11, *Construction Contracts* and International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*. IFRS 15 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

- IFRS 16, *Leases* – IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. IFRS 16 provides a single lessee accounting model, requiring lessees to recognise assets and liabilities on the statement of financial position for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17, *Leases*. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019, with early adoption permitted only for companies that also apply IFRS 15.

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

Year ended March 31, 2016

3. Significant accounting policies, continued

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

New standards, amendments and interpretations issued but not effective for the financial year beginning April 1, 2015 and not early adopted by the FSC, continued

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

4. Determination of fair values

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

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

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

The following methods and assumptions have been used:

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

(a) *Loans and receivables*

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

(b) *Held-to-maturity investments*

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

(c) *Other financial instruments*

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

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

Year ended March 31, 2016

4. Determination of fair values, continued

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

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

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

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

5. Cash and cash equivalents

		2016	2015
Current accounts	US$	3,349,158	2,346,818
Savings accounts		1,313,100	2,794,352
Certificates of deposit		574,360	2,389,317
Cash on hand		650	650
	US$	5,237,268	7,531,137

The US$574,360 of certificates of deposit held at March 31, 2016 (2015: US$2,389,317) comprised the following:

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

TURKS AND CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2016

5. Cash and cash equivalents, continued

		2015			
		Principal amount	Maturity value	Interest rate per annum	Maturity Date
CIBC	US$	1,500,000	1,500,168	0.13%	May 4, 2015
RBC		700,000	700,092	0.15%	April 6, 2015
TCBC		189,317	189,355	0.15%	May 25, 2015
	US$	2,389,317	2,389,615		

During the year, the savings accounts earned interest at a rate of 0.40% per annum (2015: 0.40%). Current accounts are non-interest bearing.

6. Term deposit

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

		Principal amount	Maturity value	Interest rate per annum	Maturity Date
March 31, 2016	US$	607,041	607,520	0.16%	June 6, 2016
March 31, 2015	US$	805,754	806,397	0.16%	June 8, 2015

7. Accounts receivable

		2016	2015
Company managers	US$	304,708	99,165
Trust companies		75,501	40,367
Insurance managers		27,000	22,000
Banks		43,000	80,000
Insurance providers and intermediaries		28,309	12,000
Others		5,160	4,400
	US$	483,678	257,932

During the year US$37,885 (2015 – US$nil) of receivables due from a company manager were directly written-off.

8. Due from employees

		2016	2015
Christmas advances	US$	90,306	85,110
Regular salary advances		34,724	26,256
	US$	125,030	111,366

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Year ended March 31, 2016

8. Due from employees, continued

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

9. Held-to-maturity investments

Held-to-maturity investments at March 31, 2016 represented investments in various US debt securities with maturity periods ranging from one to six years (2015: two to seven years) and nominal interest rates of 0.50% to 2.88% (2015: 0.50% to 2.88%).

		2016	2015
Face value	US$	1,500,000	1,500,000
Discount		(3,244)	(3,244)
Accumulated amortisation of discount		1,306	1,223
	US$	1,498,062	1,497,979
Carrying value	US$	1,498,062	1,497,979
Less current portion		(300,317)	–
	US$	1,197,745	1,497,979

During the year the FSC earned US$18,583 (2015: US$12,718) of interest on held-to-maturity investments which was included as part of interest income in the consolidated statement of revenue, expenditures and other comprehensive income.

10. Prepayments and other receivables

		2016	2015
Prepayments to suppliers	US$	36,559	22,112
Other receivables		10,799	91,571
	US$	47,358	113,683

11. Intangible assets

		2016	2015
Software development cost:			
At beginning of year	US$	542,800	467,800
Additions		239,650	75,000
At end of year	US$	782,450	542,800
Accumulated amortisation:			
At beginning of year	US$	186,789	118,175
Amortisation for year		88,011	68,614
At end of year	US$	274,800	186,789
Carrying value	US$	507,650	356,011

Regulating with Honesty, Integrity and Transparency

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Notes to Consolidated Financial Statements, continued

Year ended March 31, 2016

11. Intangible assets, continued

The FSC has been engaged in developing an online Companies Registry (Registry) since 2006. At March 31, 2016 the associated software development costs had a carrying value of US$507,650 (2015: US$356,011). Costs capitalised are amortised over their estimated useful life of seven years.

The Registry was brought into use for internal purposes during the year ended March 31, 2013. The FSC is working towards bringing the Registry into use for external purposes. In January 2016, the contract with the supplier of the Registry was amended to include additional services and to amend the payment terms per the original agreement.

12. Property and equipment

	Land, buildings, improvements & work-in-progress	Office furniture	Office equipment	Computer equipment	Motor vehicles	Total
	US$	US$	US$	US$	US$	US$
Cost:						
April 1, 2014	1,244,207	236,591	101,344	331,546	92,554	2,006,242
Additions	327,448	8,715	2,255	19,451	41,524	399,393
Disposals	–	–	–	–	(32,905)	(32,905)
Reclassification	–	(1,610)	–	1,610	–	–
March 31, 2015	1,571,655	243,696	103,599	352,607	101,173	2,372,730
April 1, 2015	1,571,655	243,696	103,599	352,607	101,173	2,372,730
Additions	463,778	44,493	52,275	58,414	39,524	658,484
Disposals	–	(24,857)	(29,483)	(23,345)	(30,649)	(108,334)
March 31, 2016	2,035,433	263,332	126,391	387,676	110,048	2,922,880
Accumulated depreciation:						
April 1, 2014	127,436	120,646	55,416	239,697	84,337	627,532
Depreciation	69,694	17,140	8,716	38,152	9,952	143,654
Disposals	–	–	–	–	(32,905)	(32,905)
March 31, 2015	197,130	137,786	64,132	277,849	61,384	738,281
April 1, 2015	197,130	137,786	64,132	277,849	61,384	738,281
Depreciation	113,658	20,128	13,184	39,758	18,626	205,354
Disposals	–	(24,857)	(29,483)	(23,345)	(30,649)	(108,334)
March 31, 2016	310,788	133,057	47,833	294,262	49,361	835,301
Carrying value:						
March 31, 2015	1,374,525	105,910	39,467	74,758	39,789	1,634,449
March 31, 2016	1,724,645	130,275	78,558	93,414	60,687	2,087,579

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Year ended March 31, 2016

12. Property and equipment, continued

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

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

	March 31, 2015					
	Land and buildings	Improve-ments	Work-in-progress	Total cost	Accumulated depreciation	Carrying value
	US$	US$	US$	US$	US$	US$
Units C7 & C8	236,731	162,834	–	399,565	(42,058)	357,507
Units C11 & C12	259,650	169,775	–	429,425	(56,591)	372,834
Units D7 & D8	269,690	145,527	–	415,217	(95,752)	319,465
Units K11 & K12	327,448	–	–	327,448	(2,729)	324,719
	1,093,519	478,136	–	1,571,655	(197,130)	1,374,525

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

13. Accounts payable and accrued expenses

		2016	2015
			(as restated)
Accrued legal fees and expenses	US$	515,376	–
Accounts payable		306,638	228,796
Accrued employee benefits		102,299	179,821
Statutory contributions payable		30,376	27,367
	US$	954,689	435,984

As described more comprehensively at note 34 to these consolidated financial statements, the accounts payable and accrued expenses previously reported at March 31, 2015 were overstated by US$266,740, as a result of restatements to conform with IAS 1 and the current year's consolidated financial statement presentation,.

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2016

14. Due to TCIG

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

During the years ended March 31, 2016 and 2015 quarterly assessments of amounts due to TCIG were conducted but payments to TCIG were not always made in full within the time specified in the Ordinance. As at March 31, 2016 and March 31, 2015 the excess payable to TCIG had not been settled within fourteen days as specified in the Ordinance.

At March 31, 2016, US$417,259 (2015: US$3,185,569) was due to TCIG in this regard. During the year US$3,297,537 (2015: US$3,099,054) was transferred to TCIG.

		2016	2015 (as restated)
Due to TCIG at beginning of year	US$	3,185,569	2,897,822
Payments during year:			
May 22, 2014	US$		(1,000,000)
June 5, 2014		–	(1,000,000)
June 24, 2014		–	(611,142)
July 28, 2014		–	(477,428)
March 2, 2015		–	(10,434)
April 14, 2015		(625,788)	–
April 28, 2015		(1,500,000)	–
August 18, 2015		(1,171,749)	–
	US$	(3,297,537)	(3,099,004)
Quarterly assessment of amounts due:			
April - June	US$	–	457,032
July - September		–	–
October - December		–	–
January - March		529,227	2,929,719
	US$	529,227	3,386,751
Due to TCIG at end of year	US$	417,259	3,185,569

The comparative balances of amounts due to TCIG on the consolidated statement of financial position and net surplus for year transferred to TCIG in the consolidated statement of changes in reserves have been restated to conform with IAS 18 and IAS 1.

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Notes to Consolidated Financial Statements, continued

Year ended March 31, 2016

14. Due to TCIG, continued

As a result of these restatements, the amounts previously reported as being due to TCIG at March 31, 2015 were overstated by US$792,725 (note 34).

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

		2016	2015 (as restated)
The Commission	US$	(453,055)	2,504,811
FSC Property		870,314	680,758
	US$	417,259	3,185,569

15. Deferred income

		2016	2015 (as restated)
Annual licence fees	US$	780,049	792,725
Annual maintenance fees		304,556	266,740
Government grants		135,429	181,568
	US$	1,220,034	1,241,033
Current portion:			
Annual licence fees	US$	780,049	792,725
Annual maintenance fees		112,043	57,143
Government grants		45,143	46,139
	US$	937,235	896,007
	US$	282,799	345,026

(a) Annual licence fees

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

		2016	2015 (as restated)
Banks	US$	257,500	257,500
Insurance providers and intermediaries		252,049	265,000
Company managers		113,875	112,975
Trust companies		100,000	90,000
Insurance managers		21,000	24,500
Investment dealers		21,000	21,500
Mutual funds and mutual funds managers		8,500	8,500
Money transmitters		6,125	12,750
	US$	780,049	792,725

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Notes to Consolidated Financial Statements, continued

Year ended March 31, 2016

15. Deferred income, continued

(b) Annual maintenance fees

Annual maintenance fees pertain to advance payments for maintenance of registered trademarks pursuant to the TCI Trade Marks Ordinance. The annual maintenance fees are non-refundable and applicable for financial years ranging from 2017 to 2026 (2015: 2016 to 2025).

(c) Government grants

		2016	2015
Capital Warrants			
Project No. 2714	US$	24,693	24,693
Project No. 2878		358,746	358,746
	US$	383,439	383,439
Accumulated amortisation:			
Project No. 2714	US$	24,693	23,697
Project No. 2878		223,317	178,174
	US$	248,010	201,871
	US$	135,429	181,568

(i) Project No. 2714

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

(ii) Project No. 2878

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

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2016

15. Deferred income, continued

(c) Government grants, continued

(ii) Project No. 2878, continued

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

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

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

The comparative balances of deferred income on the consolidated statement of financial position have been restated to conform with IAS 18 and IAS 1.

As a result of these restatements, the amounts previously reported as deferred income at March 31, 2015 were understated by US$1,059,465, as described more comprehensively at note 34 to these consolidated financial statements.

16. Retained surplus

The retained surplus of US$956,006 (2015: US$956,006) at March 31, 2016 represented the accumulated surplus of the FSC in 2007 prior to implementation of section 17, *Reserve Fund*, of the Ordinance.

17. Fees and charges

		2016	2015 (as restated)
Annual company renewal fees	US$	4,054,073	4,049,175
Annual licence fees		1,754,950	1,704,138
Application fees		980,636	860,182
Land share transfer duty		726,711	1,603,974
Penalties and other fees		635,862	834,778
Business names registration fees		126,364	106,210
	US$	8,278,596	9,158,457

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2016

18. Staff costs

		2016	2015
			(as restated)
Salaries and wages	US$	3,288,315	2,827,774
Insurance and health benefits		197,792	165,730
Gratuities		181,763	166,221
Transportation allowances		64,350	66,550
Contribution to defined contribution pension plan		55,678	45,829
	US$	3,787,898	3,272,104

19. Professional and consultancy fees

		2016	2015
Legal fees and expenses	US$	957,923	48,437
Consultancy and other fees		380,261	288,799
	US$	1,338,184	337,236

In the ordinary course of the FSC's activities, the FSC is a party to several legal actions. During the year the FSC incurred US$213,620 (2015 – US$nil) of costs and damages on adverse findings by the TCI court in relation to these legal actions. Included in legal fees and expenses for the year ended March 31, 2016 was US$744,303 (2015 – US$48,437) of legal fees.

20. Rental of buildings

		2016	2015
FSC office - Grand Turk	US$	243,712	155,136
FSC office - Providenciales		33,600	33,600
Accommodation for Managing Director		35,540	31,800
Other lease payments		15,900	23,400
	US$	328,752	243,936

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

TURKS AND CAICOS ISLANDS
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Notes to Consolidated Financial Statements, continued

Year ended March 31, 2016

21. Office expenses

		2016	2015
Office supplies	US$	131,205	130,587
Cleaning services		35,948	32,627
Printing and binding		10,834	8,142
	US$	177,987	171,356

22. Training

		2016	2015
Local	US$	93,104	78,606
Academic		49,162	41,518
Overseas		33,181	7,500
	US$	175,447	127,624

23. Travel and subsistence

		2016	2015
International:			
Airfares	US$	56,126	14,045
Accommodation and subsistence		83,002	33,430
Others		1,280	208
	US$	140,408	47,683
Local:			
Air and sea fares	US$	19,290	15,974
Accommodation and subsistence		11,496	3,498
Motor vehicle expenses		–	20,021
	US$	30,786	39,493
	US$	171,194	87,176

24. Communication

		2016	2015
Line rental	US$	51,156	34,585
Telephone - local costs		32,571	30,897
Telephone - international costs		18,851	9,439
Internet charges		17,067	8,424
Postage and courier		12,762	9,138
	US$	132,407	92,483

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2016

25. Directors fees and expenses

		2016	2015
Directors fees	US$	62,500	65,500
Directors expenses		50,957	91,368
	US$	113,457	156,868

26. Other operating expenses

		2016	2015 (as restated)
Bank charges	US$	37,465	26,240
Work permit expenses		25,281	–
Office relocation expenses		34,000	–
Others		9,661	6,832
	US$	106,407	33,072

27. Related party balances and transactions

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

		2016	2015
Transactions			
NHIB contributions	US$	97,262	83,525
NIB contributions	US$	100,529	82,206
Transfer of surplus to TCIG (note 14)	US$	529,227	3,386,751
Amount of surplus transferred to TCIG (note 14)	US$	3,297,537	3,099,004
Balances			
Unpaid NIB and NHIP contributions (note 13)	US$	30,376	27,367
Unpaid surplus to be transferred to TCIG (note 14)	US$	417,259	3,185,569
Key management personnel compensation			
Short-term benefits			
Salary and benefits of key management personnel	US$	906,883	887,167
Allowances of the board of directors	US$	62,500	65,500
Directors expenses	US$	50,957	91,368
Post-employment benefit			
Contributions to pension fund	US$	7,648	7,127

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Year ended March 31, 2016

27. Related party balances and transactions, continued

Loans to key management personnel

		2016	2015
Beginning balance	US$	13,717	39,150
Loans advanced during year		34,400	51,300
Loan repayments received during year		(41,150)	(76,733)
Ending balance	US$	6,967	13,717

28. Financial instruments

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

(a) Credit risk

(b) Liquidity risk

(c) Market risk

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

Risk management framework

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

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

TURKS AND CAICOS ISLANDS
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Notes to Consolidated Financial Statements, continued

Year ended March 31, 2016

28. Financial instruments, continued

Risk management framework, continued

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

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

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

(a) Credit risk

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

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

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

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

The maximum exposure to credit risk at March 31 was:

		Carrying Amount	
		2016	2015
Current assets:			
Cash and cash equivalents	US$	5,237,268	7,531,137
Term deposit		607,041	805,754
Accounts receivable		483,678	257,932
Due from employees		125,030	111,366
Other receivables (note 10)		10,799	91,571
Current portion of held-to-maturity investments		300,317	–
		6,764,133	8,797,760
Non-current assets:			
Held-to-maturity investments		1,197,745	1,497,979
	US$	7,961,878	10,295,739

TURKS AND CAICOS ISLANDS
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Notes to Consolidated Financial Statements, continued

Year ended March 31, 2016

28. Financial instruments, continued

(a) Credit risk, continued

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

		Carrying Amount 2016	2015
Company managers	US$	304,708	99,165
Trust companies		75,501	40,367
Insurance managers		27,000	22,000
Banks		43,000	80,000
Insurance providers and intermediaries		28,309	12,000
Others		5,160	4,400
	US$	483,678	257,932

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

		Carrying Amount 2016	2015
Providenciales	US$	458,571	256,225
Grand Turk		25,107	1,707
	US$	483,678	257,932

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

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

		2016		2015	
		Gross	Impairment	Gross	Impairment
Past due					
Not later than one month	US$	355,000	–	235,275	–
Later than one month but not later than three months		115,000	–	11,883	–
Later than three months		13,678	–	10,774	–
Outstanding but not past due		–	–	–	–
	US$	483,678	–	257,932	–

TURKS AND CAICOS ISLANDS
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Year ended March 31, 2016

28. Financial instruments, continued

(a) Credit risk, continued

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

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

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

	2016	2015
US Treasury bonds	AA+; Aaa	AA+; Aaa

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

		2016	2015
Turks and Caicos Islands			
Cash and cash equivalents	US$	5,237,268	7,531,137
Term deposit		607,041	805,754
		5,844,309	8,336,891
United States of America			
Held-to-maturity investments		1,498,062	1,497,979
	US$	7,342,371	9,834,870

(b) Liquidity risk

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

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

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

Year ended March 31, 2016

28. Financial instruments, continued

(b) Liquidity risk, continued

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

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

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

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

		2015 (as restated)			
		Carrying amount	Contractual cash flows	Under 1 year	> 1 year
Cash and cash equivalents	US$	7,531,137	7,531,435	7,531,435	–
Term deposit		805,754	806,397	806,397	–
Accounts receivable		257,932	257,932	257,932	–
Due from employees		111,366	111,366	111,366	–
Other receivables		91,571	91,571	91,571	–
Held-to-maturity investments		1,497,979	1,567,350	18,500	1,548,850
Accounts payable and accrued expenses		(435,984)	(435,984)	(435,984)	–
Due to TCIG		(3,185,569)	(3,185,569)	(3,185,569)	–
	US$	6,674,186	6,744,498	5,195,648	1,548,850

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2016

28. Financial instruments, continued

(c) Market risk

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

(i) Interest rate risk

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

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

		2016	2015
Fixed rate instruments:			
Financial assets			
Certificates of deposit	US$	574,360	2,389,317
Term deposit		607,041	805,754
Held-to-maturity investments		1,500,000	1,500,000
Financial liabilities		–	–
	US$	2,681,401	4,695,071

Cash flow sensitivity analysis for fixed rate instruments

A change of 100 basis points in interest rates for fixed rate instruments at March 31 would have increased/(decreased) surplus in the consolidated statement of revenue, expenditures and other comprehensive income by US$26,814/(US$26,814) (2015: US$46,951/(US$46,951)) assuming all other variables remained constant.

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

Year ended March 31, 2016

28. Financial instruments, continued

(c) Market risk, continued

(i) Interest rate risk, continued

		2016	2015
Variable rate instruments:			
Financial assets			
Savings accounts	US$	1,313,100	2,794,352
Financial liabilities		–	–
	US$	1,313,100	2,794,352

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates for variable rate instruments at March 31 would have increased/(decreased) surplus in the consolidated statement of revenue, expenditures and other comprehensive income by US$13,131/(US$13,131) (2015: US$27,944/(US$27,944)) assuming all other variables remained constant.

(ii) Fair values

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

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

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2016

28. Financial instruments, continued

(c) Market risk, continued

(ii) Fair value, continued

		2015 (as restated)			
		Carrying Amount	Fair Value Level 1	Level 2	Level 3
Cash and cash equivalents	US$	7,531,137	–	–	–
Term deposit		805,754	–	–	–
Accounts receivable		257,932	–	–	–
Due from employees		111,366	–	–	–
Other receivables		91,571	–	–	–
Held-to-maturity investments		1,497,979	–	1,518,621	–
Accounts payable and accrued expenses		(435,984)	–	–	–
Due to TCIG		(3,185,569)	–	–	–
	US$	6,674,186	–	1,518,621	–

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

29. Capital management

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

Management have determined that the most appropriate measure of recurrent expenditure in accordance with the above requirement is the budget as submitted annually to the Governor of TCI for the following year, and maintain the reserve fund at that level.

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

Year ended March 31, 2016

29. Capital management, continued

At March 31, 2016 and 2015 the FSC had maintained the required reserve fund as required by section 17 of the Ordinance. At March 31, 2016 the required reserve fund was US$7,045,678 (2015: US$6,489,719) which also represented the FSC's budget, as submitted to the Governor of TCI, for the following year.

30. Comparison of actual results with budget during year

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

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

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

Year ended March 31, 2016

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

			March 31, 2015	
		Actual	Budget	Variance
		(as restated)		(as restated)
Revenue				
Fees and charges	US$	9,158,457	6,828,187	2,330,270
Government grants		46,656	–	46,656
Interest and other income		66,598	18,000	48,598
		9,271,711	6,846,187	2,425,524
Expenditures				
Staff costs		(3,272,104)	(3,391,097)	118,993
Professional and consultancy fees		(337,236)	(360,000)	22,764
Rental of buildings		(243,936)	(381,336)	137,400
Depreciation and amortisation		(212,268)	(180,000)	(32,268)
Office expenses		(171,356)	(138,600)	(32,756)
Directors fees and expenses		(156,868)	(140,700)	(16,168)
Training		(127,624)	(299,000)	171,376
Repairs and maintenance		(105,429)	(179,430)	74,001
Local hosting and entertainment		(100,593)	(38,500)	(62,093)
Utilities		(95,291)	(119,071)	23,780
Communication		(92,483)	(81,839)	(10,644)
Advertising		(87,578)	(52,000)	(35,578)
Travel and subsistence		(87,176)	(254,190)	167,014
Subscriptions and contributions		(63,454)	(51,552)	(11,902)
Insurance		(61,192)	(153,020)	91,828
Audit and accounting		(50,000)	(50,000)	–
Other operating expenses		(33,072)	(29,399)	(3,673)
Security		(8,358)	(11,043)	2,685
		(5,306,018)	(5,910,777)	604,759
Net surplus	US$	3,965,693	935,410	3,030,283

TURKS AND CAICOS ISLANDS
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Notes to Consolidated Financial Statements, continued

Year ended March 31, 2016

31. Contingent liabilities

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

32. Breach of the Ordinance

As disclosed at notes 3(g) and 14 to these consolidated financial statements, Section 17 of the Ordinance mandates that if, on a quarterly basis, amounts held in the reserve fund exceed the expected recurrent expenditure of the FSC for the relevant financial year, the FSC is mandated to pay a sum equal to the excess to TCIG, within fourteen days of the last working day of the quarter, provided always that the balance in the reserve fund does not fall below US$5 million as a result of any such payment to TCIG.

During the years ended March 31, 2016 and 2015 such payments to TCIG were not always made in full within the time specified in the Ordinance. As at March 31, 2016 and March 31, 2015 the excess payable to TCIG had not been settled within fourteen days as specified in the Ordinance.

33. Commitment

On December 18, 2015 the FSC entered into an agreement with a contractor for renovation work on certain of the FSC's premises (units K11 and K12 at Caribbean Place, Providenciales). The total contract price is US$305,000.

At March 31, 2016 the total payments made by the FSC to the contractor were US$173,353. The FSC is committed to incur and pay the contractor the remaining costs to completion.

34. Restatement of 2015 and 2014 consolidated financial statements

On April 1, 2015 the FSC changed its accounting policy with respect to recognition of revenue on certain annual licence fees from a modified cash basis of accounting to an accruals basis of accounting to comply with IAS 18. The 2015 and 2014 consolidated financial statements were restated to conform with IAS 18, IAS 1 and the current year's consolidated financial statement presentation.

TURKS AND CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2016

34. Restatement of 2015 and 2014 consolidated financial statements, continued

Consolidated statement of financial position

		March 31, 2015		
		As previously reported	Adjustment	As restated
Assets:				
Current assets	US$	8,819,872	–	8,819,872
Non-current assets		3,488,439	–	3,488,439
	US$	12,308,311	–	12,308,311
Liabilities and Reserves				
Current liabilities:				
Accounts payable and accrued expenses	US$	702,724	(266,740)	435,984
Due to TCIG		3,978,294	(792,725)	3,185,569
Current portion of deferred income		46,656	849,351	896,007
		4,727,674	(210,114)	4,517,560
Non-current liability:				
Non-current portion of deferred income		134,912	210,114	345,026
		4,862,586	–	4,862,586
Reserves:				
Reserve fund				
Beginning balance		5,910,777	–	5,910,777
Net surplus for year		3,920,503	45,190	3,965,693
Net surplus for year transferred to TCIG		(3,341,561)	(45,190)	(3,386,751)
		6,489,719	–	6,489,719
Retained surplus		956,006	–	956,006
		7,445,725	–	7,445,725
	US$	12,308,311	–	12,308,311

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2016

34. Restatement of 2015 and 2014 consolidated financial statements, continued

Consolidated statement of financial position, continued

		March 31, 2014		
		As previously reported	Adjustment	As restated
Assets:				
Current assets	US$	9,845,544	–	9,845,544
Non-current assets		1,728,335	–	1,728,335
	US$	11,573,879	–	11,573,879
Liabilities and Reserves				
Current liabilities:				
Accounts payable and accrued expenses	US$	743,135	(258,992)	484,143
Due to TCIG		3,735,737	(837,915)	2,897,822
Current portion of deferred income		46,656	888,707	935,363
		4,525,528	(208,200)	4,317,328
Non-current liability:				
Non-current portion of deferred income		181,568	208,200	389,768
		4,707,096	–	4,707,096
Reserves:				
Reserve fund				
Beginning balance		5,535,928	–	5,535,928
Net surplus for year		3,796,138	23,553	3,819,691
Net surplus for year transferred to TCIG		(3,421,289)	(23,553)	(3,444,842)
		5,910,777	–	5,910,777
Retained surplus		956,006	–	956,006
		6,866,783	–	6,866,783
	US$	11,573,879	–	11,573,879

The US$266,740 adjustment to accounts payable and accrued expenses at March 31, 2015 (2014 – US$258,992) related to reclassification of deferred income on annual maintenance fees which were previously classified as part of accounts payable and accrued expenses when they should have been classified as part of deferred income.

34. Restatement of 2015 and 2014 consolidated financial statements, continued

Consolidated statement of financial position, continued

The US$849,351 adjustment to current portion of deferred income at March 31, 2015 (2014 – US$888,707) and US$210,114 (2014 – US$208,200) adjustment to non-current portion of deferred income at March 31, 2015, being a total adjustment to deferred income of US$1,059,465 (2014 – US$1,096,907), related to the aforementioned reclassification to comply with IAS 1, that requires separate presentation of items of a dissimilar nature, together with the US$792,725 (2014 – US$837,915) effect of changing the FSC's revenue recognition policy on certain annual licence fees from a modified cash basis of accounting to an accruals basis of accounting to comply with IAS 18.

The US$792,725 adjustment to due to TCIG at March 31, 2015 (2014 – US$837,915) related to the impact on the amount due to TCIG under the Ordinance of the aforementioned change in the FSC's revenue recognition to comply with IAS 18 which which resulted in amounts being shown as due to TCIG in an earlier period than they should have been if the accounting policy for revenue recognition had complied with IAS 18.

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

Year ended March 31, 2016

34. Restatement of 2015 and 2014 consolidated financial statements, continued

Consolidated statement of revenue, expenditures and other comprehensive income

The 2015 consolidated statement of revenue, expenditures and other comprehensive income were restated to conform with IAS 18, IAS 1 and the current year's presentation.

		For the year ended March 31, 2015		
		As previously reported	Adjustment	As restated
Revenue				
Fees and charges	US$	9,113,267	45,190	9,158,457
Government grants		46,656	–	46,656
Other income		33,215	–	33,215
Interest income		27,883	–	27,883
Gain on disposal of property and equipment		5,500	–	5,500
		9,226,521	45,190	9,271,711
Expenditures				
Staff costs		(3,428,972)	156,868	(3,272,104)
Professional and consultancy fees		(337,236)	–	(337,236)
Rental of buildings		(243,936)	–	(243,936)
Office expenses		(171,356)	–	(171,356)
Directors' fees and expenses		–	(156,868)	(156,868)
Depreciation		(212,268)	68,614	(143,654)
Training		(127,624)	–	(127,624)
Repairs and maintenance		(105,429)	–	(105,429)
Local hosting and entertainment		–	(100,593)	(100,593)
Utilities		(95,291)	–	(95,291)
Communication		(92,483)	–	(92,483)
Advertising		–	(87,578)	(87,578)
Travel and subsistence		(87,176)	–	(87,176)
Amortisation of intangible assets		–	(68,614)	(68,614)
Subscriptions and contributions		(63,454)	–	(63,454)
Insurance		(61,192)	–	(61,192)
Audit and accounting		(50,000)	–	(50,000)
Other operating expenses		(221,243)	188,171	(33,072)
Security		(8,358)	–	(8,358)
		(5,306,018)	–	(5,306,018)
Other comprehensive income		–	–	–
Net surplus for year	US$	3,920,503	45,190	3,965,693
Net surplus for year transferred to:				
Reserve fund		578,942	–	578,942
TCIG		3,341,561	45,190	3,386,751
	US$	3,920,503	45,190	3,965,693

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

Year ended March 31, 2016

34. Restatement of 2015 and 2014 consolidated financial statements, continued

Consolidated statement of cash flows

The 2015 consolidated statement of cash flows were restated to conform with IAS 1 and the current year's presentation.

		For the year ended March 31, 2015		
		As previously reported	Adjustment	As restated
Cash flows from operating activities:				
Net surplus for year	US$	578,942	3,386,751	3,965,693
Adjustments for:				
Depreciation		212,268	(68,614)	143,654
Amortisation of intangible assets		–	68,614	68,614
Government grant		(46,656)	46,656	–
Interest income		(27,883)	–	(27,883)
Gain on sale of property and equipment		(5,500)	–	(5,500)
Amortisation of discount on held-to-maturity investments		–	(1,223)	(1,223)
		711,171	3,432,184	4,143,355
Changes in operating assets:				
Change in accounts receivable		(119,795)	–	(119,795)
Change in due from employees		17,936	–	17,936
Change in prepayments and other receivables		(42,593)	–	(42,593)
Changes in operating liabilities:				
Change in accounts payable and accrued expenses		202,146	(250,305)	(48,159)
Change in deferred income		–	(84,098)	(84,098)
Net cash from operating activities		768,865	3,097,781	3,866,646
Cash flows used in investing activities:				
Change in term deposit		199,697	–	199,697
Proceeds from sale of property and equipment		5,500	–	5,500
Acquisition of held-to-maturity investments		(1,497,979)	1,223	(1,496,756)
Additions to property and equipment		(399,393)	–	(399,393)
Interest income received		27,883	–	27,883
Additions to intangible assets		(75,000)	–	(75,000)
Net cash used in investing activities		(1,739,292)	1,223	(1,738,069)
Cash flows used in financing activity:				
Cash transferred to TCIG		–	(3,099,004)	(3,099,004)
Net cash used in financing activity		–	(3,099,004)	(3,099,004)
Net decrease in cash and cash equivalents		(970,427)	–	(970,427)
Cash and cash equivalents at beginning of year		8,501,564	–	8,501,564
Cash and cash equivalents at end of year	US$	7,531,137	–	7,531,137

NOTES