Regulating with Honesty, Integrity and Transparency

TURKS AND CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION

2015
Annual Report

Beautiful by Nature

TURKS AND CAICOS ISLANDS

BEAUTIFUL BY NATURE

FINANCIAL SERVICES COMMISSION

ANNUAL REPORT 2015

Reporting Period April 1, 2014 to March 31, 2015

Directors of the Financial Services Commission

Seated Left to Right:

Mrs. Shonia Thomas-Been (Acting PS of Finance); Sir Errol Allen (Chairman); Mr. Oswald Simons (Deputy Chairman)

Standing Left to Right:

Mr. Kevin Mann; Mr. Neville Grant; Mr. J. Kevin Higgins (Managing Director)

Directors and Senior Management

Board Of Directors

Sir Errol Allen – Chairman

Oswald Simons – Deputy Chairman

Athenee Harvey – Permanent Secretary, Ministry of Finance

Neville Grant – Director

Kevin Mann - Director

J. Kevin Higgins – Managing Director

Senior Management

Claudia Coalbrooke - Senior Head, Grand Turk Office and Head Company Managers & Investments

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

Kenisha Bacchus – Legal Counsel

Marlon Joseph – Head Banks, Trusts and Money Transmitters

Paul Coleman - Head Compliance

Ubaldus Raymond – Head Economics and Statistics

Cathrice Williams – Head Information Technology

Karlene Ferrier – Senior Deputy Registrar of Companies

Deborah Ashton – Deputy Registrar of Companies

Teka Roberts – Office Manager, Grand Turk

Tianna Williams – Office Manager, Providenciales

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REPORT OF THE COMMISSION

Profile of the Directors

Sir Errol Allen

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

Athenee Harvey

Miss Harvey served in various Government posts such as at the Treasury division of the Ministry of Finance, as Accountant General and now holds the position of Permanent Secretary, Ministryof Finance since 2012. Miss Harvey has various degrees in Accounting. Miss Harvey has been on leave since November 2014.

Oswald Simons

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

Mr. Neville Grant

Mr. Grant was appointed to sit on the board with effect from April 1, 2011. Mr. Grant has vast experience in the field of financial supervision and regulation and was a consultant to the International Monetary Fund, Governments of Jamaica, Vanuatu and Zambia. He is a past Managing Director of the Cayman Islands Monetary Authority.

Kevin Mann

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

J. Kevin Higgins

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

Mrs. Shonia Thomas-Been

Mrs. Been holds an MBA in Finance and has extensive experience in the fields of Finance and Management. Mrs. Been is employed to the Ministry of Finance and has been acting in the post of Permanent Secretary since November 2014.

Chairman's Report

Errol Allen
Chairman

The economic environment in which the Financial Services Commission of the Turks and Caicos Islands has had to operate during the period under review has been a most challenging one. Given the still fragile recovery being experienced by the World Economy, of which the Turks and Caicos Islands are an integral part, the Board and Management continue to see the need to forge ahead with the drive to strengthen the regulatory capacity of the Commission. This is in order to ensure that the financial sector is better placed to withstand any sudden shocks which may occur in the future. To this end sectoral reviews have been conducted in the banking and insurance sectors with the result that enhanced regulatory oversight measures are being considered. One such measure has been the requests to have the Banking Bill include provisions relating to problem bank resolution, until a much broader and more comprehensive framework can be developed. A financial stability framework for entities deemed systemically important is also being explored, while efforts are in train to develop the necessary macroeconomic data and information gathering with a view to improving our understanding of the environment in which our licensees operate.

Notwithstanding the existing challenges, the Commission has been able to record significant achievements during the period, not the least of which was the development of a new Liquidity Regime for banks. This regime seeks to introduce to the sector the manner in which liquidity is to be assessed and reported to the Commission. A policy on breaches by licensees on any regulatory requirement was developed to guide the Commission's staff towards ease of application. The Banking Bill was brought to the stage where public consultation has taken place and feedback considered. With respect to the Insurance sector, numerous regulatory gaps were closed with the promulgation of various Rules and Guidelines. These developments have led to the Commission being placed in a more comfortable position to host the IMF Mission which is due to take place early in the new fiscal year.

The Commission was unable to advance the implementation of the Second Basel Accord during the year. Basel II, initially published in June 2004, was intended to upgrade international standards that determine how much capital banks should hold to guard against financial and operational risks which these institutions face. The rules sought to ensure that the greater the risk to which a bank is exposed, the greater the amount of capital the bank needs to hold to safeguard its solvency and economic stability. Basel II attempted to accomplish this by establishing risk capital management requirements. It was only implemented in 2008 by major economies in Europe and the USA, but that year's financial crisis intervened before it could become fully effective.

The focus of developing countries like the Turks and Caicos Islands must continue to be on the implementation of Basel II, while being ever cognizant of the further developments taking place elsewhere with the introduction of Basel III. Indeed, Basel III will require banks to hold top quality capital totaling 8% of their risk bearing assets, but are given up to 2019 to comply. This third instalment of the Basel Accord was developed in response to the deficiencies in financial regulations revealed following the financial crisis of 2007/2008.

The Board in the meantime has been focusing its attention towards strengthening its corporate governance framework and ensuring that Directors are being kept abreast of recent trends in the financial services business. As such a sub-committee of the Board was appointed to review the Commission's Charter, its Vision, Mission and Strategic direction in consort with the contemporary regulatory environment. It is also proposed to have a Retreat to discuss further, the required strategic management and action plans. Work will continue in these areas during the coming year. In tandem with the need to upgrade our framework, the Directors were provided with training during 2014 and early 2015. These training programmes introduced new perspective from which to view the role of Directors.

The Commission's application for membership of the International Organization of Securities Commissions (IOSCO) has been approved and became effective in August 2014. Membership

Chairman's Report Cont'd.

in IOSCO will enable the jurisdiction to maintain a strong reputation in the international community. It may also be construed as a signal that the Turks and Caicos Islands possess, at this point in time, the quality of regulations that instill trust and confidence in the market and provide a pathway towards development of a local securities market.

Towards the end of the fiscal year the Commission's oversight and management structure was reviewed by a consultant appointed by the UK Government. That review indicated areas in which the Commission can improve its operations and interaction with both industry and the public at large. Those recommendations were fully accepted by the Board and Management and resulted in the crafting of an action plan for the implementation of those measures. Steps are being taken to broaden and deepen the process of consultation and information sharing with stakeholders, and to facilitate a more acute awareness of the Commission's activities, plans and policies. The Board has also undertaken to develop an annual Business Plan to be published at the start of each year.

During the coming year action is expected to be advanced in the following priority areas:

1 Conceptualization of a plan for human resource development and training of staff at all levels across the Commission;

2. Facilitation of the development of a new platform for interbank transactions clearing and

3. Assessment of how client satisfaction and interface can be improved through a satellite Registry Office in Providenciales to complement the main office in Grand Turk.

In closing, I wish to extend my thanks to my colleague Directors for their collective stewardship to the Financial Services Commission over the past year. I wish also on behalf of the Board of Directors to extend my gratitude to Management and Staff for their dedicated service to the Commission as together we seek to achieve a higher level of success.

Sincerely

Sir Errol Allen

Chairman

Managing Director's Report

J. Kevin Higgins
Managing Director

Overview

One of the major focuses of the Commission during the period under review was the continued preparation for the impending International Monetary Fund's Financial Sector Assessment Programme (IMF FSAP), which is established to be underway in the first quarter of the next period. Major resources and attention were placed on this area, as a favourable outcome for the assessment is seen as critical to the further stability and development of the TCI financial sector.

The IMF assessment will come at a pivotal time for the TCI and presents an opportunity to demonstrate that notwithstanding the certain challenges faced in recent years, the country is firmly on the path to greater compliance with international financial and supervisory standards.

Primary among the preparatory work was rigorous selfassessment of the Commission's supervisory programme against the Core Principles for Effective Banking Supervision (often referred to as the Basel Core Principles or BCPs), which covers the banking sector, and the Insurance Core Principles (ICPs), dealing with insurance entities. Both sets of Core Principles articulate international standard setters' minimum expectations of financial supervisory authorities, as well as their expectations in relation to governance and risk management mechanisms within banks and insurance companies. In the years since their inception, the Core Principles have undergone several revisions. Most recently, the ICPs were revised in 2011 and the BCPs in 2012, to incorporate learnings from the 2008 financial crisis. The revisions seek to place greater emphasis on the intensity and effectiveness of supervision, the need for early identification of emerging risks, and the adequacy of supervisory frameworks in place to prevent systemic crises.

The Commission undertook the self-assessment utilizing the services of external, independent experts in the respective areas. The outcomes revealed significant improvements have been made to the regulatory and supervisory framework since the last Fund visit in 2003. For one thing, a greater degree of independence of the Commission has been achieved through appropriate funding. Deeper and more robust regulatory tools are in place and significant enhancement in the number and capacity of the supervisory team has been made.

The self-assessments also revealed a number of areas in which more work need to be done. Among these are (1) the need to put in place a formal safety net mechanisms for the protection of policyholders and depositors (2) a framework for management of systemic crises (3) the urgent need for enactment of updated domestic insurance legislation, and for implementation of similar legislation for international insurers (4) expansion and intensification of the on-site supervision efforts and strengthening of internal procedures in place to guide supervision and (5) full transition to a risk-based supervisory framework.

Notwithstanding the shortfalls, and even with the further heightening of global standards since the last assessment, the Commission anticipates improvement in the country's overall ratings will be achieved when the Mission submits its report.

Policy Initiatives

In the overall drive to assess and strengthen the Commission's supervisory capacity, it was decided that a study of crucial areas of the financial Industry should be conducted to determine their levels of systemic importance to the overall economy. In that regard the banking and insurance sectors were assessed and it was determined that four (4) of the six (6) local banks were systemically important institutions. The insurance companies were deemed nonsystemically important, given their size and ownership structure.

Having regard to the level of importance of the banks in the overall scheme of things, it was determined that their structure should be reviewed to enhance their capability to withstand shocks. This will take the form of new capital buffers. This led to the decision that banking entities, going forward, should revise their ownership structures, to ensure that they are locally incorporated, where presently not the case. Discussions are continuing on this critical issue with two (2) banking entities to ensure full compliance and they were given an extended deadline in which to move to the new structures.

Another critical policy initiative introduced during the period, and which is expected to continue on a regular, scheduled basis going forward, will be the stress testing of the banking entities. The first tests conducted by the Commission's consultants as well as by the IMF indicated that all of the banks had passed.

While the jurisdiction awaits a full-fledged upgrade to the framework to deal with problem institutions, it was decided that immediate measures could be taken and to this end it was agreed that the scope of the Banking Bill under consideration would be increased to include a section on problem bank resolution. This will be of tremendous importance to both the regulator and the jurisdiction so as to help prevent a repeat of the circumstances surrounding the failure of a former bank.

Various policy documents were issued during the period, to guide our thoughts as well as to satisfy the Industry's expectations of the regulator. A new Bank Licensing Policy guideline was issued, which seeks to set out the legal framework, the Commission's powers and the circumstances under which bank licenses will be issued. Other guidelines, applicable to the domestic insurance sector, were issued and include: Capital and Solvency Guidelines for Domestic Insurers and Guidelines on Responsibilities of an Insurance Manager. These were published on the Commission's website.

Work continues on the Action Plan 2012-2016. The document was reviewed and updated in the period to indicate those areas which were achieved and those which are outstanding. Critical timelines have been revised.

The Board of the Commission agreed in principle that in order to enhance the efficiency of the Registry, a satellite Companies Registry Office could be located in Providenciales. This move would help to facilitate doing business with the jurisdiction much easier. This matter is being pursued.

A move is being made towards the implementation of a computerized clearing house system for cheques to allow the banks to move away from the current manual processing. This should reduce clearing time as well as improve the efficiency of the inter-bank system. A steering committee was formed, under the chairmanship of the Head of IT of the Commission, to look at the implementation details. Work on this is expected to be significantly advanced by the end of the next period.

Enforcement

During the period under review the Commission continued to increase its oversight of entities supervised. The enhanced supervision continues to reveal areas in which licensees are not fully compliant. The oversight resulted in forty two (42) enforcement actions being taken with the imposition of penalties and revocation of licenses. Directives were also issued in a few circumstances, two (2) of which were challenged in the local Courts.

To better serve the needs of the Commission and to ensure a broader perspective in relation to industry wide compliance matters, the Designated Non-Financial Businesses and Professionals Unit (DNFBPs) was re-designated as the Compliance Unit, which has wider oversight mandate on all matters dealing with Anti-Money Laundering and Terrorist Financing, whether of a licensed entity or not. To this end the Department was beefed up with the addition of another staff member. More persons are expected to join this area in the future.

Co-operation

The Commission continues to seek to fulfil its obligations by co-operating with both international and domestic agencies dealing with regulation, supervision, prosecution or law enforcement. Noticeable assistance was provided to the United States Securities and Exchange Commission and the United States Department of Justice. On the local level information on entities registered were provided to various bodies, as needs be.

The Commission is actively co-operating with other agents of state involved in the fight against money laundering to conduct a co-ordinated National Risk Assessment (NRA) of the jurisdiction. This process is ongoing.

To further enhance the supervisory framework or to provide a platform for the sharing of information, additional requests for Memoranda of Understanding were made. Two (2) were signed during the period, one with the Georgia Department of Insurance. Several of the insurance entities supervised are headquartered in the State of Georgia and the signing of this memorandum will help in the supervision process for those entities. Seven (7) others are at varying stages of discussion.

Training

Training continues to play a pivotal role in the Commission's push to upgrade the skills of both the staff of the Commission as well as that of the supervised Industry. Having recognized the need for enhanced training in the area of the credit granting process by banks, and having regard to the preponderance of real estate transactions, the Commission saw it expedient to organize a training course in this area. Two seminars were put on, one in August 2014 and the other one in October of the said year, with the trainers drawn from the Caribbean. These seminars were well received.

The table below provides a synopsis of relevant training carried out by, or under the aegis of, the Commission.

TABLE 1 Training for Staff and Industry Participants

Date Held	Topic of Seminar	Areas Covered	Attendees
August 2014	Credit Analysis	Understanding how Banks Grant & Manage	19
September 2014	Compliance	Risk Assessment, Designing Compliance Programme & Corporate Governance	78
October 2014	Loan Portfolio Management	Retail and Corporate Credit & Credit Risk Grading	18

Review of the Industry

The banking sector continues to be strong, with stress testing conducted on them, primarily in relation to credit. The tests reveal that under normal circumstances the banks will be able to withstand certain shocks. The number of banks remained steady compared to the previous year, with a growth of 4% in the overall banking sector assets. The overall capital adequacy ratio declined somewhat to 29% (but still way above the regulatory minimum of 11%). This decline in the capital ratio was partly attributable to an increase in loan loss provisioning, occasioned by a need to address asset quality due to higher non-performing loans. Deposits continue to grow, showing a continued confidence in the TCI banking sector. We are hoping that the new core banking law and the associated Code will be in place by the end of the next fiscal year.

The insurance sector, particularly the international area through the Producer Owned Insurance Companies, continues to show growth, in the number of licences issued. Significant work has been done in boosting the oversight capacity of the sector through numerous rules issued to participants on how the Commission expects them to operate, going forward. These new rules will only augur well for a stronger sector.

Work continues to clean up the Insurance Database, and this resulted in a 12% reduction in the number of companies being reported. As of March 2014 the number of companies was 7,034 and this declined to 6,217 as of the current period.

The Insurance Bill is still being reviewed at the Attorney General's level and we hope that it can be placed before Parliament by the middle of the succeeding period. We anticipate its passage with much hope and expectations, as within the document it contains significant provisions for the stability and improved management of the domestic insurance sector.

Table 2 below provides a synopsis of the regulatory activities as they apply to the supervised sectors.

TABLE 2 Activities (Regulatory) by Type for the Period

Type of Activity	Banks	Insurance Entities	Trusts	Company Managers	Money Transmitters	Mutual Funds	Invest. Dealers	Total
Licenses Issued	-	873	-	2	1	1	-	877
Inspections	1	3	-	-	1	-	-	5
Revocation/ Surrender	-	109	1	2	2	-	-	114
Other Action	6	24	3	1	-	-		34
Meetings & Discussions Held	10		2	-	-	-	-	12

The Companies Registry Division continues to work assiduously to ensure the full roll out of the KRegistry system that will provide the new platform for company incorporations and document upload and public viewing. This is expected to greatly enhance the profile of the jurisdiction once completed. The counter processing phase, which is the phase dealing with in-house document receipting, uploading and viewing, is currently being used. The final two phases, which cover remote documents filing, incorporations and external viewing capabilities, are expected to be fully functional by the end of the next period. We await the passage of the Electronics Transactions Regulations by the Parliament to put this into effect.

Table 3 provides a summary of the main data relating to the activities of the Registries as well as licences issued during the period.

TABLE 3 Select Indicators (Units) for the Period

Type of Activity	2014/2015	2013/2014	2012/2013
Licenses Issued	877	841	769
Companies Incorporated	1,405	1,453	1,286
Business Names Registered	1,076	1,107	506
Annual Returns Filed	12,147	12,151	11,992
Number of Companies on the Register	15,564	14,548	13,296

I am happy to report that the Commission continues to be independent and financially strong, with the Reserve Fund standing at just under $6.5M.

Looking Ahead

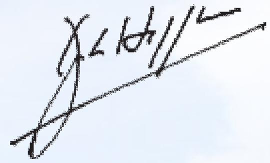
In the upcoming period we await the outcome of the IMF FSAP report and will eagerly work to implement any necessary recommendations made that will not only help to strengthen the regulatory capacity but also act as a signal that the jurisdiction (a) takes its commitment to the stability of the financial sector very seriously and (b) send a signal to the world that the Islands have strong rules which are transparent and which will act to deter any attempts at harmful use of the financial vehicles available locally.

We will also be working to implement a full roll out of the risk based oversight framework for all banking entities, which will allow us to focus more on those institutions which pose higher risks to the economy and the investing public. Stress testing of financial institutions, especially the banks, will become a regular focus of our oversight. Staff have already gotten an exposure in this area and we will seek to deepen their knowledge in this regard.

We started the process of the relocation of the Grand Turk office as promised last year and we expect this process to be completed within the second quarter of the next financial year. We will be looking at a pathway to broaden the Commission's role in the overall management of the financial sector and will review the current model to see if it continues to be "fit for purpose". An Economics and Statistics unit has been set up to deepen the analysis of the economic variables affecting the institutions and will allow us to forecast data. We will continue to build on this to, for one, get GDP estimates as well as ascertain real estate pricing indexes for loans valuation purposes.

As usual I thank all the staff who have worked to help prepare for the assessment which lay ahead as well as in the overall development of the Commission. Thanks to the Industry for their co-operation, understanding and participation as we continue to put in place the measures required to ensure its stability. To the Board of Directors and the Governor, I say a hearty thank you.

Sincerely,



J. Kevin Higgins
Managing Director

Finance and Administration Report

Financial Review

The fiscal year 2014/2015 has been a strong year of financial performance for the Commission, with the outturn being strong growth in both Core and Total Revenues. Core Revenues, being income from issue and renewal of licences, incorporation of companies, and annual returns filed, showed increase over the three year period 2012/2013 to 2014/2015, albeit at a reduced pace. For 2013/2014 the rate of growth was 7% but for 2014/2015 grow rate was reduced to 4%. This growth in core revenues over the years has been driven by the Insurance sub-sector.

Core revenues have moved over the period from $6,037,000 to $$6,693,000. Chart 1 shows this movement over the select periods.

Chart 1, Growth in Core Revenues (2012/2013-2014/2015)

Total Revenues, that is Core Revenues plus land share transfer duties and sundry fees (including penalties), mirrored the growth trend in Core Revenues. This showed a growth of 10% when compared to the previous period. Insurance sub-sector grew by 16%, when sundry insurance fees are factored in.

When viewed against the budgeted forecast over the three (3) year period 2012/2013 to 2014/2015, 2014/2015 had the largest variance of $2,390,000 due largely to the huge growth in inflows from land share transfer duty fees, which are normally forecasted at modest levels, due to their unpredictability. Land share transfer duty collected increased by 42% over the previous period, moving from $1,129,000 to $1,604,000.

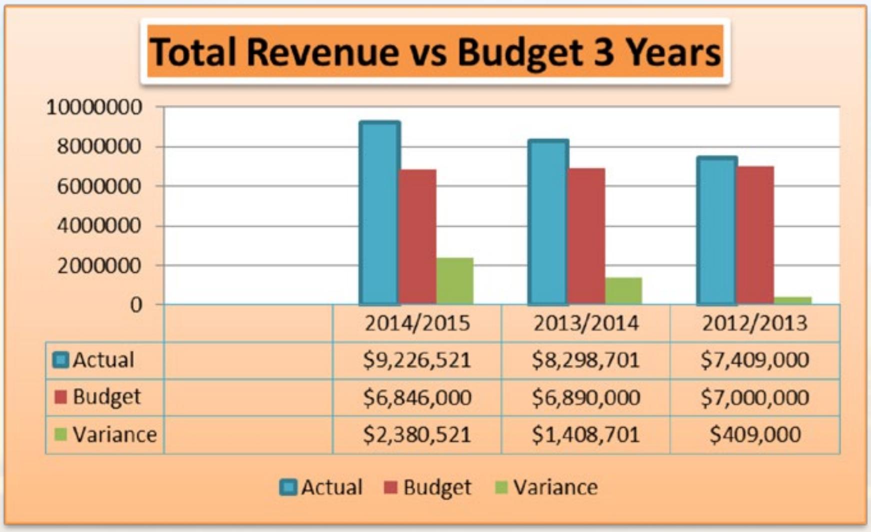


Chart 2, Total Revenue vs Budget 2012/2013 to 2014/2015

Chart 2 shows the actual performance for the periods versus the amounts which were forecasted.

Chart 3 hereunder refers to the Dollar value contribution of each functional division to total income for the current and prior period.

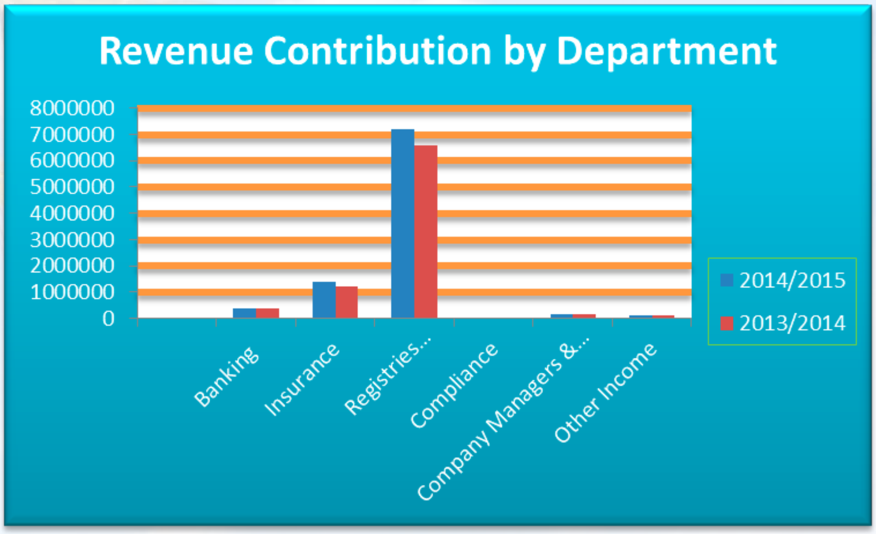


Chart 3 Revenue Contributions by Department

The volume of transactions by the Commission is primarily lead by the Companies Registry, (Chart 3) where large numbers of annual returns and company incorporations are processed yearly. As such it is to be expected, given the current fee structure of the Commission, that this division continues to return the largest portion of revenues collected. The percentage contribution continues to hover around 78%, as in the previous period, followed by insurance at 15% (up from 14% in the previous period).

The Commission moved during the period to diversify its portfolio of investments. The mix now includes US Government Treasury Bonds, with varying maturities of up to seven (7) years. When intangible and fixed assets are excluded the asset base of the Commission increased by 5%. Movements in the Reserve Fund partly accounted for the increase in the asset base.

Growth in liabilities is primarily driven by the amount set aside for the Government's share of the surplus derived for the year. This is up by 6%.

Consolidated expenditure target for the period was $5,7M. However, actual consolidated outturn was $5.3M, resulting in a positive variance of $.04M. This variance is accounted for largely in the areas of staff costs, travel and training as the targeted expenditure levels were not met.

Significant capital expenditure was incurred in the form of acquisition of additional building to house the staff currently located in a rental space, which is now inadequate for our needs. It is expected that after modifications the new building will be occupied by the end of the third quarter in the next calendar year.

The Commission continues to be financially stable, with Revenue Reserves currently just under $6.5M.

Administration Review

The Commission officially commenced the use of the new staff evaluation system which had been developed in the prior year. All employees were, for the calendar year January to December 2014, evaluated using this new system. There were minor glitches but these are expected to be addressed in the following period.

In addition, significant work had been done by the HR Committee of the Board on revising the Human Resources Manual. Major changes were made in respect of the Disciplinary Procedures and how these would be applied. The revised manual was distributed to all staff.

The staff complement grew by 9%, as additional manpower resources were taken on during the period in areas of banking, insurance and policy. Staff complement now stands at 72, inclusive of temporary employees, compared to 66 at the end of the prior period. Chart 4 below gives a breakdown of staffing levels by departments/units and the respective percentage of total.

Finance And Administration Report Cont'd.

Education and training continue to be major tools of management and the Board in the drive to develop staff as well as to provide the Commission with the necessary skills sets and technical abilities which are important for such a regulatory organization.

Three (3) persons completed their course of studies during the year, leading to either an Associates or Bachelor's degree. Two (2) employees from the Banking Department continue to pursue the Society of Trusts and Estate Practitioners (STEP) certification programme while one (1) completed her certification with distinction during the period. Two (2) staff in Compliance have signed up for the Association of Certified Anti-Money Laundering Specialists (ACAMS) programme.

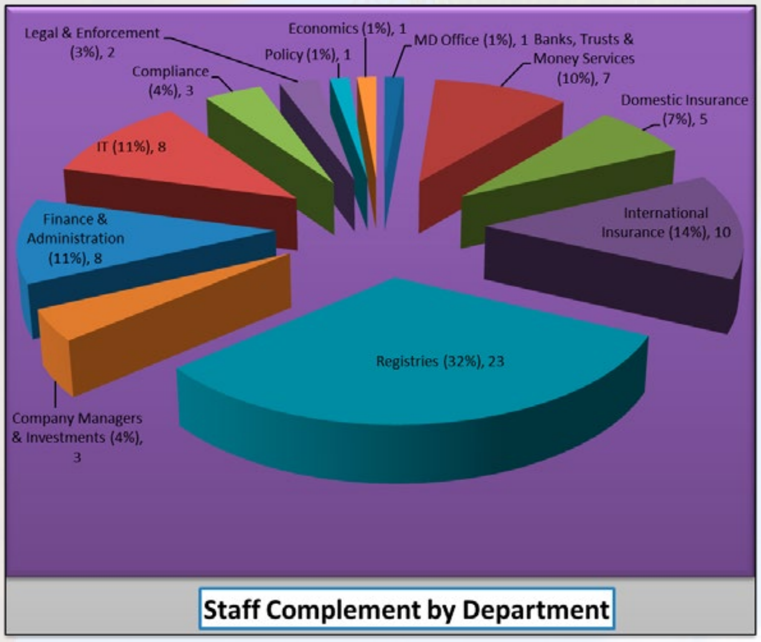


Chart 4 Staff Complement by Department (with percentage of total)

Table 4 below gives details on extended courses of study being pursued by staff and financed by the Commission.

Financial Services Commission Staff School Assistance Program				
From April 2014- March 2015				
Staff	Course of Study	School Attending	Start Date	End Date
1	BSc. Business Studies	TCI Community College	Jan-12	May-16
1	Associates Business Studies	TCI Community College	Jan-13	May-15
1	Associates in Finance	Penn Foster	Sep-11	Sep-15
1	Project Management Course	The Bahamas Institute of Financial Services	Feb-13	Dec-14
1	BSc. Business Studies	TCI Community College	Jan-13	Dec-15
1	Associates in Business Studies	TCI Community College	Jan-13	Dec-15
1	Bachelor Degrees in Business Studies	TCI Community College	Sep-14	May-16
1	Associate in Business Studies	TCI Community College	Sep-14	May-16
1	Business Studies (Finance)	Southern New Hampshire University	Jun-14	Jun-17
1	BA Human Psychology & Human Resources	Anglia Ruskin University	Nov-14	Nov-17

Table 4 Long Term Staff Education Enrolment

Various short courses and seminars undertaken also gave staff the opportunity to expand their horizon. Twenty Eight (28) employees from the Grand Turk office attended a short course in Customer Service. Banking Department staff were trained in the areas of credit management and credit analysis. This exposure gave them additional tools that will be of great advantage in conducting credit reviews of banking entities as they will now better understand the processes which banks use for decisions relating to the grant and management of loans and advances. There were some staff who felt the need to take remedial classes in some areas, such as algebra and computers, and they were afforded that opportunity by the Commission through the local College.

Outlook

The Finance and Administration Department will continue to provide the support services to those Departments and areas which are in the forefront of managing the financial sector. We will continue to play a role in the management of their needs and facilitation of their development. Towards this end we anticipate a re-organization of the resources and structure of this Department in the near future to better facilitate the needs of the Commission, going forwarding.

Banks, Trusts and Money Transmitters Report

Overview

During fiscal 2014/2015 the Banks and Trusts Department (B&T) made further progress towards meeting its targets in relation to the Commission's Action Plan 2012 to 2016. In particular, the off-site surveillance of the Department was made more robust from leveraging certain management reports of licensees on a quarterly and annual basis. Additionally, plans to strengthen the liquidity reporting regime of the banking sector, more in line with the liquidity recommendations of Basel III, have progressed apace resulting in a revised liquidity guideline, new reporting returns and detailed instructions. These documents were circulated to the banking sector for their review and comments during the month of January 2015. The feedback subsequently received was incorporated into the documents as far as practicable. The new liquidity regime came into effect in June 2015.

The B&T Department was also heavily engaged in preparation for a visit from an IMF Mission to conduct an assessment of the financial sector in April of 2015. The Department's preparatory work involved providing the Mission with data on social and economic indicators, financial safety nets and crisis management, as well as time series data to facilitate stress testing of various aspects of the financial system.

Licensed Financial Institutions

The number of licensed financial institutions supervised by B&T Department declined from twenty three (23) to twenty (21) over the fiscal year. The change resulted as three licensees(one trust company and two money service businesses) exited the financial sector and a new entrant was added. Accordingly, licensed financial institutions supervised by the B&T Department comprised 7 banks, 10 trust companies and 4 money service businesses as at March 31, 2015.

On-site Examinations

During fiscal 2014 /2015, the B&T Department conducted one on-site examination of a bank. The on-site focus of the Department surrounded monitoring the progress made by licensees with regard to implementation of the Commission's recommendations from previous on-site examinations.

Domestic Systemically Important Banks

The 2008 financial crisis saw the failure or impairment of a number of banks, and sent ripple effects through several countries' financial systems. In the wake of such fallout, several governments and regulatory agencies have introduced additional measures to reduce the likelihood and severity of problems, which would emanate from the failure of financial institutions deemed systemically important on both a global and domestic level.

In April 2014, the Commission undertook an exercise to formally identify the 'Domestic Systemically Important Banks' (DSIBs) in the financial system. The assessment took into account such factors as size, complexity, substitutability of services provided and interconnectedness of banks within the system. Coming out of that exercise, four (4) of the six (6) National Banking licensees have been deemed systemically important. Over time, the Commission intends to roll out a programme of heightened and more intrusive supervision of these banks to address the issue of "too big to fail". Such measures are especially necessary given the relatively low levels of interbank activity and the absence of critical safety nets such as a lender of last resort and a deposit insurance scheme within the financial system.

Legislative Progress, Guidelines and Statements

A draft Banking Bill was circulated to the banking industry for their review and comments during the month of October 2014. Feedback on the Bill was received from the industry during March 2015 and will be taken into consideration in finalizing the Bill. The timeline for completion of the Bill was extended to make way for competing demands on the Commission's limited human resources. It is expected that the Bill should be ready for Parliamentary review during the 2015/2016 fiscal year.

The Department completed and issued two guidelines during the year under review. One on "Minimum Requirements for Internal Audits of Banks and Trust Companies" was issued to the bank and trust sectors in July of 2014. The other on the "Appointment of External Auditors and the Conduct of External Audits" is applicable to banks, trust companies, money remitters and insurers and was issued in October of 2014.

Banking Sector Highlights

Assets

Despite a 4% decrease in the primary asset (loans) of commercial banks, the total assets of the sector grew by 6% to approximately $1.9B during the financial year under review (see Chart 5 overleaf). The loans portfolio of the sector declined almost consistently from quarter to quarter during the year totalling $949.6M at year-end as compared to 989.3M as at March 2014. Accordingly, the upward movement of the sector's asset base was attributable to a significant rise (20.6%) in deposits (placements) held at affiliated and domestic banking institutions. At March 31, 2015 these placements amounted to $715.8M ($593.5 Mar. 2014). While loans and placements remain the dominant assets of the banking sector accounting in aggregate for 88.5% of total assets, their respective contributions have changed with loans accounting for 50.5% (58% March 2014) and placements 38% as compared to 30% a year ago. After three consecutive quarters of growth, the investment portfolio of the sector declined from $130.4M to $28.3M between December 2014 and March 2015, primarily as a result of reclassification of approximately $101M in assets.

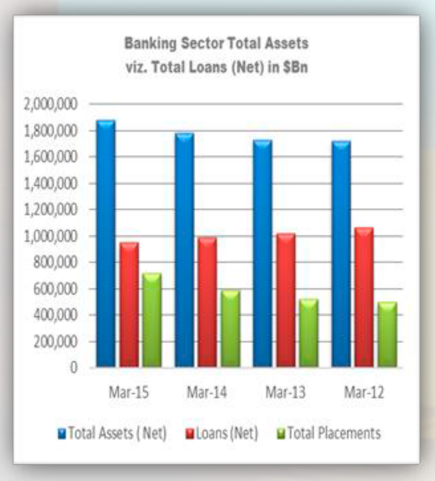


Chart 5 Banks Total Assets

Credit Quality

Despite two consecutive quarters of reported increases in delinquency during the year, the banking sector was able to stem the tide somewhat resulting in only a 1% increase in non-performing loans (NPLs) year on year (refer Chart 6). Accordingly, at March 31, 2015 NPLs totaled $169.8M ($168.1M, March 2014) and amounted to 18% of total loans. During the year as the quantum of NPLs grew, the banking sector increased its provisioning for loan losses (PLL), resulting in an improvement in the ratio of PLL/NPL from 35% a year ago to 43% at year-end and by extension a reduction in un-provisioned NPLs to 57% from 65% a year ago.

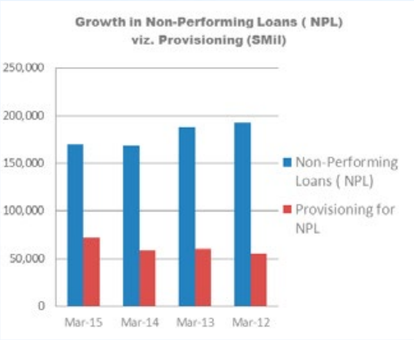


Chart 6 Growth in Non-Performing Loans

Noteworthy however is the negative impact of increased delinquency on the sector's capital, as evidenced by the upward movement in the ratio of NPL/Capital to 52% as compared to 49% a year ago. At year-end, delinquency was concentrated in the construction and land development sector to businesses (46%) and to consumers (38%) for home acquisition / renovation and other durable consumer goods.

Funding

Customers' deposits, the sector's primary source of funding, grew by 5% during the period and amounted to $1.2B at March 31, 2015 (see Chart 7). Conversely, capital, the other major source of funding, declined by 5.8% to $325.6M, largely as a result of dividend distributions during the year and fluctuating net earnings. Together customers' deposits and capital accounted for 78.8% of the sector's total funding, while short-term borrowings contributed 13.3%.

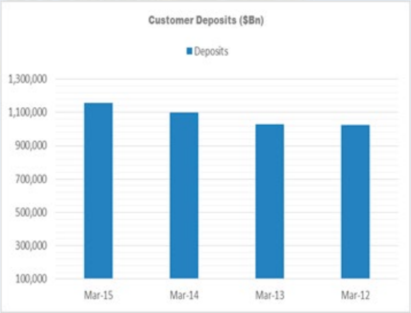


Chart 7 Customer Deposits

Capital Adequacy

The Capital Adequacy ratio of the sector declined to 29% (33% March 2014) as total risk weighted assets increased, primarily as a result of growth in off-balance sheet assets, while simultaneously total capital declined. It is important to note however that the sufficiency of each bank's capital with regard to credit risk was considered to be satisfactory, as their individual Capital Adequacy ratios were well above the 11% minimum statutory requirement.

Trust Companies

As at March 31, 2015 the on-balance sheet assets of the trust sector amounted to $14.7M, while off-balance sheet assets i.e. assets under management totalled $780.8M. The sectors' assets were comprised primarily of liquid assets along with loans and investments (see Chart 8). Seventy seven (77) percent was held by four companies, while the remaining 23% was widely dispersed among the other 6 companies. The sector's fiduciary activities surrounded the administration of trusts; management of companies and management of funds, the value of these activities however have been on the decline during fiscal period under review.

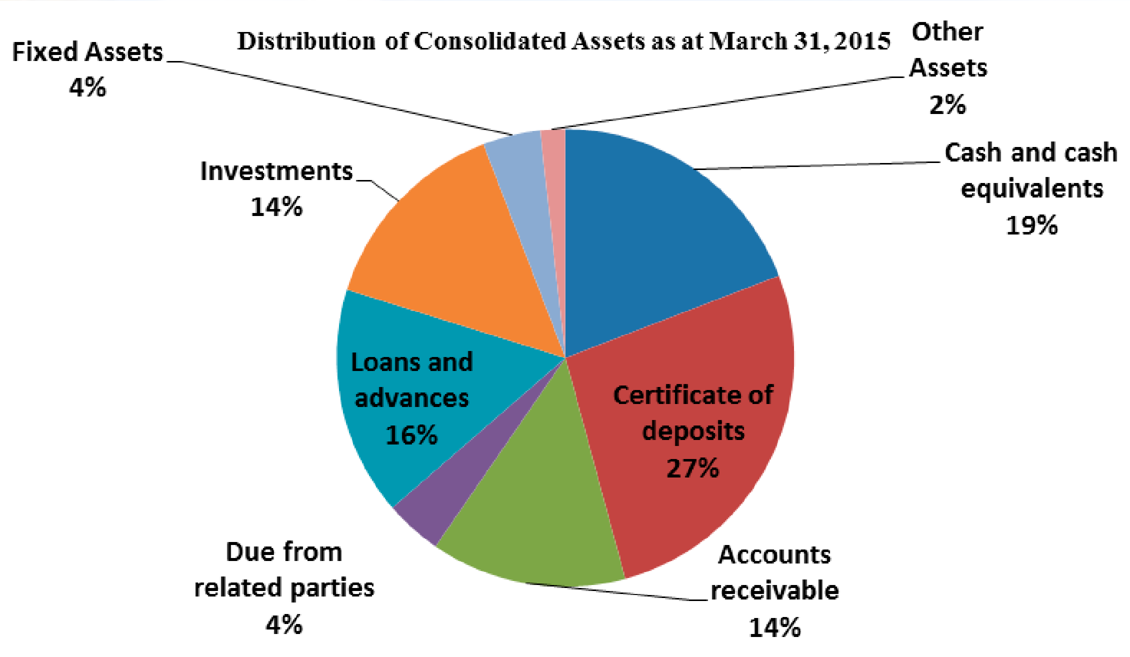


Chart 8 Trust Sector Assets

Money Service Businesses

Money service businesses in the TCI, despite their small asset size, provide significant financial services to customers by way of outgoing and incoming transfers of funds. For the fiscal period April 1, 2014 to March 31, 2015 outbound remittances amounted to $83.8M and represented a 9% increase of outflows when compared to the previous fiscal period. Incoming remittances which are usually much lower totalled $7.3M but was 24% more than was received for the previous fiscal period.received for the previous fiscal period.

Training & Staff Complement

The B&T Department is serviced by a staff of seven persons whose minimum academic qualification is at the Bachelor's Degree level. During the year staff were exposed to training in credit analysis and trust business.

Legal and Enforcement Actions

During the fiscal year disciplinary action was initiated against two banks and three trust companies. All matters were concluded within the reporting period and resulted in the payment of penalties by the respective licensees.

INSURANCE DEPARTMENT REPORT
A. DOMESTIC INSURANCE UNIT

Overview

The Domestic Insurance Department is happy to report that during the period under review, significant milestones were achieved in respect of upgrading the supervisory capacity and oversight of the sector. These include the writing of numerous guidelines to guide the supervisory process as well as carrying out reviews of licensees operations, to determine their actual compliance with the laws, regulations and rules set down to guide their operations.

The Unit undertvook a self-assessment exercise in anticipation of the country review by the International Monetary Fund (IMF) and World Bank. The self-assessment was aimed at assessing the Commission's policies, procedures and practices against international Insurance Core Principles ("ICP"). ICPs are internationally accepted principles established by the International Association of Insurance Supervisors which outline the essential elements that should be present in a supervisory regime in order to promote a financially sound insurance sector and provide an adequate level of consumer protection. The outcome of this exercise showed that some improvements have been made, namely in the areas of staff levels, technical competencies of the supervisory staff, documentation to guide the process and information gathering. However, there are some areas, such as changes to the laws to bring them up to current international standards, are required to be put in place, going forward.

Additionally, the Unit spent a considerable amount of time focusing on collection and collation of data in relation to the Insurance Industry which were required to be submitted to the IMF prior to the start of the Mission, which is expected to get underway in the first quarter of the next fiscal period.

Enhancements to the Regulatory Framework

Adoption of New Supervisory Methodology

The Commission adopted the CARAMELS[1] Risk Based Assessment methodology during the period and the first risk assessment reviews for individual insurers was carried out. The CARAMELS methodology is an analytical framework that is used by Insurance Regulators to identify the risk profile of an insurer. For the period 2015/2016 Domestic Insurers will be required to submit their internal Audit Report and their external auditor's management letter. The information submitted will be reviewed and included in the Annual Risk Assessment Report for each company.

During the 2nd Quarter of the fiscal year 2014/2015 the Commission commenced the onsite examination of domestic insurers. Two full and one targeted onsite examinations were carried out by the Commission with the assistance of an external consultant. 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 the deficiencies to be rectified. Several on-site examinations are scheduled for 2015/2016.

The regulatory framework was further enhanced by continued dialogue with other Caribbean insurance regulatory authorities. The Commission also participated in five (5) College of Regulators meetings which were held to discuss insurance companies that are operating within the TCI and other Caribbean Islands. The Commission was invited and has agreed to participate in at least four (4) supervisory colleges scheduled to be held during the 2015/2016 fiscal year.

Guidelines, Circulars and Insurance Supervisory Returns

Numerous guidelines were issued during the period, after industry consultation. These guidelines will improve the supervisory regime in the TCI and outline a number of internationally acceptable principles that are also incorporated into the Draft Domestic Insurance Bill.

These include:

1. Market Conduct Guidelines for Domestic Insurers and Insurance Intermediaries provides guidance on international best practices for all insurance licensees.

2. Guidelines for Insurance Supervisory Returns issued to enhance offsite supervision by improving the quality of data collected.

3. Corporate Governance Guidelines for Insurance Companies states the basic principles of good governance with the

1 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

responsibility allocated to the Board of Directors.

4. Asset Management & Investment Strategy for Insurance Companies requires insurers to develop and implement an investment strategy and appropriate control mechanism for monitoring the effectiveness of its strategy.

5. Capital and Solvency Guidelines for Domestic Insurers defines the admitted assets that should be counted towards capital and requires insurers to have at a solvency margin higher than 100 percent at all times.

6. Risk Management and Internal Controls Guidelines for Insurance Companies requires the Board of Directors to set the risk appetite of the insurer, an actuarial function to oversee the technical matters of the insurer, as well as an internal audit function and a compliance function.

7. Annual Return Guidelines for Domestic Insurers and Licensees other than Licensed Foreign Insurers outlines the requirements on the annual reporting for insurers and other licensees.

Draft guidelines on Internal Control and Head Office Oversight and Licensing Guidelines for Domestic Insurance were circulated for consultation during the first quarter of 2015. During the next fiscal year the Commission will finalize these draft guidelines and continue to issue guidelines to further enhance the regulatory environment in the jurisdiction. Further, the guideline on Actuarial Requirements was circulated to the industry for their feedback and comments in June 2015.

A circular was issued in November 2014 instructing domestic insurers, brokers and insurance agents to submit audited financial statements for their TCI business. This requirement was made effective for the year ended 31st December 2014. Additionally a Notice was issued to Compliance Officers instructing them to submit their annual compliance reports in an approved form effective March 2015.

To further enhance the quality of information collected by the Commission new Insurance Supervisory Returns were developed. The template, along with the guidance notes, was issued to the industry and became effective for all reports being submitted to the Commission during and after January 2015. Based on the additional information collected the Commission was able to improve the quality of the statistics published to its website.

Draft Domestic Insurance Bill

It is anticipated that the Draft Domestic Insurance Bill, which was originally intended to be introduced in 2011, will be enacted within the third quarter of 2015. The underlying principles supporting the new legislation conform to international and regional best practices. Emphasis was also placed on several prudential requirements including: Corporate Governance, Internal Controls, Capital Adequacy, Risk Management and the Actuarial valuation of insurance liabilities. As part of the improvement of the Commission's regulatory framework the Caribbean Policy Premium Method Regulations was incorporated in the new domestic bill. The "Caribbean Policy Premium Method" refers to a method of computing policy benefit liabilities. This was done to ensure that there is consistency in actuarial practice and the methodology used in determining the actuarial liabilities of a life insurer in the jurisdiction. It is envisioned that these changes will enhance the regulatory standards in the TCI.

Action Plan 2012-2016

Based on the work carried out in relation to updating of the Draft Insurance Bill to make it as current and comprehensive as possible, numerous guidelines issued, adoption of the CARAMELS framework for supervision and supervisory manuals written, it is clear that the Division has made significant stride in the areas it had set out to accomplish under the Action Plan. Work will continue in this area in the foreseeable future but we expect that by the end of 2016 most, if not all, the goals would have been met.

Sectoral Financial and Statistical Review

As at 31st March 2015 the domestic insurance sector had eighteen (18) insurance companies, comprised of five (5) long-term, eleven (11) general and two (2) composite insurers. The table below gives an overview of the various categories of licensees issued by the Division and their movements over a four (4) year period.

Insurance Report Cont'd.

Insurance Licences by Category	2015	2014	2013	2012
Domestic Insurance Companies	18	21	21	23
Brokers	13	13	9	10
Agents	5	11	14	12
Sub-Agents	4	3	3	3
Total Domestic Insurers	40	48	47	48

Table 5 Total Active Insurance Licences in effect at 31st March, 2015

As the table above reveals, there was a reduction by three (3) in the number of domestic insurers during the period. Of significance, the Supreme Court of the Turks and Caicos Islands, based on an application presented by the Commission, granted an Order for British Atlantic Financial Services Ltd. to be placed in liquidation as the Provisional Liquidator had deemed that the company was insolvent. It is expected that the policyholders will recoup some of their policy funds. The attendant fallout of the failure of the insurer meant that the licences of six (6) agents licensed to this entity were cancelled. Sagicor Capital Life Insurance Company Ltd. and Sagicor Life Inc. were amalgamated as at 31st December 2014, with the surviving company being named Sagicor Life Inc. Two (2) other domestic insurers voluntarily surrendered their licence.

The Commission approved the applications for one (1) new general Insurance licence and one (1) subagent licence.

The Commission continued its publication of the domestic insurance quarterly statistics. For the period to 31st March, 2015 gross premium amounted to $32.6 million, which represents a decrease of 8.1% compared to the prior period. Reinsurance ceded totalled $19.9 million compared with $23.2 million for the prior year. This resulted in a 3.5% increase in Net Premium Income to $12.7 million for the period under review.

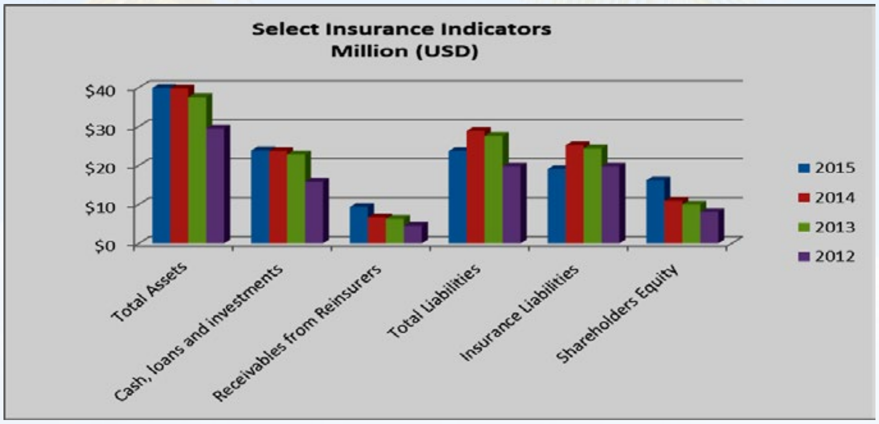


Chart 9 Select Insurance Indicators

Chart 9 above shows overall growth in the domestic insurance sector over the last four (4) years. For the year ended 31st March 2015 Total Assets for the domestic insurance sector moved marginally to $39.9 million compared to $39.7 million for prior year. Cash, loans and investments continued to represent the largest proportion (59.8%) of the industry's assets. A breakdown of the industry's assets as at 31st March 2014 is provided in Chart 10 below.

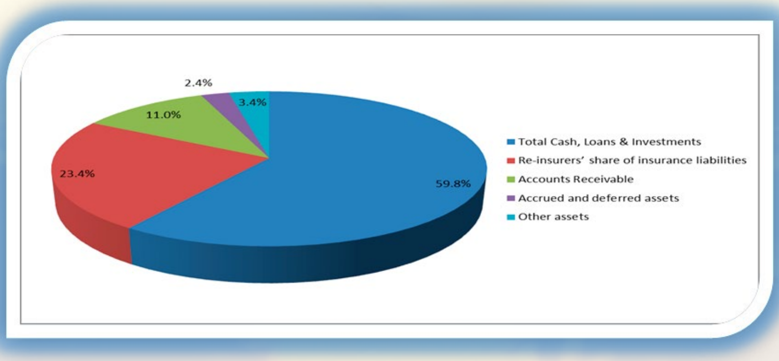


Chart 10 Composition of Domestic Insurance Industry Assets March 2015

Special Dispensation

Effective July 2013 the approval of applications for Special Dispensation[2] was transferred to the Domestic Insurance Department. Further, on 30th September 2013 legislation was introduced for a fee of $150 to be paid by an insurance broker for each special dispensation application that is submitted to the Commission. During the period April 2014 to March 2015 the department approved one hundred and sixteen (116) applications for Special Dispensation and rejected seven (12). Chart 11 below shows the classes of business for which Special Dispensation was approved.

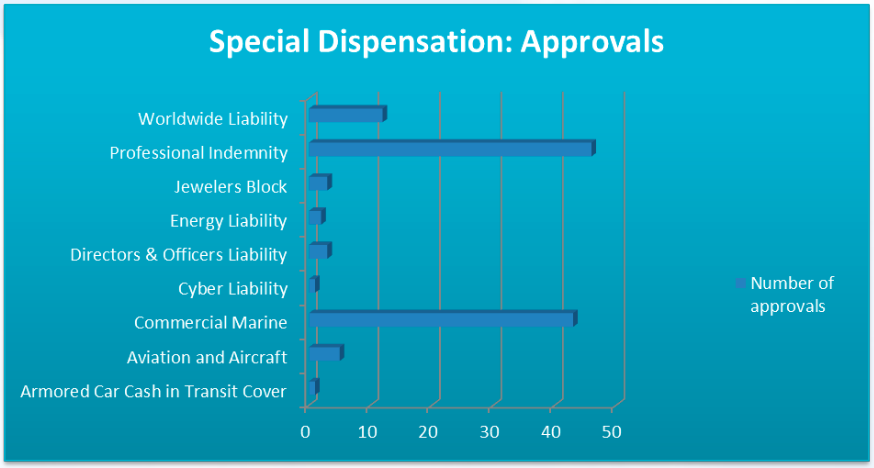


Chart 11 Special Dispensation Approvals

Staff Compliment

The staff complement of the Domestic Insurance Unit increased by 1 team member during the year, with the addition of another Insurance Analyst. The current staff complement stands at five (5) employees with varying degrees of technical, educational and regulatory training.

Training

The Commission remained steadfast in its commitment to the development of its employees and as such continues to enhance its technical competencies in the Insurance Unit. During the period an employee attended the Caribbean Association of Insurance Regulators/ Caribbean Regional Technical Assistance Centre (CAIR/CARTAC) Workshop on *"Closing the Gap: Greater Focus on the Insurance Core Principles"* (June 2014).

During the next fiscal year members of staff of the Domestic Insurance Unit will participate in online courses on Insurance Core Principles and other regional training to increase their regulatory knowledge and technical ability.

Enforcement Action

Enforcement action was taken against four (4) insurance companies, two (2) insurance brokers and two (2) direct writers. All but one matter was concluded during the fiscal year and resulted in the payment of penalties.

Restricted Deposits

Domestic insurance companies were continued to be required to establish and maintain a Restricted Deposit. The Restricted Deposit provides additional protection to TCI policyholders and is held with licensed financial institutions within the Islands. 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 31st March 2015, total Restricted Deposit held was $8.7 million compared to $9.2 million for the prior year.

[2] Special dispensation refers to circumstances where an insurance broker seeks to insure TCI risk with an insurer who is not licensed to transact business in the jurisdiction. Special conditions must be met before approval is granted.

Insurance Report Cont'd.

B. INTERNATIONAL INSURANCE DIVSION

Overview

As part of the process of rationalization of the Department, gradual changes are being implemented to set up two (2) distinct divisions, one Domestic and the other International. This rationalization will allow for resources to be concentrated in those areas which require more critical and stringent day to day supervision. The International Unit is now primarily responsible for Producer Owned Insurance Entities, whose regulatory requirements are in some respects different from Domestic Insurance Entities.

Action Plan 2012-2016

As part of the actions required to be taken under the Action Plan 2012-2016 to ensure capacity building and increased oversight of the regulated sector, the Division issued guidelines on the Responsibilities of an Insurance Manager, and the licensing guideline for Non-US Direct Writing Companies. In time, other rules will be written, including documenting the process for the grant of PORC licences, in keeping with best practice.

Sectoral Review

There was mixed performance in the sector during the period 2014-2015. Eight Hundred and Seventy One (871) new licences were issued. However, over 1,500 companies were removed from the database for various reasons, not being as a result of direct supervisory action. This therefore led to a significant reduction of some 12% in the number of entities managed by the Division. Table 6 below provides a synopsis of activities in this area for the year to March 2015. Of the total number of new licences, 869 were Producer Owned Reinsurance Companies (PORCs) and 2 Captive Insurers. A total of 82 PORC licenses were surrendered, along with 17 Captive licenses. The table above provides highlights of the overall activities relating to licensees for the Division during the period.

Total International Insurance Licenses in effect as at 31 March 2015				
	Total	PORCs (Credit Life)	PORCs (Non-Credit Life)	Captives
Total Licences Previous Year	7,034	3,962	2,992	80
New licences	871	799	70	2
Conversion of Licence	0	961	961	0
Revocations	0	0	0	0
Surrenders	99	18	64	17
Removals of Company	1,589	0	1,589	0
Total number of Companies as at 31st March 2015	6,217	5,704	448	65
Type of license as % of Total licenses	100%	91.7%	7.2%	1.1%
Percentage change Year on Year	-12%	44%	-85%	-19%

Table 6 International Insurance

Restricted Deposits

Certain categories of international insurance companies are required to establish and maintain a Restricted Deposit. Restricted deposits are held to the order of the Commission with licensed financial institutions within the Island. For the year ended 31st March 2015, the total Restricted Deposit held was $10.1 million compared to $9.9 million for prior period.

Staff Complement

Presently, there are 9 staff members in the International Insurance Business Unit. During the period January to June 2015, there was one recruit to the position of Junior Insurance Administrator and 2 promotions to the positions of Supervisor, International Insurance Unit & Insurance Administrator.

Training

Division staff participated in short courses at the TCI Community College covering the following topics:-

- Professional Skills for Secretaries Course
- Business Communication and Practice I & II
- Customer Services Excellence
- Team Building

These short courses have helped the staff to improve on their communication skills which will allow them to better relate to other members of staff, licensees, practitioners and the general public. They were also able to understand and value the importance of working as a team. Additionally, there are three staff members presently pursuing a higher education program at the TCI Community College. Two are enrolled in the Bachelor's Degree in Finance & Management and Human Resources Management program and the other is enrolled in the Associate degree in Business Studies program.

Company Managers and Investments Report

Overview

During the period under review the Department continued to conduct reviews of company filings submitted by the company managers and agents to ensure that they are correct and consistent with documents held by the Registry. Furthermore we were vigilant to ensure that there is marked improvement in the timeliness of the submissions. Greater co-operation from the sector as well as more frequent compliance action from the Department resulted in earlier detection of breaches as well as led to a decrease in the number of deficiencies identified in company filings.

New Initiatives

Throughout the year the department undertook and participated in several initiatives. In each instance, sector participation was required and therefore while no one-on-one meetings are recorded for this period, there was ongoing communication with licensees and we are pleased to note the level of cooperation demonstrated from the sector.

Following the Commission's earlier announcement of the revised regulatory regime for Company Managers and Company Agents, new annual regulatory reporting was introduced and became effective March 2015.

The new reports are designed to strengthen the desk based supervision of company service providers. They will provide the Commission with valuable information to better assist licensees in achieving higher levels of regulatory compliance. The new reports comprise standardized reporting of companies under management, and a new Compliance Report to support and verify the general certification provided in the annual Compliance Certificate. This is the first step towards a deepening and broadening of both the desk based and on-site supervision of licensees.

In the ensuing year, in addition to scheduled on-site examination of licensees, the Department intends to implement meetings with licensees that will occur at least annually, to ensure that our common objective to raise compliance standards is achieved over time.

Through a collaborative effort the department along with Legal Counsel completed an application for membership in the International Organization of Securities Commissions (IOSCO). Membership is considered by the Commission to be very important as IOSCO is the leading international grouping of securities regulators and it represents a broad spectrum of investment markets with varying levels of complexity and development. IOSCO has issued 38 Principles, or standards, which give effect to its core objectives and they provide the general framework for the regulation of securities. The Core objectives of IOSCO are:

• The protection of investors;

• Ensuring that markets are fair, efficient and transparent; and

• The reduction of systemic risk.

As part of the application for membership in IOSCO the Commission was required to complete a high level survey of the regulatory system looking at the subject matter of each Principle using the "IOSCO Methodology for Assessing Implementation of the IOSCO Objectives and Principles of Securities Regulation", which explains the Principles and provides measurements for determining the effectiveness of the application of each Principle in one's regulatory system. It has been recognized that deficiencies identified in TCI's securities regulation, as provided for in the various laws governing the securities sector, would be cured by new Securities legislation which is scheduled to be drafted and deliberated on during the 2015/2016 financial year.

In October 2014 the World Bank facilitated a workshop on the process for undertaking a Turks and Caicos Islands National Risk Assessment. The Head of the department was designated to lead sector discussions and AML assessments of company service providers and investments (Investment Dealers/ Agents and Mutual Fund operators). Initial reports were submitted.

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 covering both on and off-site supervision procedures. The Department prepared and circulated for sector consultation considerations for amendment to the IDLO and there have been responses. Draft guidelines for the supervision of the investment sector were released around the year end for consultation. It is expected that all draft proposals will be finalized and implemented during 2015/2016.

Company Managers and Investments Report Cont'd.

Staff Complement

The Department's staff complement was reduced from four (4) to three (3) following the transfer of a compliance officer from the unit. One (1) compliance officer continues to support the department from the Provo office. Collectively the Department provides supervision to 38 company managers, 6 investment dealers, 1 investment adviser, 3 mutual fund administrators and 11 mutual funds.

Training

The two (2) compliance officers were afforded continuous training in a combination of ways which include: Compliance Specialist training through ACAMS and attendance at compliance workshops sponsored locally by the Commission and regional seminars/ workshops as appropriate to the work of the Commission.

Sector Reviews

The table below captures the status of changes in the number of licensees between April 1, 2014 and March 31, 2015.

Licensee by Type For Department	No. of licensees at 31/3/2014	New Licenses	Licenses Revoked	Licenses Surrendered	No. of licensees at 31/3/2015
Company Management	38	2	-1	-1	38
Mutual Funds & Exempt Mutual Funds	10	1	0	0	11
Mutual Funds Administrators	3	0	0	0	3
Investment Dealers	7	0	0	0	7
Total	**58**	**3**	**-1**	**-1**	**59**

Table 7 Departmental Licensee Activities

Company Managers

During the year two (2) new company management licenses were issued. One (1) licence was surrendered and another revoked. This brings the total number of company managers and agents (company service providers) to 38. At December 31, 2014, there were 15,230 companies registered in the TCI. These company managers are registered agents for approximately 14,563 of the registered companies or 96%. Approximately 1,338 new incorporations were recorded by Company Service Providers for the year ending December 31, 2014. This represented a marginal increase over 1,287 reported new incorporations in 2013.

Mutual Funds and Dealers

At March 2015 the total assets of the Mutual Funds and Investment Dealers portfolios were reported at approximately $689,427,342. Of this amount, the value of Mutual Funds portfolio was $215,013,718.

Legal and Enforcement Division Report

Overview

The main function of the Legal and Enforcement Department (LED) is to provide legal advice and support to all departments of the Commission and to provide advice upon and action all necessary and relevant enforcement and disciplinary actions against licensees.

In previous years the LED's responsibility included being the liaison for Anti Money Laundering issues with the Attorney General's Chambers, licensees and CFATF. At the beginning of the current financial year that responsibility was transferred to the newly created Compliance Department.

Disciplinary and Enforcement Actions

The Department has in the last year refocused on legal and enforcement administration. The Commission due to the new focus of the LED has been proactive with respect to enforcement. The Commission has ensured that relevant enforcement action is taken in a timely manner. In the last year the LED issued 46 Notices of Intention to take disciplinary Action (NIDA) which resulted in 32 Penalties and 10 Revocation of license for various regulatory offences. In addition there were 3 instances in which a directive was issued (2 of which were challenged in the court and the other was complied with).

The Department became aware of three (3) instances in which companies registered in the TCI were operating with a name which contained a restricted word. In those 3 cases the Commission entered into communication with the companies and had the issue resolved.

Table 8 shows the number of actions taken, broken down by department and action type.

License	NIDA	Penalty Notice	Revocation	Directive	Other	Withdrawn	Total
Bank	4	4	-	2	3	2	15
Insurance	37	24	6	1	-	4	72
Trustee	4	3	1	-	-	-	8
Company Manager	1	1	1	-	-	-	3
Money Transmitter	-	-	2	-	-	-	2
Total	46	32	10	3	3	6	100

Table 8 Disciplinary & Enforcement Actions

Insurance actions amounted to 73% of all actions, with those against International Insurers amounting to 50% of all actions for this category. These arose mainly from the failure to provide annual returns and fees on a timely manner. Chart 12 below shows this pictorially.

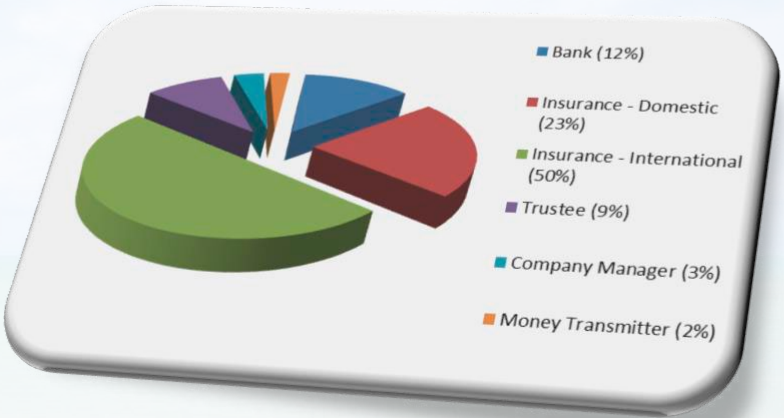


Chart 12 Enforcement Actions – Percentage by Department

Legislative Review and Amendments

The LED continued to work on ongoing new legislation and has been working on new amendments to existing legislation. It is the aim of the Commission to facilitate the introduction of new legislation to ensure its regulation and supervision meets or exceeds international best practice standards. Work continued on:

- Banking Ordinance
- Domestic Insurance Ordinance
- Trusts Ordinance
- Trust Companies Ordinance

Legal and Enforcement Division Report Cont'd.

All four Bills were finalised and went for industry consultation. Post consultation work is being completed with the intention to have all enacted within the next financial period.

The Commission recommended amendments to update existing legislation by drafting the following

- Companies Amendment Bill
- Companies (Fees) (Amendment) Regulations
- Company Management (Licensing) (Amendment) Bill
- Limited Partnership (Amendment) Bill
- Mutual Funds (Amendment) Bill
- Trade Marks (Amendment) Bill
- Investment Dealers (Licensing) (Amendment) Bill

Companies Amendment Bill

This Bill seeks to amend Section 29 of the Companies Ordinance to widen the list of words which are restricted for use, without prior consent of the Financial Services Commission. These now include: Assets, Asset Management, Asset Manager, Fund Manager, Growth Fund, Income Fund, Investments, Investment Dealer, Investment Advisor, Mutual Fund and Securities.

The Bill also inserts sections 56A and 56B to require that all companies have a registered agent and to require that where a company changes it registered agent it must file with the Registrar of Companies, within 30 days of passing of the resolution of the directors authorising the change, a copy of the resolution along with a notice of change of registered agent. The Bill has been finalised and the Attorney General's Chambers (AGC) will be taking steps for its passage through the legislature.

Companies (Fees) (Amendment) Regulations

This draft Regulation will amend paragraph 5 of Schedule II to the Companies (Fees) Regulations to provide for the payment of a fee on the filing of an application for a company incorporated outside the Islands be continued in the Islands. The Bill has been finalised and the AGC will be taking steps for its passage through the legislature.

Company Management (Licensing) (Amendment) Bill

This Bill will amend the Company Management (Licensing) Ordinance by inserting a new section 18A which will enable the Commission to be paid such administrative fees as may be prescribed for carrying out any administrative function under the Ordinance. The Bill has been finalised and the AGC will be taking steps for its passage through the legislature

Investment Dealers (Licensing) (Amendment) Bill

The Bill seeks to amend the definition of investment dealer to include any person or entity that conducts any of the listed activities which fall within the definition of investment dealer and be subject to licensing. The Bill further inserts two new sections in the principal Ordinance. Section 17A seeks to restrict a person using certain words in any description or title without the prior approval of the Commission and 17B will enable the Commission to require the payment of fees in respect of services provided by the Commission for which no fee is otherwise provided for. The Bill has been finalised and the AGC will be taking steps for its passage through the legislature.

Mutual Funds (Amendment) Bill

This Bill will enable the Commission to require the payment of fees in respect of services provided by the Commission for which no fee is provided for. The Bill has been finalised and the AGC will be taking steps for its passage through the legislature.

Trade Marks (Amendment) Bill

This Bill seeks to amend section 3 of the principal Ordinance to vest the power to appoint a Registrar of Trade Marks in the Commission. The Bill has been finalised and the AGC will be taking steps for its passage through the legislature.

Limited Partnership (Amendment) Bill

This Bill seeks to amend the Limited Partnership Ordinance by inserting a new section 7A which provides for a limited partnership to pay to the Registrar an annual fee and will further provide for the striking off from the register for failure to pay annual fees. The Commission is reviewing the Attorney General's draft. Following agreement on the final draft the AGC will take steps to have the Bill passed through the legislature.

Request for Assistance

The Commission continues to seek to fulfil its obligations by co-operating with both international and domestic authorities involved with financial regulation, supervision and or prosecution. In the last financial period the Commission provided assistance to four (4) International Authorities and 4 Domestic Authorities.

International Assistance

The Commission is obligated to provide assistance to international authorities involved in the regulation and prosecution of financial crimes. The Commission during the financial year provided information to the following international regulators (number of assistance shown in bracket):

- United States Securities and Exchange Commission (2)
- United States Department of Justice (via Mutual Legal Assistance) (1)
- Tennessee Department of Commerce and insurance (1)
- Moneyval (1)

Domestic

The Commission continued to provide assistance to domestic enforcement authorities primarily by providing information captured by the Companies Register. During the financial year there were 148 requests for information from domestic authorities broken down as follows:

Domestic Authority	No. of Requests
• Auditor General	- 38
• Special Investigation and Prosecution Team	- 43
• Integrity Commission	- 59
• Exchange of Information Unit	- 8

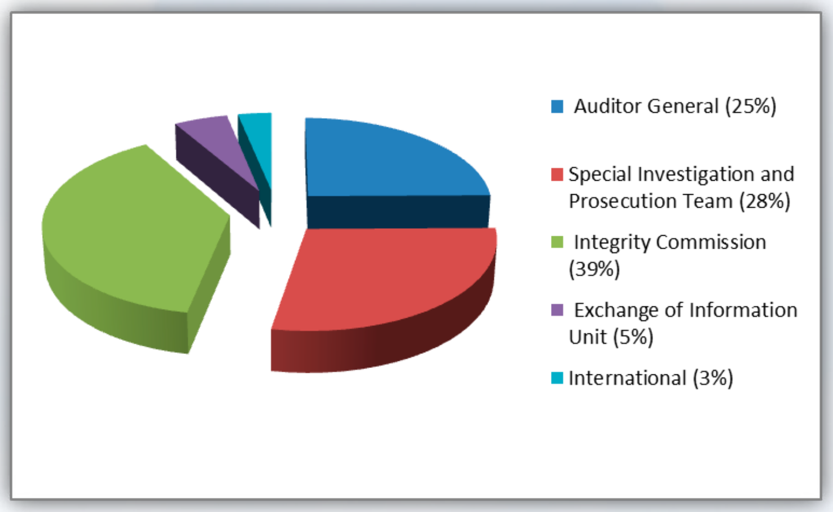


Chart 13 Requests for Information

Litigation

The Commission ensured that all litigation initiated in the previous financial period were continued. In carrying out its function the Commission was forced to either defend its actions in the courts or initiate action against licensees.

The liquidation of the First Financial Caribbean Trust Ltd continued in 2014/2015. TheCommission felt it necessary to contest an offer to compromise made by the former principals of the company, which the FFCT TCI liquidator appeared inclined to accept. The Commission was of the opinion that the compromise was not in the best interest of FFCT. However the Court eventually ordered that the compromise be effected. The FSC has filed a notice of appeal of the Court's decision on the basis that it feels that such a move would not be just and equitable the beneficiaries of the trust and it is anticipated that the appeal will be heard in the next financial period.

The Administration of Gulf Insurance was completed with the run off and winding up of the TCI operations.

British Atlantic Financial Services Ltd. (an insurance licensee) was placed in liquidation by the Commission due to its failing liquidity position.

Legal and Enforcement Division Report Cont'd.

The Commission issued a directive to both British Caribbean Bank and CIBC First Caribbean International Bank requesting the transfer to the Commission of a restricted deposit held by the banks on behalf of a licensee, whose license was revoked. The Banks contested the directive and further contended that they were not obliged to transfer the restricted deposit to the Commission. The matter went to Court and all parties made arguments in Court. However, up to the end of the financial period the Court had not yet given a decision on the issues.

The Commission was required to defend 2 actions issued against the Registrar of Companies. In the First (Selver v The Registrar) it was contended that the amendment of the Companies Ordinance to effectively reduce the period of time from 10 years to 5 years for a company to be reinstated after it was struck should not apply to the company as its striking took place prior to the coming into force of the amendment. It was contended that due to that the company should have had 10 years. The matter was filed however the plaintiff has not sought to bring it before the Court.

In the second (Administrators of Gulf Union Bank v Registrar of Companies) it was contended that the Registrar erred in reinstating a company which was struck for more than 10 years. The Court upheld that and declared the actions of the Registrar null and void.

Co-operation

The Commission continues to strive to establish relations with overseas regulatory agencies to assist and enhance its regulatory regime. In the last financial period the Commission sought to continue the practice of entering into Memoranda of Understanding with both domestic and international parties.

International

The following international MOUs were completed during the period or are in progress as at period end:

• Georgia Department of Insurance – (Georgia USA) - Signed

• IOSCO MMOU - The Commission completed and submitted the application for its membership to the IOSCO MMOU. The Application for full membership was submitted in September 2014 and the application is being reviewed,

• Financial Services Regulatory Commission (FSRC) Antigua – discussions still ongoing.

Domestic

The following domestic authorities were approached for the execution of separate MOUs:

• National Audit office - Signed

• Financial Intelligence Unit – being reviewed

• Exchange of Information Unit – being reviewed

• Attorney General Chambers – no response as at year end

• Integrity Commission - no response as at year end

• Special Investigation and Prosecution Team – no response as at year end.

Training

The Commission's Legal Counsel has been afforded a scholarship to go to England to study Regulation.

The Commission, while not the principal benefactor for the scholarship, has assisted the employee financially in the completion of her course of study. This course is expected to run for one (1) year, September 2014 to September 2015. The achievement of this certification will aid greatly in the work of the Legal Counsel.

Staff Complement

The Department's staff complement has remained unchanged at two (2) with a Legal Counsel and a Legal and Enforcement Consultant.

Compliance Unit Report

Overview

The Commission, in an effort to better ensure full compliance under its international best practice obligations in relation to Anti-Money Laundering and Proceeds of crime and terrorist financing, reorganized the former Designated Non-Financial Businesses & Professions (DNFBPs) unit to make it a full- fledged compliance outfit. This was carried out in June of 2014. The unit has hence been re-named Compliance Unit. This means that the Division is now tasked with ensuring compliance by all parties, both financial and otherwise, with the FATF and CFATF rules. Hitherto, only non-regulated entities were dealt with. The Division also now deals with the oversight of Non-Profit Organisations (NPOs).

Since the deadline for registration of existing DNFBPs of 13th August 2013, registrations have continued slowly as businesses have been formed. By the end of the period of this report certificates of registration have been issued to a total of 80 DNFBPs.

Non-Profit Organizations are also now required to register with the designated supervisor (the Financial Services Commission) under the Proceeds of Crime Ordinance. Regulations, known as the Non-Profit Organizations (NPO) Regulations to further aid in the regulation and oversight of these entities, were issued in 2014.

Registration of Non Profit Organisations has also continued. After extensive negotiation with a small group of Non-Profit organisations representatives the NPO Regulations were amended and a deadline of 20th February 2015 was imposed by the Regulations, for registration of existing Non Profit Organisations. Despite the passage of the deadline of 20th February 2015, NPO applications continued to be received with a total of some 116 applications received by 31st March 2015. Certificates of registration have been issued so far to seventy seven (77) of these applicants, with Certificates of Exemption issued for a further three (3) NPOs. Certificates of exemptions are issued where the gross income of the NPO does not exceed $10,000 and the assets do not exceed $20,000.

The most frequent types of NPO applying for registration with the NPO supervisor were:

The advancement of religion	35
The advancement of amateur sport	20
The advancement of community development	18
The advancement of education	9

Compliance Examinations of Entities

In March 2015 the Compliance Unit began an on-site examination programme commencing with the Money Service Businesses operating in the TCI. This resulted in one (1) entity being reviewed. The programme of on-site compliance visits is to continue throughout 2015 and beyond.

Money Laundering & Terrorist Financing National Risk Assessment

In October of 2014 the TCI commenced a Money Laundering and Terrorist Financing National Risk Assessment. The NRA, as it is referred to, is an initiative led by the Attorney General's Chambers with strong support from the Financial Services Commission by way of co-ordinating the activities.

The NRA is a ground-breaking piece of work which looks at the Money Laundering and Terrorist Financing risks across the whole jurisdiction and is in response to Recommendation 1 of the FATF Recommendations that all jurisdictions must understand fully the money laundering and terrorist financing risks which it may face.

An initial workshop was held in October 2014 and for the first time brought together the Private and Public sectors with almost 50 persons attending for two and a half days. Facilitated by experts from the World Bank, this was a useful few days not only in examining the threats and vulnerabilities faced by the country but also enabled attendees to benefit from input from experts who have facilitated risk assessments in many countries throughout the world. Data is now being gathered to generate credibility to the findings.

Compliance Unit Report Cont'd.

The NRA supports the framework for the mutual evaluation process implemented by the Caribbean Financial Action Task Force (CFATF). Mutual evaluations are changing focus, significantly from assessments almost entirely covering the technical framework, to a more challenging effectiveness testing approach.

Team Complement

As compliance responsibilities have continued to grow the team complement has increased to two compliance officers supporting the Head of Compliance.

Economics And Statistics Department Report

The Economics and Statistics Department (ESD) was established in October 2014. This was in response to complaints by Standard and Poor during their rating exercise conducted on the jurisdiction in 2014 of the absence of a single source of financial and economic data, and that the existing data was very limited. The credit agency recommended that the Commission produce a regular quarterly review like all the other Financial Service Commissions, monetary authorities and central banks.

Moreover, since the 2008 financial crisis, there is a new type of bank supervision called macro prudential supervision. This means essentially adjusting prudential rules to reflect the state of the economy. In addition, since the crisis, the International Monetary Fund (IMF) requires countries to publish twice yearly a financial stability report. The ESD is currently preparing to publish its first semi-annual financial stability report, covering the period January to June, 2015.

Since its establishment in October 2014, the ESD has published four quarterly economic reviews commencing June 2014 through March 2015. The first two Quarterly Reviews contained a total of thirty-one (31) tables with the other two Reviews containing thirty-two (32) tables. Twenty (20) of these tables relate to the financial sector, while two (2) are government finance statistics. In the absence of quarterly real sector statistics, proxies were developed to gauge the performance of the real economy. The Quarterly Review contains ten (10) real sector proxy tables.

The ESD played a pivotal role in preparing financial and economic data tables for the International Monetary Fund in preparation for their April 2015 financial assessment of the Turks and Caicos Islands.

In terms of its capacity building, the ESD benefited from a sponsored conference by Caribbean Regional Technical Assistance Centre (CARTAC) in conjunction with the Caribbean Centre for Money and Finance held March 19-20, 2015 in Trinidad and Tobago. The conference was held under the theme: Financial Stability, Interconnectedness and Risk Assessment in the Caribbean. The main objective of the Conference was to bring regional financial sector regulators together to review financial stability developments in the Caribbean and to develop recommendations to further enhance the financial stability risk architecture in the region.

Many lessons were learnt from the recent 2008 financial crisis, one of which is the need for financial authorities to close the gaps in macroeconomic and sectorial statistics. Among the 20 recommendations by the International Monetary Fund and the Secretary of Financial Stability Board was the need to have adequate and timely statistics on Real Estate Price Index.

To this end, the EDA will participate in a Real Estate Price Indices course sponsored by the Center for Latin America and Monetary Studies (CEMLA) from September 1-4, 2015. The main objective of the course is to present the methodological aspects, measurement, data sources and analytical aspects of price indices of real estate, particularly of residential real estate, which focused on the working lines for their elaboration considering the context of each country.

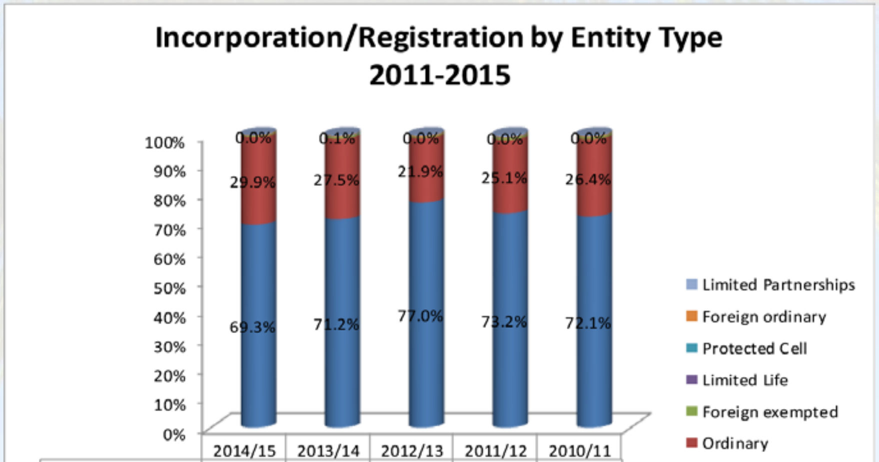
Therefore, going forward, the ESD will spearhead the effort in putting together a Real Estate Price Index for the Turks and Caicos Islands considering the high concentration of real estate in the financial sector and its overall macroeconomic importance.

Companies Registry Report

The year 2014/2015 marked a year of decline for the Registry. Total incorporations for the period were 1,405, or 3% below the 2013/2014 total of 1,452. Despite the reduction the Registry remained busy with processing of annual returns, notices, request for searches and certificates of good standing. In addition March 7, 2015 marked the official launch of the KRegistry counter processing application, which to date we continue to face several difficulties with.

For the first time in the last five years incorporation of exempted companies showed a decline compared to the previous year and may be contributed to by the ever tightening regulatory and international scrutiny of the offshore sector. Incorporation of local (ordinary) companies was at an all-time high of 420 companies, the result of marketing by local practitioners in advising clients of the benefits of limited liability vehicles. Please refer to Chart 14 above.

While there was a 3% reduction in incorporations/registrations, there was a 7% growth in the total number of companies on the Register as at March 31, 2015, moving to 15,564 compared to 14,548 in the previous period (please see Chart 15). Strikings from the Register fell year over year as following notification to clients of intent to strike many companies were brought into good standing.



	2014/15	2013/14	2012/13	2011/12	2010/11
Limited Partnerships	0.1%	0.3%	0.3%	0.7%	0.4%
Foreign ordinary	0.3%	0.3%	0.4%	0.3%	0.3%
Protected Cell	0.0%	0.1%	0.0%	0.0%	0.0%
Limited Life	0.0%	0.0%	0.0%	0.1%	0.0%
Foreign exempted	0.4%	0.6%	0.4%	0.7%	0.7%
Ordinary	29.9%	27.5%	21.9%	25.1%	26.4%
Exempted	69.3%	71.2%	77.0%	73.2%	72.1%

Chart 14 Incorporations 2010/2011- 2014/2015

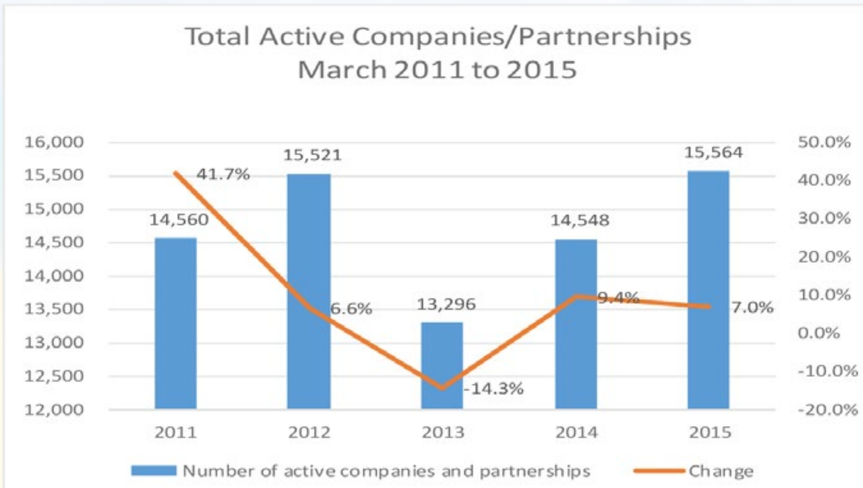


Chart 15 No. of Active Companies

Trademarks & Patents Registry

Registration of trademarks fell by 14% to 368, from 430 in the previous period. Patents fell by 33% from the previous year. This area is particularly changeable as registration of patents is dependent on prior registration in the UK/European Union.

Companies Registry Report Cont'd.

Business Names

Registration of business names for 2014/2015 declined by 3% year over year (1,076 for 2015 and 1,107 for 2014). The decline was offset by an increase in the incorporation of local companies as more individuals sought to protect their personal assets. In addition it was noted that in many instances in previous years persons were issued with new registrations rather than renewing the existing business name, while in 2014/2015 this was reversed. As a result the overall active/current registrations improved.

Other Matters

Legislation amending the deadline for filing of annual returns for ordinary companies for 2014 was effected, making the new deadline being the earlier of the anniversary of incorporation or June 30 of each year. In addition the legislation also provided for companies limited by guarantee to begin filing annual returns. Another amending legislation was that passed in relation to non-profit companies. The amendment provided that no company previously registered under the Ordinance could be struck until further legislative changes had been passed.

Staffing

The post of Registrar remained unfilled for the period following the departure of the former Registrar at the end of March 2014. We congratulate our staff who continue to take advantage of the educational opportunities provided by the Commission with a number of staff participating in short courses, pursuing associate's and bachelor's degrees. At year end the total number of staff in the Registry stood at 20 of which 3 were temporary employees.

Information Technology Report

A number of initiatives were undertaken to both strengthen the ability of the two (2) office locations to better communicate but also to increase security of data. Chief among these was the commencement of implementation of a Domestic Private Lease Circuit (DPLC) line, through our local communications provider.

As the Commission moves to facilitate the implementation of an electronic transactions clearing platform (Automated Clearing House -ACH) for the banks, the IT Department has been instrumental both in providing chairmanship of the Steering Committee set up to oversee the development of rules and regulations, but importantly to provide the necessary vetting (from an IT perspective) of the platform to be used. The system is set to improve the level of service currently offered by performing real time payment and eliminating the existing mandatory clearing period imposed by banks when either party to the transaction is not their customer. The automated service will also lower the cost of check processing as well as streamline the clearing process by handling large volume of credit and debit transactions in batches. This work is still progressing as is expected to be completed within the next financial year. All major banks are expected to participate once completed, with the Commission housing the systems to be used.

The Commission commenced the compilation and publication of statistical and economic data (Quarterly Economics Report) on the performance of the wider economy and the Department has been pivotal in this area, providing necessary IT support in the design and formatting of both the online and printed versions.

KRegistry

Despite a number of challenges arising, we were able to finally deploy the counter processing features of the KRegistry System. At this phase, all documents relating to the Companies Registry are now being first receipted through the payment module and then the documents are scanned, indexed and available for viewing by staff of the Commission. This has allowed us to gradually move away from the old Access Database, which has become somewhat redundant.

Work continues on the critical point whereby the public will be given access to the database. This requires a few additional steps, including the passage of Electronic Transactions Regulations, which are currently before the Attorney General for review. Other critical input required is the completion of set facilities to allow the public to use the System by making payment for services, using a debit or credit card. That payment option requires the completion of installation of certain communication equipment, which will get underway soon.

Additionally, the KReview aspect of the System, which provides a platform for the regulator to standardize its offsite and onsite review process, has been concluded with the upload of relevant documents. Use of this facility will get underway during the next period.

Training

In helping to ensure an efficient, secure, technology based work environment exists at the Commission, the IT Department continuously seeks to engage staff in regular training. During the past financial year, the System Administrator and the Junior Analyst undertook a number of training courses in Oracle Database. Oracle is the platform we use for our Licences Database. The Systems Administrator is currently studying for his certification in CompTIA Security+. This certification is a professional qualification for the IT Security industry.

In addition, the IT Project Manager took the lead in training staff, both in the Providenciales and Grand Turk offices, in the processing of receipts in KRegistry, counter processing of documents as well as other aspects of the various modules of the new system. These training exercises have helped to identity areas in which required modifications needed to be made to make the systems fully functional and effective.

Section B

FINANCIAL SERVICES COMMISSION

STATEMENT ON INTERNAL CONTROL

&

CONSOLIDATED FINANCIAL STATEMENTS

FOR YEAR ENDED MARCH 31, 2015

Financial Services Commission

Board of Directors Statement on Internal Control

[Issued Pursuant to S144(5) of the Public Finance Management Regulations 2012]

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

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

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

The Directors have assessed the effectiveness of the internal control for the year ended March 31, 2015 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.

August 27, 2015

FINANCIAL SERVICES COMMISSION

Consolidated Financial Statements
For the Year Ended March 31, 2015

Financial Services Commission
Consolidated Financial Statements
For the Year Ended March 31, 2015

CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the Financial Services Commission

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of the Financial Services Commission (the "Commission") and its subsidiary which comprise the consolidated statement of financial position as at March 31, 2015 and the consolidated statements of comprehensive income, changes in sources of funding and cash flow for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2015 and its financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards.

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

PricewaterhouseCoopers Ltd.

Chartered Accountants
Providenciales, Turks & Caicos Islands

Date: August 27, 2015

Financial Services Commission

Consolidated Statement of Financial Position
As at March 31, 2015
(Expressed in United States Dollars)

	2015 $	2014 $
ASSETS		
Current Assets		
Cash and cash equivalents	7,531,137	8,501,564
Other bank deposits	805,754	1,005,451
Trade receivables	257,932	138,137
Prepayments	113,683	71,090
Staff advances (Note 5)	111,366	129,302
	8,819,872	9,845,544
Non-current Assets		
Intangible assets (Note 6)	356,011	349,625
Fixed assets (Note 7)	1,634,449	1,378,710
Held to maturity investments (Note 8)	1,497,979	-
Total Assets	12,308,311	11,573,879
LIABILITIES AND SOURCES OF FUNDING		
Current Liabilities		
Accounts payable (Note 9)	3,978,294	3,735,737
Accruals and other payables	702,724	743,135
Deferred income (Note 10)	46,656	46,656
	4,727,674	4,525,528
Non-current Liabilities		
Deferred income (Note 10)	134,912	181,568
Total Liabilities	4,862,586	4,707,096
Sources of Funding		
Reserve fund	6,489,719	5,910,777
Retained surplus	956,006	956,006
	7,445,725	6,866,783
Total Liabilities and Sources of Funding	12,308,311	11,573,879

Approved for issuance on behalf of the Board of Directors of the Financial Services Commission on August 27, 2015.

Director

Director

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

-2-

Financial Services Commission

Consolidated Statement of Comprehensive Income
For the Year Ended March 31, 2015
(Expressed in United States Dollars)

	2015 $	2014 $
Income		
Gross revenue	9,113,267	8,298,701
Release of government grants	46,656	46,656
Interest and other income	66,598	43,005
Total Income	9,226,521	8,388,362
Operating expenses		
Staff costs (Note 11)	3,428,972	3,077,740
Professional and consultancy fees	337,236	218,601
Rental of buildings	243,936	170,972
Travel and subsistence (Note 12)	87,176	129,991
Depreciation and amortisation	212,268	189,851
Office expense	171,356	102,215
Repairs and maintenance expense (Note 13)	105,429	92,674
Utility charges (Note 14)	95,291	94,925
Communication expense (Note 15)	92,483	75,408
Insurance (Note 16)	61,192	45,510
Subscriptions and contributions (Note 17)	63,454	40,566
Audit and accounting	50,000	47,000
Training (Note 18)	127,624	110,273
Security expense	8,358	8,247
Other operating and administrative expenses (Note 19)	221,243	188,251
Total operating expenses	5,306,018	4,592,224
Operating income	3,920,503	3,796,138
Transfers to Government	(3,341,561)	(3,421,289)
Net surplus and total comprehensive income	578,942	374,849

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

Financial Services Commission

Consolidated Statement of Changes in Sources of Funding
For the Year Ended March 31, 2015
(Expressed in United States Dollars)

	Reserve fund $	Retained surplus $	Total $
Balance as at April 1, 2013	5,535,928	956,006	6,491,934
Comprehensive income:			
Net surplus and total comprehensive income	374,849	-	374,849
Balance as at March 31, 2014	5,910,777	956,006	6,866,783
Comprehensive income:			
Net surplus and total comprehensive income	578,942	-	578,942
Balance as at March 31, 2015	6,489,719	956,006	7,445,725

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

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

Financial Services Commission

Consolidated Statement of Cash Flow
For the Year Ended March 31, 2015
(Expressed in United States Dollars)

	2015 $	2014 $
Cash flows from operating activities		
Net surplus and total comprehensive income	578,942	374,849
Adjustment for:		
Depreciation and amortisation	212,268	189,851
Profit on disposal of fixed assets	(5,500)	-
Release of government grants	(46,656)	(46,656)
Interest income	(27,883)	(26,476)
	711,171	491,568
Increase in trade receivables	(119,795)	(57,731)
Decrease in staff advances	17,936	1,361
Increase in prepayments	(42,593)	(3,466)
Increase in accounts payable	242,557	1,036,324
(Decrease)/increase in accruals and other payables	(40,411)	147,067
Net Cash generated from Operating Activities	768,865	1,615,123
Investing Activities		
Decrease/(increase) in other bank deposits	199,697	(202,627)
Purchase of held to maturity investments	(1,497,979)	-
Proceeds from sale of fixed assets	5,500	-
Purchase of intangible asset	(75,000)	(93,900)
Purchase of fixed assets	(399,393)	(263,582)
Interest received	27,883	26,476
Net Cash used in Investing Activities	(1,739,292)	(533,633)
Net (decrease)/increase in cash and cash equivalents	(970,427)	1,081,490
Cash and cash equivalents at beginning of year	8,501,564	7,420,074
Cash and cash equivalents at end of year	7,531,137	8,501,564

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

1. General Information

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

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

On March 23, 2010 the Commission established a 100% owned subsidiary "FSC Property Holdings Co. Ltd." for the purpose of holding real estate assets.

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

2. Summary of Significant Accounting Policies

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

2.1 Basis of preparation

The consolidated financial statements of the Commission have been prepared in accordance with International Financial Reporting Standards (IFRS), under the historical cost convention and on a going concern basis.

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

2.1.1 Changes in accounting policy and disclosures

(a) Standards and amendments to existing standards effective 1 April 2014

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the current financial year beginning April 1, 2014 that would be expected to have a material impact on the Commission.

2. Summary of Significant Accounting Policies (continued)

2.1.1 Changes in accounting policy and disclosures (continued)

(b) New standards, amendments and interpretations effective after 1 April 2014 and have not been early adopted.

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Commission.

2.2 Consolidation

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Commission has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Commission controls another entity.

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

Inter-company transactions and balances are eliminated on consolidation.

2.3 Cash and Cash Equivalents

Cash and cash an equivalent includes cash in hand and deposits held at call with banks with original maturities of three months or less.

Deposits held at call with banks with maturities greater than 3 months are included within other bank deposits on the consolidated statement of financial position.

2.4 Fixed Assets

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

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

2. Summary of Significant Accounting Policies (continued)

2.4 Fixed Assets (continued)

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

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

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

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

2.5 Intangible Assets – Computer Software

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

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives of seven years from the date they are brought in to use.

2. Summary of Significant Accounting Policies (continued)

2.6 Impairment of Non-financial assets

Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

2.7 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable for the provision of services in the ordinary course of the Commission's activities.

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

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

2.8 Interest Income

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

2.9 Government Grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions. Grants are received from Government for development purposes and cover both capital and revenue expenditure.

Government grants relating to costs are deferred and recognised in the statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to fixed assets are included in non-current liabilities as deferred government grants and are credited to the statement of comprehensive income on a straight–line basis over the expected lives of the related assets.

2. Summary of Significant Accounting Policies (continued)

2.10 Financial Assets

2.10.1 Classification

The Commission classifies its financial assets in the following categories: loans and receivables and held-to-maturity investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, these are classified as non-current. The Commission's loans and receivables comprise cash and cash equivalents, other bank deposits, trade receivables and staff advances in the consolidated statement of financial position.

(b) Held-to-maturity investments
Held-to-maturity assets are non derivative financial assets with fixed or determinable payments and fixed maturities that the Commission's management has the positive intention and ability to hold to maturity.

2.10.2 Recognition, derecognition and measurement

Regular purchases and sales of financial assets classified as held-to-maturity are recognised on the trade-date – the date on which the Commission commits to purchase or sell the asset. Loans are recognised when cash is advanced to borrowers. Financial assets are initially recognised at fair value plus directly attributable transaction costs. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Commission has transferred substantially all risks and rewards of ownership. Loans and receivables and held-to-maturity financial assets are carried at amortised cost using the effective interest method.

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

2.11 Impairment of financial assets

Assets carried at amortised cost

The Commission assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

2. Summary of Significant Accounting Policies (continued)

2.11 Impairment of financial assets (continued)

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated statement of comprehensive income within expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Commission may measure impairment on the basis of an instrument's fair value using an observable market price.

2.12 Trade Receivables

Trade receivables are amounts due from clients for services performed in the ordinary course of business. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.13 Employee benefits

The Commission operates a defined contribution pension plan. A defined contribution plan is a pension plan under which the Commission pays fixed contributions into a separate entity. The Commission has no legal or constructive obligations 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.

For defined contribution plans, the Commission pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Commission has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2. Summary of Significant Accounting Policies (continued)

2.14 Other Payables

Other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 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 (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

3. Financial Risk Management

3.1 Financial risk factors

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

The Commission is also exposed to operational risks such as custody risk. Custody risk is the risk of loss of securities held in custody occasioned by the insolvency or negligence of the custodian. Although an appropriate legal framework is in place that eliminates the risk of loss of value of the securities held by the custodian, in the event of its failure, the ability of the Commission to transfer securities might be temporarily impaired.

The Commission's Board of Directors has overall responsibility for the establishment and oversight of the Commission's risk management framework. The Board provides principles for overall risk management, as well as policies covering specific areas, such as interest rate risk, credit risk and investment of excess liquidity.

The Commission's risk management policies are established to identify and analyse the risks faced by the Commission, to set appropriate risk limits and controls and to monitor risks and adherence to limits. The Commission, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment.

The Commission uses different methods to measure and manage the various types of risk to which it is exposed; these methods are explained below.

3. Financial Risk Management (continued)

3.1.1 Market risk

(a) Cash flow and fair value interest rate risks

The Commission's interest rate risk arises from fixed deposits and held to maturity investments with fixed interest rates, which expose it to fair value interest rate risk. Fixed deposits have maturities of 6 months or less, thereby reducing fair value interest rate risk. If interest rates decreased/increased by 1% the fair value of held to maturity investments would be increase/decrease by $14,980.

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

3.1.2 Credit risk

The Commission is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation, and arises principally from the Commission's cash and cash equivalents, other bank deposits as well as credit exposures on outstanding loans and receivables and held-to-maturity investments.

The Commission limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a good credit rating, with ratings of Aa3 and above which are approved by the Board of Directors. Given these good credit ratings, management does not expect any counterparty to fail to meet its obligations. Cash not immediately required for investment purposes is placed in short term money market funds with recognised bank and financial institutions. In addition, the Commission ensures that it only holds investments in US Treasury bonds.

The carrying amount of financial assets represents the maximum exposure to credit risk. At the reporting date this comprises:

	2015 $	2014 $
Trade receivables and staff advances	369,298	267,439
Debt securities	1,497,979	-
Other bank deposits	805,755	1,005,451
Cash and cash equivalents	7,531,137	8,501,564
	10,204,169	9,774,454

3. Financial Risk Management (continued)

3.1 Financial risk factors (continued)

3.1.2 Credit risk

Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	2015 $	2014 $
Trade receivables and staff advances		
Counterparties without external credit ratings		
Group 1	369,298	267,439
	369,298	267,439
Cash and cash equivalents and other bank deposits		
Counterparties with minimum external rating of Aa3 or higher	8,322,444	9,403,600
Licensed financial institutions without external credit ratings	13,798	103,415
	8,336,242	9,507,015
Held to maturity investments		
US Treasury Bonds	1,497,979	-
	1,497,979	-

Group 1 – Counterparties with no history of defaults.

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

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

3.1.3 Liquidity risk

Liquidity risk is the risk that the Commission may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous. The Commission's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Commission's reputation.

The Commission maintains flexibility in funding by maintaining the majority of its assets in short-term, highly liquid instruments. Management monitors rolling forecasts of the Commission's liquidity on the basis of expected cash flow to ensure it has sufficient cash to meet operational needs.

3. Financial Risk Management (continued)

3.1.3 Liquid risk (continued)

Surplus cash held by the Commission over and above balance required for working capital management are invested in interest bearing money market deposits, choosing deposits with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts. At the reporting date, the Commission held money market funds of $805,754 (2014: $1,005,451) that are expected to readily generate cash inflows for managing liquidity risk.

The table below analyses the Commission's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 Year $	Between 1 and 2 Years $	Between 2 and 5 Years $	Over 5 Years $
At March 31, 2015				
Accounts payable	3,978,294	-	-	-
Accruals and other payables	702,724	-	-	-
At March 31, 2014				
Accounts payable	3,735,737	-	-	-
Accruals and other payables	743,135	-	-	-

3.2 Reserve risk management

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

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

3.3 Fair value estimation

The fair value of financial assets and liabilities traded in active markets (such as publicly traded securities) are based on quoted market prices at the close of trading on the year end date. The fair value of financial instruments traded in active markets is based on quoted market prices on the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Commission is the last traded market price where the last traded price falls within the bid-ask spread. All of the Commission's financial assets are classified as held to maturity investments and consist of level 1 investments.

3. Financial Risk Management (continued)

3.3 Fair value estimation (continued)

The fair value hierarchy has the following levels:

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

The level in the fair value hierarchy which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement on its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Commission. The Commission considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary and provided by independent sources that are actively involved in the relevant market.

4. Critical accounting estimates and assumptions

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

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

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

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

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

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

4. Critical accounting estimates and assumptions (continued)

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

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

(4) The regulations may:-

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

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

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

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

5. Staff Advances

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

Included in staff advances are $13,717 (2014: $39,150) due from key management.

6. Intangible Assets

Current year analysis

	Software development costs $
Cost	
Balance as at April 1, 2014	467,800
Additions	75,000
Balance as at March 31, 2015	542,800
Accumulated Amortisation	
Balance as at April 1, 2014	118,175
Amortisation	68,614
Balance as at March 31, 2015	186,789
Net book value	356,011

Prior year analysis

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

The Commission is engaged in developing an online Companies Registry which commenced during 2006. At year end the software development cost had a carrying amount of $356,011 (2014: $349,625), costs capitalised are amortised over their estimated useful life of seven years. The Registry was brought into use during the year ended March 31, 2013.

7. Fixed Assets – Current Year Analysis

	Building and improvements $	Office furniture $	Office equipment $	Computer equipment $	Motor vehicles $	Total $
Cost						
Balance as at 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)
Adjustment to reclassify	-	(1,610)	-	1,610	-	-
Balance as at March 31, 2015	1,571,655	243,696	103,599	352,607	101,173	2,372,730
Accumulated Depreciation						
Balance as at April 1, 2014	127,436	120,646	55,416	239,697	84,337	627,532
Depreciation charge	69,694	17,140	8,716	38,152	9,952	143,654
Disposals	-	-	-	-	(32,905)	(32,905)
Balance as at March 31, 2015	197,130	137,786	64,132	277,849	61,384	738,281
Net Book Value						
As at March 31, 2015	1,374,525	105,910	39,467	74,758	39,789	1,634,449

7. Fixed Assets – Prior Year Analysis

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

8. Held-to-maturity Investments

	2015 $	2014 $
Carrying value	1,497,979	-
Fair value	1,518,621	-

The above portfolio was acquired in the year and consists entirely of US Treasury Bonds with fixed payments and maturity dates. The fair value of the bonds are based on quoted prices in an active market.

9. Accounts Payable

Under the terms of the Ordinance, any surplus in excess of recurrent expenditure is to be settled to the Government for payment into the consolidated fund. At the year-end, $3,978,294 (2014: $3,735,737) was due to the Government in this regard. During the year $3,099,054 (2014: $2,384,966) was transferred to Government.

10. Deferred Income

Projects	Initial Capital Warrant Amounts $	Accumulated Amortisation $	Balance Remaining 2015 $	Balance Remaining 2014 $
No. 2714	24,693	23,697	996	2,510
No. 2878	358,746	178,174	180,572	225,714
Total	383,439	201,871	181,568	228,224

Deferred income to be released over the next 12 months will be $46,656 (2014: $46,656). Amounts to be released in over 12 months will be $134,912 (2014: $181,568).

a) Project No. 2714

During the financial year ended March 31, 2006, the Commission received a Development Warrant of up to $53,410 to purchase furniture, equipment and vehicles. The funds from the warrant are released to income on the same basis as the assets are depreciated. $28,657 was received during 2006 of which $3,964 was released immediately as it related to a direct expense.

b) Project No. 2878

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

10. Deferred Income (continued)

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

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

During the year ended March 31, 2011 the Commission received a Development warrant of $50,000, which they used towards the said project.

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

11. Staff Costs

This can be analysed as follows:

	2015 $	2014 $
Salaries and Wages	2,827,774	2,573,489
National Insurance and National Health Insurance	165,730	153,164
Allowances	66,550	54,350
Gratuities	166,221	148,730
Pension Contribution	45,829	44,327
Directors' Fees and Expenses	156,868	103,680
	3,428,972	3,077,740

The average number of people, both temporary and permanent, employed by the Commission during the year was 84 (2014: 78).

12. Travel and Subsistence

This can be analysed as follows:

	2015 $	2014 $
Accommodation and subsistence - local travel	3,498	4,686
Airfares - international travel	14,045	29,571
Accommodation and subsistence - international travel	33,430	46,705
Transport - air and sea fares	15,974	26,825
Transport - other	20,021	22,104
Other cost on international travel	208	100
	87,176	129,991

13. Repairs and Maintenance

This can be analysed as follows:

	2015 $	2014 $
General property maintenance	79,870	73,321
Maintenance - fixed assets/air conditioning	9,726	8,233
Maintenance of hardware	-	2,449
Maintenance of property	2,948	-
Maintenance of software	9,976	7,031
Repairs to office equipment	617	538
Service of vehicle	2,292	1,102
	105,429	92,674

14. Utility Charges

This can be analysed as follows:

	2015 $	2014 $
Electricity charges	85,640	89,038
Water charges	9,651	5,887
	95,291	94,925

15. Communication Expense

This can be analysed as follows:

	2015 $	2014 $
Telephone - local cost	30,897	21,669
Line rental	34,585	30,969
Telephone - international cost	9,439	8,172
Internet charges	8,424	6,312
Postage and courier	9,138	8,286
	92,483	75,408

16. Insurance

This can be analysed as follows:

	2015 $	2014 $
Employee medical	38,633	27,573
Peril insurance	19,658	15,682
Motor vehicle insurance	2,901	2,255
	61,192	45,510

17. Subscriptions and Contributions

This can be analysed as follows:

	2015 $	2014 $
Contributions to regional institutions	11,800	11,473
Subscriptions	10,249	10,096
Contributions to international institutions	41,405	18,997
	63,454	40,566

18. Training

This can be analysed as follows:

	2015 $	2014 $
Local	78,606	64,672
Overseas	7,500	7,995
Academic	41,518	37,606
	127,624	110,273

19. Other Operating and Administrative Expenses

This can be analysed as follows:

	2015 $	2014 $
Local hosting and entertainment	100,593	76,322
Advertising	87,578	81,603
Bank charges	26,411	24,822
Other grants and donations	5,055	5,306
Other operating expenses	1,606	198
	221,243	188,251

20. Related Party Transactions

The following transactions were carried out with related parties

(a) Key management compensation

Key management includes directors (executive and non-executive), the Company Secretary and Heads of Department. The compensation paid or payable to key management for employee and director services is shown below:

	2015 $	2014 $
Salaries and other short-term employee benefits	864,066	981,436
Post-employment benefits	7,128	9,134
Total	871,194	990,570

(b) Loans to related parties

	2015 $	2014 $
Loans to key management and directors of the company		
Balance as at April 1	39,150	26,861
Loans advanced during the year	51,300	56,998
Loan repayments received	(76,733)	(44,709)
Balance as at March 31	13,717	39,150

The above loans are interest free, unsecured and repayable in equal monthly instalments.

21. Commitments

(a) Capital commitments

Capital expenditure contracted for at the end of the reporting period but not yet incurred is as follows:

	2015 $	2014 $
Fixed assets	110,994	-
Intangible assets	100,000	175,000
	210,994	175,000

21. Commitments (continued)

(b) Operating lease commitments

The Commission leases its office premises under non-cancellable operating lease agreements. The leases terms are between 2 and 5 years and are expected to be renewable at the end of the lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2015 $	2014 $
No later than 1 year	287,378	44,100
Later than 1 year and no later than 5 years	831,850	-
Later than 5 years	-	-
	1,119,228	44,100

22. Breach of the Ordinance

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

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

23. Litigation

In the normal course of business, the FSC is at times engaged in various legal proceedings. While it is difficult to predict or determine the outcome of those proceedings, it is the opinion of management and its counsel that the ultimate liability, if any, will not materially affect the FSC's financial position or results of its operations.

24. Comparative figures

Certain amounts in the 2014 financial statements and supporting note disclosures have been reclassified to conform to the current year presentation. Such reclassification did not affect previously reported net surplus or reserves.

24. Comparison of Results with Budget

	Actual $	Budget $	Variance $
Revenue			
Gross revenue	9,113,267	6,828,187	2,285,080
Release of government grants	46,656	-	46,656
Interest and other income	66,598	18,000	48,598
	9,226,521	6,846,187	2,380,334
Expenditure			
Staff costs	3,428,972	3,618,736	(189,764)
Professional and consultancy fees	337,236	360,000	(22,764)
Rental of buildings	243,936	174,936	69,000
Travel and subsistence	87,176	254,190	(167,014)
Depreciation & Amortization	212,268	199,200	13,068
Office expense	171,356	138,600	32,756
Repairs and maintenance expense	105,429	179,430	(74,001)
Utility charges	95,291	119,071	(23,780)
Communication expense	92,483	81,839	10,644
Insurance	61,192	66,080	(4,888)
Subscriptions and contributions	63,454	51,552	11,902
Audit and accounting	50,000	50,000	-
Training	127,624	299,000	(171,376)
Security expense	8,358	11,043	(2,685)
Other operating and administrative expenses	221,243	120,380	100,863
	5,306,018	5,724,057	(418,039)
Net Surplus	3,920,503	1,122,130	2,798,373

Included within the budget upon which management determines the level of reserving are both operational and capital anticipated expenditures for the year. The above analysis considers the operational budget only.

Notes:

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