Regulating with Honesty, Integrity and Transparency

TURKS AND CAICOS ISLANDS

FINANCIAL SERVICES COMMISSION

ANNUAL REPORT 2012

Beautiful by Nature

TURKS AND CAICOS ISLANDS
BEAUTIFUL BY NATURE

FINANCIAL SERVICES COMMISSION

ANNUAL REPORT 2012

Directors of the Financial Services Commission

SEATED LEFT TO RIGHT:

Kevin Higgins	*MANAGING*
Errol Allen	*CHAIRMAN*
Oswald Simons	*DEPUTY CHAIRMAN*

STANDING LEFT TO RIGHT:

Munro Sutherland

Neville Grant

Gordon Kerr

MISSING FROM PHOTO: *ANYA WILLIAMS (PS FINANCE).*

Directors and Senior Management

BOARD OF DIRECTORS

Errol Allen	*Chairman*
Oswald Simons	*Deputy Chairman*
Anya Williams	*Permanent Secretary, Ministry of Finance*
Gordon Kerr	*Director*
Munro Sutherland	*Director*
Neville Grant	*Director*
J. Kevin Higgins	*Managing Director*

SENIOR MANAGEMENT

Kenisha Bacchus	*Head, Mutual Funds, Investment Dealers & Company Managers and Senior Head, Grand Turk Office*
Desmond Morrison	*Head, Finance & Administration and Senior Head, Providenciales Office*
Derek St. Rose	*Head, Insurance*
John James	*Registrar of Companies, Patents, Trademarks & Business Names*
Marlon Joseph	*Head, Banks and Trusts and Money Transmitters*
Cathrice Williams	*Head, Information Technology*
Deborah Ashton	*Deputy Registrar of Companies*
Nadene Harvey	*Office Manager Grand Turk*
Hyacinth Been	*Office Manager Providenciales*

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SECTION A

Report of the Commission

Profile of the Directors

Errol Allen

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

Anya Williams[1]

Mrs. Williams has served with Government since 2003 as the Budget Director and she currently holds the position of Permanent Secretary of Finance. Mrs. Williams holds various degrees in Accounting.

Oswald Simons[2]

Mr. Simons, who is the Deputy Chairman of the FSC, 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.

Gordon Kerr

Mr. Kerr is a lawyer by profession and is a partner with the law firm of Misick and Stanbrook.

Munro Sutherland[3]

Mr. Sutherland worked as a central banker for over thirty (30) years, dealing with a wide range of central banking issues, including regulation of financial institutions. He is a past Executive Director of the Bermuda Monetary Authority.

Mr. Neville Grant

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

J. Kevin Higgins

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

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[1] Mrs. Williams replaced Mr. Delton Jones, who resigned from Government at the end of the Financial Year (March 31) and, by virtue of being the Government's ex officio member of the board, from the FSC. Mr. Earle Malcolm's tenure as director ended during January 2012.

[2] Mr. Simons resigned from the Board effective August 16, 2012.
[3] Mr. Sutherland resigned from the Board effective July 16, 2012.

Chairman's Report

Errol Allen, *Chairman*

I am happy to present the Commission's Annual Report for the financial year ending 31 March 2012.

In common with many other countries, TCI has continued to experience weak economic conditions. Credit quality has deteriorated with many businesses and consumers facing significant pressures on their income and with Government obliged to take firm steps both to increase public sector revenues and to reduce expenditure to more sustainable levels. While it appears that the position is now stabilizing, it does remain fragile.

Against that background, the Commission has been working hard to monitor the condition of financial services businesses and avoid undue risks to the public. At the same time, it has been developing its plans for further enhancing the effectiveness of its regulatory oversight of the sector while also helping to put in place the conditions for future prudent growth of financial services. This has involved, in particular, building on the work undertaken in the previous year, notably by external reviewers, aimed at the modernization of the suite of financial services legislation, much of which is now outdated. In that regard, work continued notably on a new Banking Ordinance as well as new provisions to deal with a problem bank resolution regime and with deposit protection and insurance.

During the period, the Commission redoubled its efforts to build productive relationships with licensed institutions and promote better mutual understanding and more open dialogue, ultimately leading to more effective compliance and supervision. The Commission had, in particular, an extensive dialogue at Board level with the TCI Bankers' Association, focussed both on the outcome of the various external reviews previously undertaken and the proposed shape and content of new legislation for the sector. The Board also held discussions – the first for some years – with the Financial Industry Association to discuss regulatory matters and approaches. In addition, the Commission sponsored and hosted a "Vision 2015" Conference in the early part of 2012 at which representatives of the financial sector came together with representatives of Government and the Governor's Office to explore ways in which the on-going development of the sector could be further assisted and promoted.

During the year the Commission developed an **Action Plan,** that would form the basis of measures and steps to be taken to reach certain achievable targets for the enhancement of the regulatory capacity of the jurisdiction and to bring it up to first world standards. The

Plan covered the key legislative, regulatory and policy initiatives which the Board sees as being required to do this over the next five (5) years. Stakeholder input was requested by way of consultation from the industry. I believe that initiatives of this kind to further reinforce effective liaison and consultation have an important role to play and the Commission intends to continue to build on these efforts in the coming period. More specific details of this significant initiative are given in the **Managing Director's Report,** included hereafter. The final draft of the Plan was published shortly after the end of the financial year and can be found on the Commission's website. The full text of the publication can be found at Appendix I elsewhere in this report.

In relation to the Governance procedures at the Commission, the board made a few significant changes. Firstly, board meetings were reduced from monthly to every two months, commencing October 2011. This was done as it was felt that monthly meetings were too costly given that this was a non-executive board. Video conferencing was introduced for directors who could not be physically present at meetings. Secondly the Finance Committee of the board was reconstituted and renamed the Audit and Risk Management Committee with clearly defined Terms of Reference (see Appendix II). This Committee meets as and when necessary but during the period it examined a number of issues, namely receiving and responding to the special report of the Government, which sought to undertake a governance and process review of the Commission and it considered and reviewed the audit process, including the management letter arising therefrom. Finally, the HR Committee was also reconstructed and clearer powers, duties and responsibilities were outlined with a Terms of Reference being drawn up. The TORs of the HR Committee are included herewith at Appendix III.

I welcome to the Board Mrs. Anya Williams who joined us subsequent to the end of the financial year as the new ex officio Government representative, replacing Delton Jones who left the Board at the said time. In addition, Mr. Earle Malcolm left the Board at the termination of his appointment. I record here my own and the Board's appreciation for the contributions they have made.

E. Allen
Chairman

Managing Director's Report

J. Kevin Higgins, *Managing Director*

Since assuming the responsibilities of Managing Director, my main focus has been on strengthening the regulatory capacity of the Commission to meet international standards. This was seen as critical, for if the TCI is to compete in the global financial arena then its financial sector must be seen as strong and well-regulated. The need for the enhancement of the regulatory capacity of the Commission was buttressed by the on-going international recession, which has undoubtedly put more economic pressure on some of the licensees. A stronger regulator would act as a bulwark against systemic failures in the industry. So far, only the failure of one entity (TCI Bank Limited, which we reported on previously) has had far-reaching consequences for the jurisdiction. Improved regulatory oversight has undoubtedly helped to minimize financial catastrophes.

Arising out of various reviews conducted on the jurisdiction, namely the Directors' Report on TCI Bank Failure, the IMF Reviews of March and September 2011 (dealing with Depositor Protection Options and Special Bank Resolution Regime respectively) and the Toronto Center Assessment of the FSC's Supervisory Methodology, the Management, working closely with the Board of Directors, drew up an **Action Plan** that is intended to provide the framework for the Commission to further develop its regulatory regime over the next five (5) years. This will serve as the main policy document guiding the FSC in the medium term.

The Plan seeks to examine each regulatory division of the Commission and considers the issues with which these departments are faced that will need to be addressed to leap-frog the whole Commission forward. Critical areas for action cover supervisory, legal and professional resources which need to be addressed. Each critical area is given a timeline in which the Commission hopes to complete that task. The critical areas and the work involved are set out below:

Supervisory Framework

This deals with documenting the supervisory process and codifying reporting requirements:

- The revision of supervisory manuals where they exist and where none exists then one should be developed. Focus will be to move to a risk based approach in order to allow for the identification of priority institutions on which more focus may need to be placed.

- The revision of statistical returns to make them more relevant and where none exists to develop them; reliance on third parties for information etc.
- Guidelines will be revised or implemented as need be.

Legal Framework

Revising of old and outdated laws and new ones instituted:

- A new Banking Ordinance is being proposed which sets out the basic requirements. However, a more detailed Code will accompany this, leaving most of the rules to be set by the Regulator rather than by Parliament.
- A Banking Insolvency Law is being drafted.
- A new Insurance Ordinance has been drawn up to replace the old one and this will result in separate legislation for the domestic and offshore sectors.
- New trust laws are being developed to provide for new and exciting products that the private sector can market while providing for better disclosure to the Regulator.
- The FSC is working in tandem with IOSCO to update the laws relating to the Securities Sector.

Professional Resources

The other pillar on which the Plan rests is being actively addressed and involves finding and placing qualified technical staff in all the areas, where required. As of the date of this report the following staff have been placed:

i. Two Insurance Analysts and one Senior Analyst
ii. Three (3) Bank and Trust Officers.

Advertisements were placed for qualified trust analysts but these positions remained unfilled. In the meantime we are relying on the technical skills of the Bank Officers to fill this void.

Going forward additional positions will be filled. The exact number is not determined as of this date.

The outer timeline for the completion of the tasks under this Plan is the end of 2016. The management and board of directors are very confident of achieving these goals within the specified timeframes as we are very committed to this process. Where action requires the input of the Government we will seek to impress upon them the need for support in these various areas.

Strong focus is being given to the Insurance Sector given events which surrounded CLICO and BAICO. Of note, however, is that the failure of these entities has not had the wide and far reaching consequences of TCI Bank Ltd. Notwithstanding, we have learnt our lessons and are beefing up oversight in that department. As such additional regulatory staff is being placed here and we plan to focus on onsite examination of domestic insurance licensees in the coming periods.

The jurisdiction is expected to receive a Financial Sector Assessment Programme (FSAP) in 2013 and the Commission has taken steps to prepare for this critical review by the International Monetary Fund. In this regard consultancy was obtained with a view to advising the Commission on its readiness for such a review. The consultant reviewed the areas of banking and insurance. The recommendations provided in that review are being addressed to ensure that the Commission is in a position to obtain a favourable assessment from the IMF.

For years, the private financial sector has maintained that the Government has not given them the tools with which to compete on a Global scale. Work was therefore commenced for a National Promotion Plan to be set out, outlining the steps and the necessary resources required to address this issue. The process is being overseen by the Chief Executive of the Government's investment agency, with the FSC assisting in the dialogue with the industry. At a minimum, what is required is a marketing budget, products that can be marketed and the framework in place to carry this out. The second requirement outlined is being addressed through the legislative reviews that are being undertaken. The first and third have not yet been fully thought out. This process will therefore continue for the next twelve (12) months. This need for a re-energized marketing plan came out of a conference, known as the Vision 2015 Conference, that the Board of the FSC held with the industry. At that conference dialogue was held with the sector to ascertain what was needed to ensure the development and enhancement of the industry, in tandem with the FSC's thrust for enhanced regulation. The industry felt that while the Commission was pushing for a better and enhanced regulatory regime, the private sector had to be allowed to grow as well and that could only be done through a proper marketing plan which includes new products.

Enforcement and Compliance

The Compliance Division within the department of Company Managers, Investment Dealers and Mutual Funds continues with its cross-department reference checks to ensure that all information on file is correct and up-to-date. To enhance the capacity of the division, the three (3) staff members were given online compliance training.

Wherever regulatory breaches are detected, such as failure to pay annual fees and to file financial statements, swift action is taken in the form of imposition of penalties, after appropriate notice periods have been given. We continued with the process of revoking licences where, in our opinion, that licence should not have been granted or where the holder no longer qualifies to have that licence. A total of two hundred and eighty five (285) licences were either revoked, surrendered or cancelled for various reasons (refer to Table 1 hereafter).

In keeping with the provisions of the Companies Ordinance, a number of companies, totalling 445, were struck from the Register for failure to file annual returns. This was significantly less than the number struck during the previous fiscal year and that is due primarily to the fact that there has been an increase in compliance, resulting in less delinquent companies on the Register. We expect to do this exercise every six (6) months.

International Co-operation

Pursuant to the Financial Services Commission Ordinance the FSC is obligated to cooperate with overseas regulatory authorities within the confines of the FSCO. Cooperation has been provided to a number of overseas authorities which have the functions of prevention and detection of financial crimes and regulation and supervision of financial institutions.

Memoranda of Understanding

Following the 2011 report of the signing of two (2) Memoranda of Understanding with Regulatory Authorities (Cayman Islands Monetary Authority and the Financial Services Commission, Jamaica), the FSC during the course of the last financial year concluded two (2) MoUs, to wit:

1. A regional MoU with eight (8) regional central banks, namely

1. Aruba – Central Bank of Aruba
2. Bahamas – Central Bank of Bahamas
3. Barbados – Central Bank of Barbados
4. Jamaica – Bank of Jamaica
5. Guyana – Bank of Guyana
6. Haiti – Banque De La Republique D'Haiti
7. Trinidad and Tobago – Central Bank of Trinidad and Tobago
8. Bermuda – Bermuda Monetary Authority.

This MoU provides for mutual cooperation and exchange of information among the parties with respect to regulatory and supervisory functions of financial institutions under the supervision of the signing authorities.

2. An MoU with OSFI of Canada, concerning mutual cooperation.

The FSC has been working on establishing MoUs with the Swiss Financial Market Supervisory Authority FINMA, Insurance Commission of the Bahamas and the Financial Services Commission of Barbados. These are continuing and it is hoped that they can be finalised during the next financial year.

Requests for Assistance from Foreign Regulatory Agencies

Requests were received from overseas regulatory authorities for information in relation to TCI or TCI related entities. FSC provided relevant regulatory information to:

i. Malta Financial Services Authority
ii. Securities Exchange Commission of the United States of America
iii. Seychelles International Business Authority.

Requests for Assistance from Domestic Authorities

- ***Special Investigation and Prosecution Team***

During the course of the last financial year the SIPT continued to seek assistance in the form of gathering company registry information on a number of entities. The FSC has cooperated to the best of its ability.

- ***Integrity Commission***

The Integrity Commission has commenced its investigations on persons required to file returns with the Commission. As such the FSC has been requested to provide information which we may hold on such entities. The FSC has cooperated to the best of its ability with the numerous requests made by the Integrity Commission.

- ***Royal Turks and Caicos Islands Police Force Financial Intelligence Unit***

During the course of its investigations the FIU has requested assistance in the form of information on incorporated entities and/or licensed entities. FSC has provided cooperation with respect to these requests.

Confiscation Order and Trustee

The Financial Intelligence Unit of the Royal Turks and Caicos Islands Police Force issued money laundering proceedings against Chai Hsing Wang and others and obtained a Recovery Order from the Court. The Court Ordered that proceeds of a bank account at Hallmark Bank relating to the Respondents be ceased and recovered pursuant to the Proceeds of Crime Ordinance since the money was adjudged to be proceeds resulting from money laundering activities. It was further ordered that the Managing Director of the FSC be appointed Trustee with responsibility to recover confiscated funds and hold in trust until deposited into the National Forfeiture Fund. The Trustee recovered the funds in the account referred to in the Order of the Court amounting to $187,500 and these funds are being held on deposit with a local bank.

Notices

The FSC issued the following regulatory notices:

- Notice of the Iran Order
- Notice of the Belarus Order
- Notice re First London International - informing that FLIL is not licensed with the FSC.

Training

Training conducted during the last financial year:

1. Company Registry Procedures for Staff of the Companies Registry
2. Anti-Money Laundering training for the Financial industry.

Review of the Industry

The banking industry remains strong, despite higher than expected growth in the non-performing loans of the banks during the last period. With the plans for the enhancement of the sector over the medium term (such as a new and enhanced banking ordinance, banking insolvency regime and depositor protection), we expect that the sector will remain stable.

The Insurance Sector has seen a growth of 72% over the last three (3) year period, in terms of licences issued (322 in 2009/2010 compared to 554 in 2011/2012). As can be seen from Table 1 the insurance sector represents the primary area in relation to regulatory activities.

TABLE 1 Activity (Regulatory) by Type for Period

Type of Activity	Banks	Insurance Entities	Trusts	Company Managers	Money Transmitters	Mutual Funds	Invest. Dealers	Total
New Licenses	-	554	1	1	-	2	-	558
Inspections	-	-	3	-	3	-	-	6
Revocation/ Surrender	-	279[4]	2	2	-	-	2	285
Other Regulatory Action	-	88	3	15	2	1	2	111

Strident efforts continue to be made in strengthening this sector and as such a new Domestic Insurance Ordinance, which will focus on capital adequacy and new stronger solvency rules, has been drawn up and awaits Advisory Council approval. The international sector is being carved out separately. We currently have two units within this department, with a supervisor specifically responsible for the international unit. Going forward, we will seek to strengthen the reporting regime for the international sector as well.

There has not been much change in the Company Management, Mutual Funds and Investment Dealers Department. However, we have sought assistance from the International Organization of Securities Commissioners (IOSCO) to do a complete overhaul of the securities legislation.

The Registry continues to be the backbone of activities within the Commission and a look at **Table 2** below gives a synopsis of activities within that department. With the recent implementation of the annual maintenance fees for trademarks even more significance to the overall results of the Commission will be now seen. Notwithstanding, all three (3) main indicators within that department (incorporations, business names and returns filings) showed a decline year over year. We are confident, however, that overtime, and as the KRegistry

[4] *This figure for insurance revocation/surrenders includes 182 that were removed from the database simply because there were deemed to be defunct.*

software comes fully on stream within the next fiscal year then we should see improvements. This is so as we expect that with online incorporations, the jurisdiction should see an uptick in persons incorporating locally.

The Commission is increasingly relying on technology to aid and enhance its regulatory capacities, in this light, various databases have either previously been commissioned or were commissioned during the year, including a Trademarks Database and an International Insurance Database. Work continues feverishly on the completion of the KRegistry and the computerised regulatory review programme, the KReview, which are being finalized for implementation soon.

TABLE 2 Select Indicators (Units) for the Period

ACTIVITY	2011/2012	2010/2011	2009/2010
Licenses Issued	558	526	327
Companies Incorporated	1,173	1,175	1,011
Business Names Registered	581	1.629	490
Annual Returns Filed	11,134	12,629	12,297

The finances of the Commission remain strong, with assets of $8.5M and liabilities of $3.3M. We are seeking to work on an arrangement with the Government for us to be allowed to maintain a floor of $5M on our reserves so that at all times the Commission will have adequate resources to carry out its varied functions.

Going Forward

By the end of the next financial year we expect that the Commission would have met a number of its targets in respect of:

a) The completion of renovation works for the unit to house the Insurance Department;
b) The installation and use of the KRegistry and KReview programmes;
c) A full cadre of well-trained professionals for the regulatory divisions and
d) The conclusion of an IMF assessment that would result in improved ratings for the jurisdiction when compared with the last assessment conducted in 2003.

As usual, I use this opportunity to thank the Governor's Office for the support given in the past year and I thank my board of directors for their co-operation and guidance in relation to policy issues. Commendation is to be given to the staff of the Commission for their efforts to help with and carry out the various tasks which we undertook. And here I urge them to make full use of the opportunities which will be made available in order to prepare themselves for the challenges that lay ahead.

J. Kevin Higgins
Managing Director

Finance and Administration Report

FINANCE

During the period under review, the Commission continued its efforts to provide improved controls over its revenue flows. This was largely achieved by the continuation of the process of the issuing of invoices to licensees as well as the commissioning and implementation of sector specific databases. In this regard, a database was developed for captive insurance licences. This therefore meant that these classes of licensees could now be brought over to the invoice basis of accounting for revenues from the cash basis, and this was done by the issuing of an invoice to all licensees on the database to cover fees due for the financial year 2012/2013. Work was begun and continues on the PORC sector and we expect that that database will be completed within the second half of the next financial year. Towards the end of the financial year it was thought prudent that a database be also commissioned for the trademarks sector.

In furtherance of the stated objective of ensuring a good control environment over the financial affairs of the Commission, the previously existing Finance & Audit Committee of the Board of Directors was re-constituted as an Audit and Risk Management Committee with defined Terms of Reference, to better reflect the role that it is expected to play, going forward. One of the first functions of this revised committee was to create a draft Investment Policy governing the manner and allowable types of investments for the Commission's Reserves Fund and other cash resources. This Policy was then recommended to the full Board for approval, which was obtained.

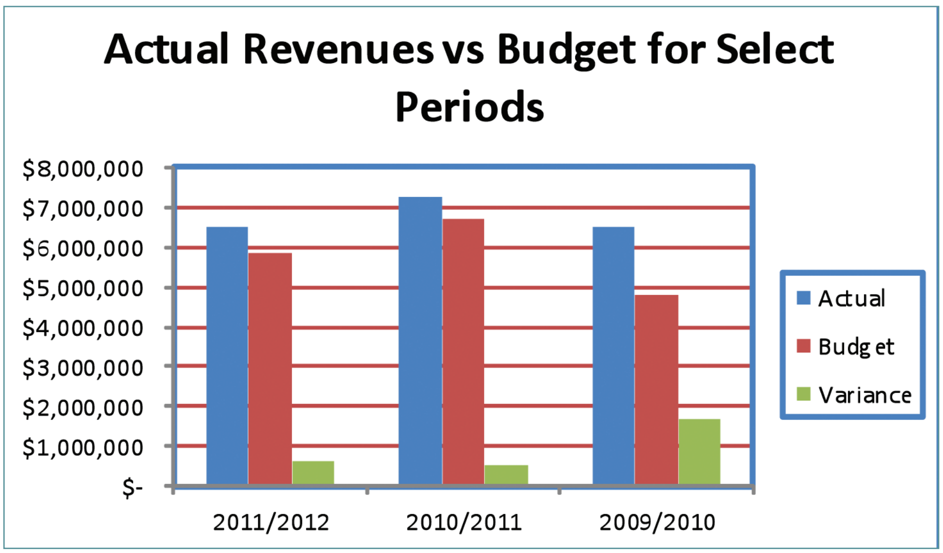
The Commission saw a broadening of its revenue base with an amendment to the Trademarks Ordinance, introducing an annual maintenance charge effective from January 2012. The failure to pay the annual maintenance fee results in a mark going into abeyance. Applicants for trademarks are now required to reimburse the cost of advertising the mark in the Gazette.

Steps were taken during the review period to make it easier for persons doing business with the Commission to make payment by means of debit/credit card. This has greatly facilitated overseas clients who wish to make payment for searches etc., and who would otherwise have had to make payment by wire transfers, which would have delayed the time period for a response on the search as payment reaching the Commission's accounts would first have had to be verified. In some instances wires take two to three days to be processed.

Financial Performance

The Commission earned total core revenues of $6.5M for the year ended March 31, 2012, compared to budgeted core revenue of $5.9M, resulting in a positive variance of $0.6M. The comparative results for the previous year reflected core revenues of $7.2M against a budget of $6.7M, thus returning a positive variance of $0.5M. Chart 1 below gives a comparative result of actual core revenues as against the budget for the three year period 2009/2010 to 2011/2012.

CHART 1 Comparative Revenue Vs. Budget

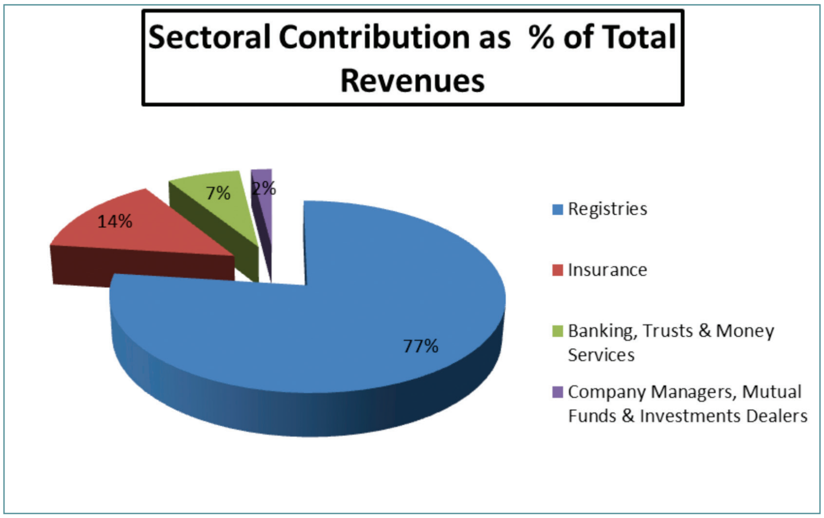


The drop in revenues in the current period against the previous of $0.7M is due to a number of factors namely; (1) a 100% reduction (approx. $245,000) in collection from land share transfer duty - duty payable upon the transfer of shares in a land holding company (2) the cleaning up of the Registry database during the period April to November 2010 resulted in approximately $500,000 in additional inflows to the Registry which were not expected to recur during the year under review and (3) during the previous period a banking entity paid for two (2) licences but one of the licences was appropriately cancelled during the current period.

This period's (2011/2012) revenues have remained almost at the same level of those of two (2) years ago (2009/2010). However, while the latter period showed a relatively large variance between the actual results and the amounts budgeted to be collected, the current period results were much closer in line to the projected amounts. This narrowing of the variance amounts was due largely in part to the use of accrual accounting instead of cash accounting for most revenue types. This ensured that almost all revenues in relation to a licence type were booked during the period rather than being accounted for when they were paid. Furthermore, with the removal of a large number of (defunct) companies from the Company Register during the period 2010/2011, better projections could be made in the 2011/2012 period. Work continues apace with the clean-up of the database and this will be further enhanced once the KRegistry is fully implemented.

During the period the majority of core revenues continued to be generated by the Registries[5]. See Chart 2 below for the percentage contribution of each department to total revenue.

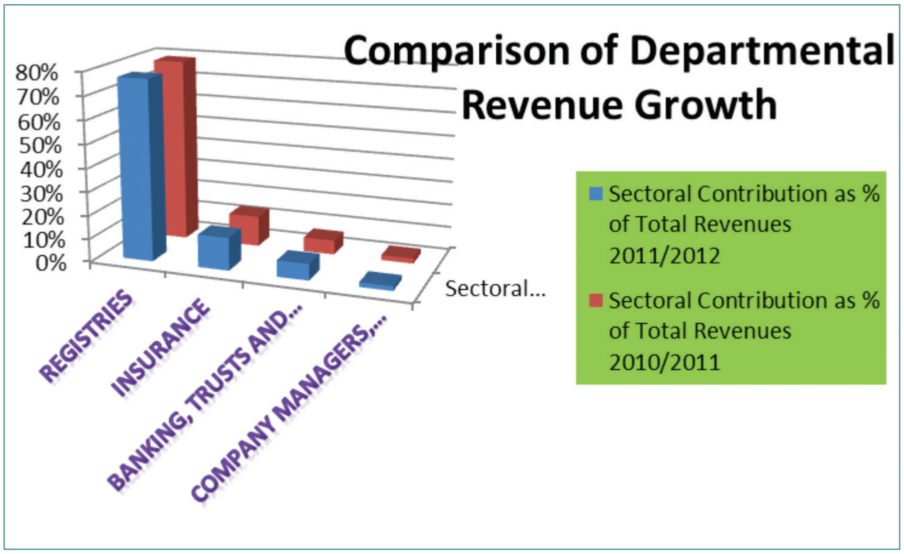
CHART 2 Percentage Contribution by Sector/Department 2011/2012



The Registries' contribution to total revenues declined slightly to 77% from 79% in the previous year. The contribution of the company managers, mutual funds and investment dealers remained flat at 2%. The banking sector also increased by 1% point, moving up to 7%. Chart 3 below gives a graphical representation of these figures.

[5] *Companies, Patents, Trademarks, Business Names.*

CHART 3 Comparative Sectoral Growth Analysis 2011/2012 and 2010/2011



Total operating expenses increased by 6% over the previous period to reach $3.4M. The increase was largely in the area of staff costs, reflecting an increased staff complement, with an increase in professional staff needed to bolster the regulatory and compliance functions. Operating expenses as a percentage of core revenues were 52% during the period, moving up from 44% in the previous. This increase can be explained as a result of the relative fall in core revenues in 2011/2012 as compared to 2010/2011 (a fall of some 9%).

Projection for the upcoming fiscal year is for a growth in revenues of 6% and an increase of 18% in expenditure. The latter increase is partly as a result of the fact that the Commission expects to enhance the training of the staff by fully utilizing its training budget, which was not done during the last fiscal year. Furthermore, a greater presence will be sought at international events and seminars, thus requiring higher levels of travel.

The Commission is seeking an amendment to the FSC Ordinance to provide for a variable Reserves position compared to the fixed position which now obtains. In addition, it is proposed to create a Capital Reserve under that Ordinance. The purpose of the Capital Reserve will be to fund significant capital expenditure, for which presently there is no provision.

ADMINISTRATION

General

The Commission now operates with two separate units, one in Grand Turk and one in Providenciales. Each unit has a head who is responsible for the administration of that unit and who reports directly to the Managing Director.

Progress continues with restructuring the Commission to bring the main regulatory units together in expanded accommodation in Providenciales where they are better located for the supervision of the industry.

Staff complement stood at fifty six (56) persons at year end, with an addition of five (5) technical persons in the regulatory divisions, two (2) in banking and three (3) in insurance. The complement per department is set out in Table 1 below.

TABLE 3 No. Employees by Department

DEPARTMENT	2011/2012	2010/2011
Managing Director's	2	1
Banking, Trusts and Money Services	8	6
Insurance	13	8
Mutual Funds, Investment Dealers & Company Managers	4	4
Companies, Patents and Trademarks Registries	16	17
Finance and Administration	9	9
Information Technology	3	3
Legal and Enforcement	1	1
Total	**56**	**49**

As part of the streamlining efforts, and also in an attempt to cut costs, the Board of Directors took the decision to meet every other month instead of the usual monthly. Teleconferencing facilities were installed to facilitate overseas directors who are unable to attend the meetings to discuss policy and other governance issues.

Educational Assistance

The Commission maintains a policy that all employees should continuously seek to upgrade themselves academically. This approach is two-pronged (1) professional and technical staff are continuously exposed to seminars dealing with technical issues having an impact on the Commission's work and (2) staff who do not currently possess the required educational/academic qualifications are assisted through a program of online studies or physical attendance at the local community college. In this regard, the Commission assists with the cost of these courses. During the year a total of eight (8) individuals from various departments were assisted with obtaining their Associates or Bachelors' Degrees, with five (5) being added during the period being reported on.

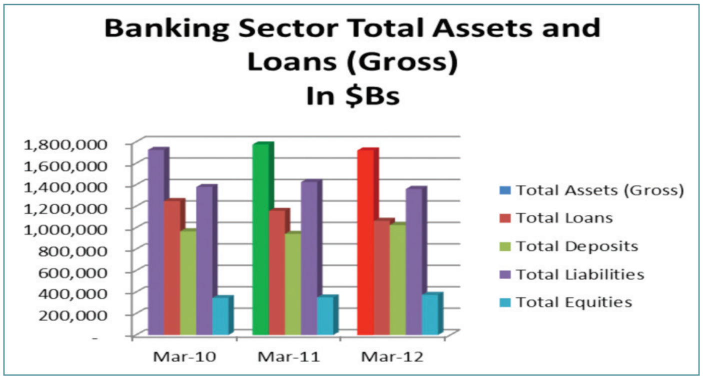
BANKS, TRUSTS AND MONEY TRANSMITTERS

In light of the continuing weakness of economic conditions, the Department maintained its strong focus on enhancing its supervision of, and liaison with, the banks, given their key importance for financial stability and future growth in the economy. While trading conditions remained challenging, banks made good progress during the year in dealing with the impact of the recent difficult credit conditions on their asset quality. During the period, the Commission completed on-site examinations in one bank and three trust companies, in each case benefiting from assistance from expert consultants in support of the Department's own staff. In addition, examinations were undertaken of the business of all three money transmitters currently operating in TCI.

Banks

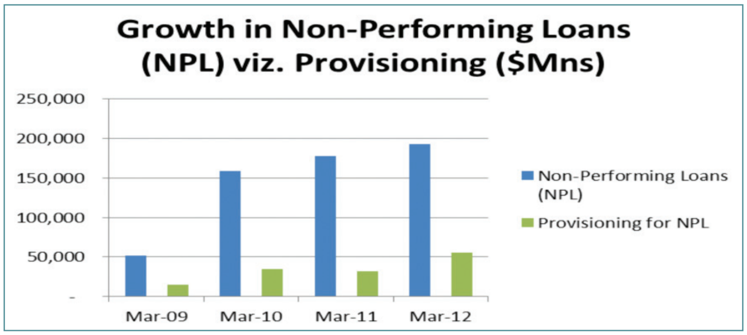
There was no change in the composition of the sector, with the number of licensed banks remaining at 8.

CHART 4 Total Assets Banking Sector



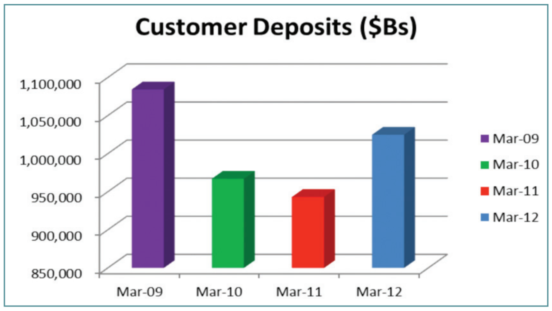
Total assets of the banking sector recorded a small decline in the period to March 2012, falling to $1.72 billion, from $1.78 billion at the end of the previous period. Total loans and advances fell sharply, declining by some 8% to $1.12 billion (see Chart 4). The fall reflected, in particular, a decline in lending to Government and a reduction in the level of lending for land purchase and property construction. Short term investments declined by 7% over the period ($138M to $129M); this was due to the continued sluggish performance in the equities market. Assets such as property and equipment remained relatively stable over the year.

CHART 5 Non-Performing Loans



Delinquency management has become a priority for banks, as the quality of assets showed signs of deterioration due to an increase in impairment. Non-performing loans increased by 8% ($178M to $193M) over the reporting period. Banks were forced to increase their level of provisioning for loan losses significantly i.e. by 72% (from $32M to $55M), an indication of worsening credit conditions (refer to Chart 5). Rates on lending and deposits remained virtually flat.

CHART 6 Customer Deposits



Customer deposits, on the other hand, showed a return to growth, increasing by some 9% to $1.02 billion as shown in Chart 6. Declines in balances held by government and public sector bodies were outweighed by strong growth of balances held by households, private businesses and non-residents.

Despite continuing efforts to restrain costs, many banks faced further contraction in net income during the period. Overall, the profitability of the sector again declined sharply, reflecting falls in non-interest income and increases in non-interest expenses. Banks faced, in particular, a rising trend of impaired loans as more borrowers encountered payment difficulties. While banks hold significant amounts of security against many of these loans, they were nonetheless obliged to increase materially the level of provisions held for likely losses. Despite these pressures, banks continued to maintain levels of capital adequacy during the year well in excess of minimum regulatory requirements.

Regulatory Developments

The Department began during the year to implement a risk-based approach to bank supervision. This reflected recommendations from the external reviewers and involved the completion of the development of a new assessment framework for banks. Risk-based approaches of this kind are now commonly used by supervisors internationally with the aim of enhancing the effectiveness of supervision by identifying for closer attention riskier institutions and higher risk areas of business. In this initial phase, the Department completed first assessments of the risk profiles of all TCI banks. Currently, these are being used to assist the Commission in allocating resources and establishing priorities within the supervisory cycle for the different institutions. However, once the methodology has been further refined and enhanced, and subject to the introduction of more refined capital adequacy tests under impending legislation, such assessments will form important inputs in setting and assessing the levels of capital required for individual banks.

During the period the Department also continued to develop important material providing guidance to banks on supervisory requirements and standards. This effort resulted in the publication of three new regulatory guidelines during the year. These covered: Liquidity Risk Management, Statement on Guidance for Loan Classification and Principles of Controlling Large Exposures. Copies appear on the Commission's web-site (located at www.tcifsc.tc).

At the same time, the Department has continued to be engaged actively in consultations with the banking sector on a new Banking Ordinance, a first draft of which was shared with the Bankers' Association during the year. This proposed updating to the provisions for the licensing and supervision of TCI banks forms an important part of the wider project for enhancing the legislative framework for banks, including with regard to bank resolution, insolvency and deposit insurance, following the recommendations made earlier by external reviewers from the International Monetary Fund and the Toronto Centre. Consultations with the banks on these matters remain on-going.

Additional developments during the year included the Commission becoming a full member of the Association of Supervisors of Banks of the Americas. This is intended to assist the Department in keeping abreast of banking supervisory issues internationally, enhancing its relationships with peer regulators and benefiting from additional opportunities for training staff in supervisory practice and methodologies. In addition, efforts continued to deepen relationships for cooperation and mutual assistance with other regulators through the continuing program of agreeing Memoranda of Understanding with overseas bodies involved in the regulation of banks licensed in TCI or of groups to which they belong.

Trust Companies

There was little change in the composition of the trust sector during the period. At the end of March 2012, there were 15 licensed trust companies, as compared to 16 at the end of the previous period. Two (2) trust companies voluntarily surrendered their licenses during the period, while one new trust license was issued.

The Department made good progress with its on-going program of onsite review work, focusing on ensuring compliance with statutory requirements. As in the past, the three examinations that were conducted reviewed a range of aspects of business including segregation of trust assets, AML/CFT compliance, trust accounting and adherence to the terms of trust deeds. Detailed feedback reports were prepared after each inspection, identifying any areas of weakness and, as necessary, setting a timetable for any remedial actions.

During the year, the Department also set in train some work on the development in TCI of an appropriate regime for private trust company business. These entities do not deal with the public but undertake strictly limited trustee functions for single trusts or trusts established by a single settlor. This initiative reflected a request by industry in the course of the "Vision 2015" Conference hosted by the Commission for the introduction of amending legislation to facilitate the development of private trust business. The Commission and Government were sympathetic to this proposal and it is hoped that it can be implemented without undue delay. The Department also carried forward its initiative, noted in last year's report, for implementing some regular reporting by trust companies on key aspects of their business. Subsequent to the end of the financial year, a draft reporting package and guidelines were circulated as a basis for consultation. Discussions on these proposals are being carried forward with the industry with a view to early implementation of a suitable reporting form.

Money Transmitters

There was no change in the composition of this sector during the year. Four (4) licenses have been granted but only three (3) companies are currently operational. During the period, the Department conducted initial inspection visits to each operational money transmitter. These visits focused on anti-money laundering and other compliance issues, corporate governance and operational risks.

The Commission has also introduced a quarterly statistical report which is completed by licensed money transmitters. These reports showed little change in the pattern and levels of inflows and outflows through money transmitters during the year. As expected, the volume of outward flows represents in excess of 90% of remittance business.

INSURANCE

The year under review can be characterized as being a very active year for the Insurance Sector in the Turks & Caicos Islands. As with previous years, the International Insurance Sector continued to dominate activity. A total of 551 new licences were issued for the year, comprising 542 Producer Owned Reinsurance Companies (PORCs) and 9 Captive licences. This represented a modest 8% growth for the year. During the period 81 PORC licences were revoked/surrendered along with 16 Captive licences; a total of 97 revocations/surrenders.

A review of the International Insurance licences over the year resulted in 76 PORCs and 120 Captives being deemed defunct and removed from the records. At the end of the year there were a total of 5,591 International Insurer licences and 7 Insurance Managers licences. TABLE 4 provides summary information on the licences:

TABLE 4 - Total Active International Insurers Licences at 31 March 2012

Total International Insurance Licences in Effect as at 31 March 2012				
Total	Total	PORCs (Credit Life)	PORCs (Non-Credit Life)	Captives
New Licences	551	492	50	9
Revocations /Surrenders	97	67	14	16
Removals (182)	182	76	(14)[1]	120
Total As per Database	5,591	2,611	2,883	97
Licence Type as % of Total for Class		47%	51%	2%
Total Licences Previous Year	5,319	2,262	2,833	224

[1]-14 companies previously not categorized as non-credit life PORCs were added.

At the end of the year the Domestic Sector comprised 21 insurers. Of the 21 Insurers 12 are engaged in transacting general insurance business whilst the remaining 9 are engaged in long term insurance business. The period saw the addition of two long term insurers. One (1) of the long term insurers, Clico (Bahamas) Ltd[6], remained in liquidation for the year. The other licences in force at the end of the year were 9 brokers, 14 agents and 3 sub-agents. Two sub-agent licences were cancelled and 4 sub-agents were re-issued as agents. Only one (1) new sub-agent's licence was issued. Domestic insurance licences accounted for a mere 1% of total Insurance licences in force at the end of the year.

The table below summarizes all insurance licences for the year:

TABLE 5 - Total Active Licensees at 31 March 2012

Total Licences in Effect at 31 March 2012							
Total	Reinsurers[7] (PORCs)	Captives	Domestic Insurers	Brokers	Agents	Sub-agents	Managers
5,645	5,494	97	21	9	14	3	7

During the period under review a total of 88 enforcement actions were taken against insurers. Of the 88 actions eight (8) were disciplinary fines issued against insurers for non-submission of returns or accounts. There were 79 revocations and 1 cessation of new business order. The revocations were due to inactivity and lack of compliance of the insurers and the cessation order was aimed at regularizing matters with a company which had financial concerns and had not met Commission directives.

Over the period a total of 9 Special Dispensation[8] applications were made to the Commission. Of the 9 applications 7 were approved. Two applications remained pending at the end of the year due to their incomplete nature.

[6]Clico (Bahamas) Ltd. has been in liquidation since 24th February 2009 after the Supreme Court of the Bahamas approved an order for the liquidation of the company.

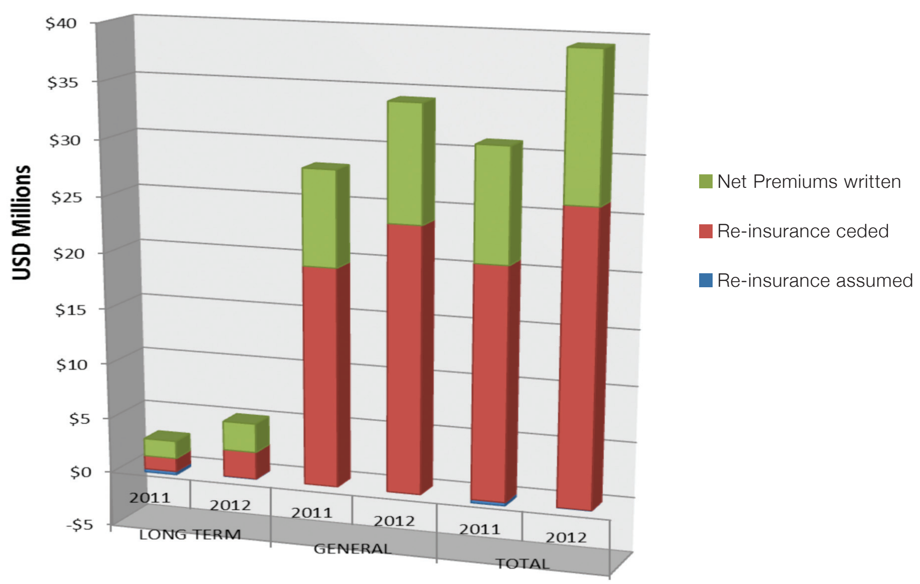
[7] Otherwise known as PORCs (credit life and non-credit life) – see Table 4 Supra.

[8] Special Dispensation requests are made where persons wish to insure risks situated in the Turks & Caicos Islands (TCI) with an unlicensed insurer. Special conditions must be met for approval. Blanket Special Dispensation has been granted for certain types of insurance coverage not available in the TCI.

The Draft Domestic Insurance Ordinance which was initially intended to be introduced in 2011 was amended further in order to make it more fully compliant with international standards. This bill is at an advanced stage as it is being finalized for enactment. The target for introduction of the bill is during the second quarter of the Commission's next financial year. The Commission has also embarked on the preparation of guidelines which will provide more clarity to the industry and enhance the operation of the new legislation. The Commission also recently commenced the publication of insurance industry statistics on its website.

At 31 March 2012 the gross premium income[9] for the domestic insurance industry amounted to some $39.32 million as compared to $31.30 million for the previous year; an increase of 20.4% Reinsurance ceded totaled some $26.31 million and $20.60million for the respective years ended 31 March 2012 and 2011. The result was a net premium income of $13.01 million and $10.70 million for the years ended 31 March 2012 and 2011 respectively. CHART 7 below illustrates the breakdown of gross premium income for the industry on a comparative basis:

CHART 7: Gross Premium Income



[9]*Source: Insurers' Quarterly Returns.*

The domestic life insurance sector experienced a modest $480,000 net income for the year as compared to a loss of $82,000 for the previous year. The general insurance sector was more profitable. Net income for the current year amounted to $4.43 million as compared to $1.77 million for the previous year. The general insurance industry recorded a growth in premium for the year along with a reduction in claims expenses, an increase in commissions received and a decrease in management expenses. This contributed to the improved performance over the last year.

Total assets for the domestic insurance industry stood at $62.65 million at 31 March 2012 as compared to $77.61 million for the previous year. Cash and Deposits accounted for the largest share of assets, accounting for more than 23.60% and 24.24% for the respective years. Total Insurance Liabilities for the year were $61.51 million. The previous year's total was $62.05 million. A breakdown of the industry's assets for the periods 2012 and 2011 respectively is provided in CHARTs 8 and 9 below and on the following page.

CHART 8: Composition of Industry Assets 2012

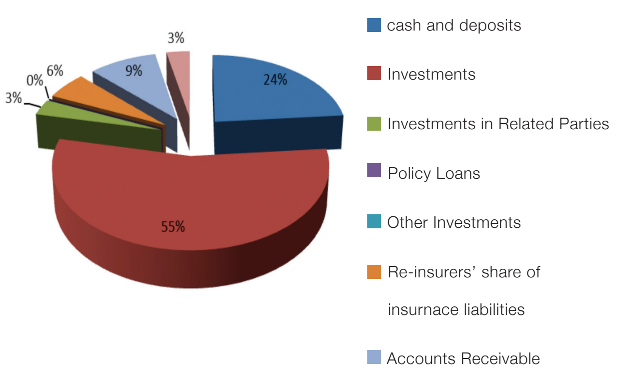
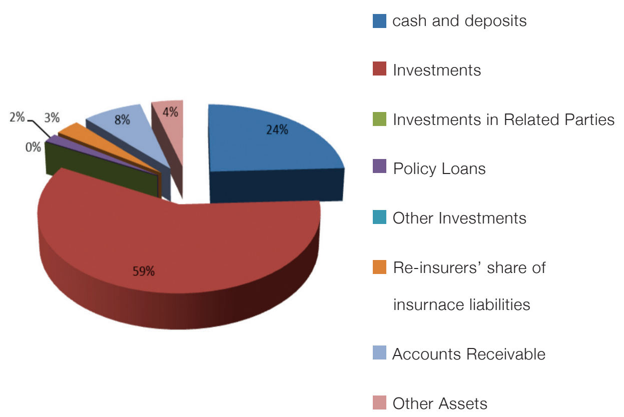


CHART 9: Composition of Industry Assets 2011



Restricted Deposits are required to be held to the order of the Commission by some insurance companies as a means of providing added protection to policyholders and to cover liabilities that may accrue in a company's course of business. Those deposits are required regardless of the reserves that have been set aside by the companies. At the end of the year the total statutory deposits held to the order of the Commission by domestic insurance and captive companies were $7.64 million as compared to $6.88 million at the end of the previous year.

MUTUAL FUNDS, DEALERS & COMPANY MANAGERS

Mutual Funds

Activity in the mutual funds sector remained subdued, with no change in the number of licensed and registered funds during the year. However, the Department introduced enhancements to the process for dealing with exempt funds, involving an approval and vetting process similar to that for other funds. One additional exempt fund was approved during the year. The number of mutual fund administrator licences remained at three (refer Table 6 below for specified regulatory activities during the period). The Department maintained its focus on reviewing compliance with regulatory provisions as well as with those relating to protecting the industry from money laundering and terrorist financing abuse.

TABLE 6 Departmental Regulatory Activities

Licences by Type for Department					
Activity	Company Management	Mutual Funds	Mutual Funds Administrators	Investment Dealers & Advisors	Total
At 31/3/2011	37[10]	7[11]	3	9	56
New Licences	2	1	0	0	3
Revoked	-1	0	0	1-	-2
Surrendered	-1	0	0	-1	-2
At 31/3/2012	37	8	3	7	55

The Department has initiated an assessment of the existing mutual fund legislation and policies with a view to benchmarking against international standards developed by the International Organization of Securities Commissions (IOSCO), the relevant standard-setting body. It is clear that some amendment and upgrading of the existing provisions are required in order to achieve fuller compliance with the standards. The Commission is considering how best to carry this forward once the more critical legislative priorities in the banking and insurance fields have been advanced.

[10] *Revised due to incorrect reference period being used in prior year.*

[11] *Prior period figures excluded two (2) exempt mutual funds and one (1) licensed mutual fund.*

Investment Dealers

The period saw limited activity in the investment dealers' sector, reflecting the generally depressed economic conditions and uncertainties which continued to affect financial markets. One (1) licence was revoked and one (1) surrendered during the period.

At the same time, the Department initiated an assessment and benchmarking of existing legislation, in parallel with its work in the mutual fund sector, aimed at identifying the changes which will be required in order to bring the existing provisions into compliance with enhanced international standards. It is clear that there are a number of weaknesses in the present outdated provisions in the Investment Dealers Licensing Ordinance and Regulations. The task of updating these provisions is particularly important as such action is necessary to enable TCI to sign the Multilateral Memorandum of Understanding (MMOU) for co-operation and exchange of information, developed by IOSCO and currently being promoted for implementation by all jurisdictions. The Commission has had preliminary discussions with IOSCO regarding the amendments that will be required and the assistance that IOSCO members may be able to provide.

Company Managers

There was no net change in the number of company manager licences during the year as two (2) new licences were issued, while on the other hand one (1) licence was revoked and one (1) licence was surrendered. The revocation and surrender came about as the Department continued its regulatory oversight efforts to deal with areas of non-compliance within the licensed sector.

Enforcement

During the period, a total of fifteen (15) disciplinary actions were taken against licensees in relation to the Company Management sector. These actions were initiated for non-compliance with requirements and conditions imposed in connection with a licence as specified in the Company Management (Licensing) Ordinance, such as the payment of annual fees, failure to submit the required list of companies administered or managed; failure to maintain the required professional indemnity insurance and failure to first seek the Commission's approval before making changes to directors, shareholders or senior managers of the licensee. Only one (1) of these disciplinary actions which were taken led to the revocation of the licence. In all other cases, the notice served as an impetus for the licensee to correct the deficiencies and become compliant in order to avoid further enforcement action.

Other matters

OECD/ Tax Information Exchange Agreements (TIEAs)

The Head of Department continues to be part of a team responsible for negotiating and vetting TIEAs on behalf of the TCI Government. During 2011, TCI was also assessed under Phase I of the OECD Peer Review Process. A number of TIEA negotiations remain under way as the jurisdiction also prepares for its Phase II assessment, due in 2013.

Caribbean Financial Action Task Force (CFATF)

The Head of Department also continues to play an active role on the CFATF Working Group on FATF issues as well as at CFATF Plenary Meetings, and has monitored recent amendments in standards arising from the FATF's review of its AML/CFT Recommendations.

In addition, work continues with the Money Laundering Reporting Authority to review laws and devise strategies, procedures and policies for achieving a fuller level of compliance by TCI with the international standards.

One significant issue relates to the development and implementation of a regime for monitoring AML/CFT compliance by non-regulated financial businesses where the Commission has been designated as the responsible authority under the Proceeds of Crime Ordinance. The Commission is discussing with Government the handling of this responsibility, including consequent staffing and other considerations. Similarly, the Commission is advising on new provisions aimed at bringing Not-For-Profit organizations into the ambit of the Proceeds of Crime Ordinance.

REPORT OF THE REGISTRIES

Companies Registry

The level of new incorporations in the jurisdiction in 2011/12 was almost unchanged on the previous year's total. As shown in the Table 7 a total of 1,173 companies and partnerships were established during the period. A total of 445 companies were removed from the Register, primarily as a result of non-payment of annual fees. As at the end of March 2012, total companies on the Register amounted to 15,521.

Table 7 Incorporations by Company Type

Company Type	2011/2012	2010/2011	2009/2010
Exempt	859	849	704
Ordinary	297	311	286
Foreign	3	10	14
Limited Partnerships	8	5	5
Limited Life Companies	1	0	2
Total No.	**1,173**	**1,175**	**1,011**
Percent Change	0%	16%	-36%

During the year, Registry staff also continued a program of physical reviews and updates to company files. At the same time, work continued to complete the electronic scanning of old files as part of the preparation for implementation of the new KRegistry system. A training program dealing with data entry for the KRegistry system was also rolled out for all Registry staff, and will continue until the system goes live, later in the next financial year. An in-house training seminar on the Companies Registry function was also provided during the year to staff from a number of Commission departments.

An amendment to the legislation reduced from 10 years to 5 years the period for which the Commission is required to retain the files of companies no longer on the Register, in part with a view to controlling costs of storage of this material. However, a new Archive database was also completed, bringing together information for some 34,000 companies no longer on the live Register.

Trademarks Registry

The number of trademarks registered during the year showed a further increase, rising by some 16% to 438. A new annual maintenance fee came into effect in January 2012, necessitating the reassignment of one member of staff to assist with the related administration work. Arrangements are currently under way to amend the trademarks database in order to facilitate tracking of annual fees.

Patents Registry

The number of patents submitted from the UK for registration declined slightly in 2011/12. Nineteen (19) were registered as compared with twenty three (23) in the prior year.

Business Names Registry

Amendments to the Business Names registration provisions implemented during the period introduced a new $50 annual fee. A total of 581 business names were registered during the year, well below the exceptionally high level of 1,629 seen in the previous year.

INFORMATION TECHNOLOGY

The Information Technology Department continued during the year to work closely with other Departments in providing the support needed for the fulfilment of the Commission's objectives.

A particular focus during the 2011/12 financial year has been on the implementation of Phase II of the KRegistry system. KRegistry is an electronically-enabled company registration and document- imaging system. After some earlier project delays, Phases II and III of the system are due to come into operation during the current financial year. Phase II will enable external users to perform searches and name reservations online, while Phase III will permit online filing of applications and statutory notices.

In addition, the Department has completed an upgrade to back-up hardware and procedures, as well as enhancing its network monitoring policies and procedures. Core applications, including the email server, were updated and a number of internal databases ungraded.

SECTION B

Financial Service Commission

CONSOLIDATED FINANCIAL STATEMENTS FOR THE
YEAR ENDED MARCH 31, 2012

pwc

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the Financial Services Commission

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of the Financial Services Commission and its subsidiary which comprise the consolidated statement of financial position as at March 31, 2012 and the consolidated statements of comprehensive income, changes in source of funding and cash flows for the year then ended, and 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 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Financial Services Commission as at March 31, 2012 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

PricewaterhouseCoopers Ltd.

Chartered Accountants
Providenciales, Turks & Caicos Islands

Date: October 18, 2012

Consolidated Statement of Financial Position
as at March 31, 2012
(Expressed in United States Dollars)

	2012 $	2011 $
ASSETS		
Current Assets		
Cash and cash equivalents	6,270,254	6,884,184
Other bank deposits	801,548	-
Trade receivables	122,378	41,903
Prepayments	312,485	426,132
Staff advances (Note 5)	79,198	80,886
	7,585,863	7,433,105
Intangible assets (Note 6)	316,000	-
Fixed assets (Note 7)	590,879	478,590
Total Assets	8,492,742	7,911,695
LIABILITIES AND SOURCES OF FUNDING		
Current Liabilities		
Accounts payable (Note 8)	2,481,849	742,910
Accruals	503,514	310,111
Deferred income (Note 9)	51,370	72,891
	3,036,733	1,125,912
Non-current Liabilities		
Deferred Income (Note 9)	274,880	263,051
Total Liabilities	3,311,613	1,388,963
Sources of Funding		
Reserve fund	4,225,123	5,566,726
Retained surplus	956,006	956,006
	5,181,129	6,522,732
Total Liabilities and Sources of Funding	8,492,742	7,911,695

Approved for issuance on behalf of the Board of Directors of the Financial Services Commission on October 18, 2012

Director

Director

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

Consolidated Statement of Comprehensive Income
For the Year Ended March 31, 2012
(Expressed in United States Dollars)

	2012 $	2011 $
Income		
Gross revenue	6,552,461	7,224,891
Release of government grants	9,692	9,690
Interest and other income	65,627	130,247
Total Income	6,627,780	7,364,828
Expenditure		
Staff costs (Note 10)	2,385,042	1,925,726
Professional and consultancy fees	62,304	366,001
Rental of buildings	155,736	138,936
Travel and subsistence (Note 11)	102,162	84,746
Depreciation	94,843	73,964
Office expense (Note 12)	80,097	75,817
Repairs and maintenance expense (Note 13)	75,325	74,874
Provision for bad debts	-	-
Utility charges (Note 14)	74,144	53,680
Communication expense (Note 15)	68,117	60,596
Insurance (Note 16)	75,668	65,217
Subscriptions and contributions (Note 17)	23,322	16,310
Audit and accounting	46,495	42,000
Training (Note 18)	40,436	57,474
Security expense	10,651	8,282
Other operating and administrative expenses (Note 19)	123,456	166,541
Total Expenditure	3,417,798	3,210,164
NET SURPLUS AND TOTAL COMPREHENSIVE INCOME	3,209,982	4,154,664

NET SURPLUS AND TOTAL COMPREHENSIVE INCOME	3,209,982	4,154,664
Transfers to Government	(4,551,585)	(1,472,425)
	(1,341,603)	2,682,239

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

Consolidated Statement of Changes in Sources of Funding
For the Year Ended March 31, 2012
(Expressed in United States Dollars)

	Reserve fund $	Retained surplus $	Total $
As at April 1, 2010	2,884,487	956,006	3,840,493
Comprehensive income:			
Net surplus and total comprehensive income	4,154,664	-	4,154,664
Sources of funding			
Transfers to Government	(1,472,425)	-	(1,472,425)
As at March 31, 2011	5,566,726	956,006	6,522,732
Comprehensive income:			
Net surplus and total comprehensive income	3,209,982	-	3,209,982
Sources of funding			
Transfers to Government	(4,551,585)	-	(4,551,585)
As at March 31, 2012	4,225,123	956,006	5,181,129

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

Consolidated Statement of Cash Flow
For the Year Ended March 31, 2012
(Expressed in United States Dollars)

	2012 $	2011 $
Operating Activities		
Total comprehensive income	3,209,982	4,154,664
Depreciation	94,843	73,964
Loss on disposal of fixed assets	19,525	-
Release of Government grants	(9,692)	(9,690)
	3,314,658	4,218,938
Changes in working capital other than cash and cash equivalents		
Trade Receivables	(80,475)	24,719
Staff advances	1,688	(14,799)
Prepayments	113,647	(143,771)
Accounts payable	1,738,939	(973,398)
Accruals	193,403	162,863
Deferred income	-	50,001
Net Cash from Operating Activities	5,281,860	3,324,553
Investing Activities		
Increase in other bank deposits	(801,548)	-
Acquisition of intangible asset	(316,000)	-
Acquisition of computer equipment	(28,321)	(56,704)
Acquisition of office furniture	(43,543)	(21,855)
Acquisition of office equipment	(9,267)	(7,869)
Acquisition of motor vehicles	-	(29,000)
Acquisition of building improvements	(145,526)	(145,140)
Net Cash used in Investing Activities	(1,344,205)	(260,568)
Financing Activities		
Transfers to Government	(4,551,585)	(1,472,425)
Net Cash used in Financing Activities	(4,551,585)	(1,472,425)
Net (Decrease)/Increase in Cash and Cash Equivalents	(613,930)	1,591,560
Cash and Cash Equivalents at Beginning of Year	6,884,184	5,292,624
Cash and Cash Equivalents at End of Year	6,270,254	6,884,184

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

Notes to Consolidated Financial Statements
For the Year Ended March 31, 2012

1. General Information

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

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

On March 23, 2011 the FSC established a 100% owned subsidiary "FSC Property Holdings Co. Ltd." for the purpose of holding real estate assets.

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

2. Summary of Significant Accounting Policies

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

2.1 Basis of preparation

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

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

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the FSC

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

(b) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 April 2011 and not early adopted.

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

Notes to Consolidated Financial Statements
For the Year Ended March 31, 2012

2. Summary of Significant Accounting Policies (continued)

2.2 Consolidation

Subsidiaries

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

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

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

2.3 Cash and Cash Equivalents

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

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

2.4 Fixed Assets

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

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

2. Summary of Significant Accounting Policies (continued)

2.4 Fixed Assets (continued)

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

Building	40 years
Building improvements	10 years
Computer equipment	3 years
Office equipment	10 years
Office furniture	10 years
Motor vehicles	5 years

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

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

2.5 Intangible Assets – Computer Software

Cost associated with maintaining computer software programmes are recognised as an expense as incurred. Development cost that are directly attributable to the design and testing of identifiable and unique software products controlled by the FSC are recognised as intangible assets when the following criteria are met:

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

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

2.6 Revenue Recognition

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

2. Summary of Significant Accounting Policies (continued)

2.6 Revenue Recognition (continued)

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

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

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

2.7 Government Grants

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

2.8 Financial Assets

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

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

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

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

2. Summary of Significant Accounting Policies (continued)

2.8 Financial Assets (continued)

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

2.9 Trade Receivables

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

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

3. Financial Risk Management

3.1 Financial risk factors

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

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

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

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

Notes to Consolidated Financial Statements
For the Year Ended March 31, 2012

3. Financial Risk Management (continued)

3.1 Financial risk factors (continued)

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

At the year end all cash and cash equivalents and other bank deposits are held with parties with a credit rating of A+ or higher

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

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

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

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

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

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

3.2 Reserve risk management

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

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

4. Key sources of estimation uncertainty

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

Notes to Consolidated Financial Statements
For the Year Ended March 31, 2012

4. Key sources of estimation uncertainty (continued)

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

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

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

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

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

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

(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 Government for the ensuing year, and maintain the reserve fund at that level.

It has been advised that subject to the year end the Ordinance will be reviewed, such that this will be subject to a $5,000,000 minimum.

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 $25,800 (2011: $30,337) due from key management.

6. Intangible Assets

	Software development costs $
Cost	
At April 1, 2011	-
Additions	316,000
At March 31, 2012	316,000
Net book value at March 31, 2012	316,000

The asset was brought into use on March 31, 2012, no amortisation has been charged in the current year.

Notes to Consolidated Financial Statements
For the Year Ended March 31, 2012

7. Fixed Assets – Current Year Analysis

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

Notes to Consolidated Financial Statements
For the Year Ended March 31, 2012

7. Fixed Assets – Prior Year Analysis

	Building and improvements $	Office furniture $	Office equipment $	Computer equipment $	Motor vehicles $	Total $
Cost						
Balance as at April 1, 2010	124,550	148,055	72,143	159,933	63,554	568,235
Acquisitions	145,140	21,855	7,869	56,704	29,000	260,568
Disposals	-	-	-	(11,005)	-	(11,005)
Balance as at March 31, 2011	269,690	169,910	80,012	205,632	92,554	817,798
Accumulated Depreciation						
Balance as at April 1, 2010	10,519	69,990	33,640	123,968	38,132	276,249
Depreciation	3,780	16,351	7,742	29,997	16,094	73,964
Disposals	-	-	-	(11,005)	-	(11,005)
Balance as at March 31, 2011	14,299	86,341	41,382	142,960	54,226	339,208
Net Book Value						
As at March 31, 2011	255,391	83,569	38,630	62,672	38,328	478,590

Notes to Consolidated Financial Statements
For the Year Ended March 31, 2012

8. Accounts Payable

Under the terms of the Ordinance, any surplus in excess of recurrent expenditure is to be settled to the Government for payment into the consolidated fund. At the year-end, $2,481,849 (2011: $742,910) was due to the Government in this regard. During the year $2,800,000 (2011: $2,450,000) was transferred to Government.

9. Deferred Income

Projects	Initial Capital Warrant Amounts $	Accumulated Amortisation $	Balance Remaining 2012 $	Balance Remaining 2011 $
No. 2061	72,143	69,563	2,580	7,761
No. 1905	22,833	21,120	1,713	3,996
No. 1902	7,147	6,727	420	1,134
No. 2714	24,693	19,156	5,537	7,051
No. 2878	358,746	42,746	316,000	316,000
Total	485,562	159,312	326,250	335,942

Deferred income to be released over the next 12 months will be $51,370 (2011: $72,891). Amounts to be released in over 12 months will be $274,880 (2011: $263,051).

a) Project No. 2061

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

b) Project No. 1905

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

c) Project No. 1902

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

Notes to Consolidated Financial Statements
For the Year Ended March 31, 2012

9. Deferred Income (continued)

d) Project No. 2714

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

e) Project No. 2878

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

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

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

During the year ended March 31, 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 set up and functional as soon as feasibly possible.

10. Staff Costs

This can be analysed as follows:

	2012 $	2011 $
Salaries and wages	1,963,379	1,582,782
National Insurance and National Health Insurance	59,279	44,274
Allowances	47,990	44,580
Gratuities	107,726	78,467
Pension Contribution	48,959	42,413
Directors' Fees and Expenses	157,709	133,210
	2,385,042	1,925,726

Notes to Consolidated Financial Statements
For the Year Ended March 31, 2012

11. Travel and Subsistence

This can be analysed as follows:

	2012 $	2011 $
Accommodation and subsistence - local travel	8,669	36,925
Airfares - international travel	18,581	13,225
Accommodation and subsistence - international travel	45,419	13,455
Transport - air and sea fares	21,085	12,770
Transport - other	7,840	6,390
Other cost on international travel	568	1,981
	102,162	84,746

12. Office Expense

This can be analysed as follows:

	2012 $	2011 $
Office supplies	74,362	75,817
Printing & Binding	5,735	-
	80,097	75,817

13. Repairs and maintenance

This can be analysed as follows:

	2012 $	2011 $
General property maintenance	38,370	41,423
Maintenance - fixed assets/air conditioning	7,380	9,807
Maintenance of hardware	2,963	7,849
Maintenance of property	13,826	5,418
Maintenance of software	4,519	9,247
Repairs to office equipment	5,735	-
Service of vehicle	2,532	1,130
	75,325	74,874

Notes to Consolidated Financial Statements
For the Year Ended March 31, 2012

14. Utility charges

This can be analysed as follows:

	2012 $	2011 $
Electricity charges	66,418	47,824
Water charges	7,726	5,856
	74,144	53,680

15. Communication expense

This can be analysed as follows:

	2012 $	2011 $
Telephone - local cost	21,336	25,102
Line rental	26,558	18,165
Telephone - international cost	8,398	8,699
Internet charges	8,374	4,359
Postage and courier	3,260	3,677
Facsimile - local cost	-	540
Facsimile - international cost	191	54
	68,117	60,596

16. Insurance

This can be analysed as follows:

	2012 $	2011 $
Employee medical	59,382	49,411
Peril insurance	12,950	11,693
Motor vehicle insurance	3,336	4,113
	75,668	65,217

Notes to Consolidated Financial Statements
For the Year Ended March 31, 2012

17. Subscriptions and Contributions

This can be analysed as follows:

	2012 $	2011 $
Contributions to regional institutions	1,500	-
Subscriptions	1,019	819
Contributions to international institutions	20,803	15,491
	23,322	16,310

18. Training

This can be analysed as follows:

	2012 $	2011 $
Local	18,195	36,565
Overseas	9,241	-
Academic	13,000	20,909
	40,436	57,474

19. Other Operating and Administrative Expenses

This can be analysed as follows:

	2012 $	2011 $
Impairment provision	-	13,752
Local hosting and entertainment	54,023	48,087
Advertising	31,536	79,414
Bank charges	13,473	5,759
Meetings and conferences	-	5,509
Other grants and donations	4,899	500
Other operating expenses	19,525	13,520
	123,456	166,541

Notes to Consolidated Financial Statements
For the Year Ended March 31, 2012

19. Other Operating and Administrative Expenses (Continued)

FSC held a cash balance of $39,292 with TCI Bank as of March 31, 2011. TCI Bank was under provisional liquidation as of April 9, 2011, and management set up a provision of 70% of the balance based on their estimate of the recoverability thereof.

20. Employee Numbers

The number of people, both temporary and permanent, employed by the FSC at the year end was 56 (2011: 49).

21. Related Party Transactions

Included with staff costs is $827,259 (2011: $684,005) relating to salary and allowances for directors and key management employees.

Fees paid to Misick & Stanbrook for legal services were $Nil (2011: 12,530), all transactions occurred at arms length. Misick & Stanbrook are related through FSC board member Gordon Kerr.

22. Commitments and Contingencies

Commitments as at March 31, 2012 consist of Application software as follows:

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

As at March 31, 2012 the FSC also has capital commitments outstanding of $132,846 (2011: 132,846), and are committed to pay rental of the office in Caribbean Place amounting to $10,800 (2011: 10,800).

23. Comparatives

Certain amounts in the 2011 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.

Notes to Consolidated Financial Statements
For the Year Ended March 31, 2012

24. Breach of the Ordinance

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

During the year these quarterly assessments were not performed.

25. Comparison of Results with Budget

	Actual $	Budget $	Variance $
Revenue			
Gross revenue	6,552,461	5,877,263	675,198
Release of government grants	9,692	-	9,692
Interest and other income	65,627	276,000	(210,373)
	6,627,780	6,153,263	(474,517)
Expenditure			
Staff costs	2,385,042	3,024,928	639,886
Professional and consultancy fees	62,304	440,000	377,696
Rental of buildings	155,736	367,456	211,720
Travel and subsistence	102,162	201,284	99,122
Depreciation	94,843	80,000	(14,843)
Office expense	80,097	118,321	38,224
Repairs and maintenance expense	75,325	181,905	106,580
Utility charges	74,144	96,343	22,199
Communication expense	68,117	96,105	27,988
Insurance	75,668	89,437	13,769
Subscriptions and contributions	23,322	60,304	36,982
Audit and accounting	46,495	35,000	(11,495)
Training	40,436	161,600	121,164
Security expense	10,651	11,977	1,326
Other operating and administrative expenses	123,456	96,000	(27,456)
	3,417,798	5,060,660	1,642,862
Net Surplus	3,209,982	1,092,603	2,117,379

SECTION C

Financial Service Commission

APPENDICES

INTRODUCTION

The Financial Services Commission (FSC) was established in 2001 as an independent statutory body with responsibility for the administration of the regulatory framework for all financial services in the territory.

Over the past decade, it has worked to devise and implement a comprehensive and effective set of regulatory regimes to support the prudent development of the financial services sector in TCI and to build up appropriate professional resources to supervise the industry, consistently with international standards.This has been challenging, not least as the standards themselves have continued to evolve during the period. During that time, various external reviews, notably the IMF OFC 2003 report, the Caribbean Financial Action Task Force (CFATF) Report in 2008 and the Foot Review in 2009, have helped to identify areas where action was required if TCI was not to fall short of meeting international requirements, and these have guided previous action plans put in place by Government and the FSC. However, while the FSC has made significant and substantive progress in developing its supervisory regimes and capabilities, it has remained conscious of the scale of the task confronting the authorities in completing the modernization of the legislative and policy framework for financial services and in enhancing its supervisory resources appropriately.

The scale of the challenges has been underlined by events since the closure of TCI Bank in April 2010. A number of focussed reviews have been conducted, providing additional helpful guidance on the way forward. Firstly, the FSC Non-Executive Directors' Report looked specifically at the FSC's supervision of TCI Bank and the lessons to be drawn. Secondly, the Toronto Centre undertook an Assessment of the FSC's Supervisory Methodology and Practices for Banks, against relevant Basel Core Principles. In parallel, the IMF conducted two missions in March 2011 (Exploring Depositor Protection Options) and September 2011 (Establishing a Special Bank Resolution Regime and Deposit Insurance Follow-Up). The conclusions of these and earlier reviews have been brought together in formulating this updated Action Plan, intended to provide a high level focus for the FSC's on-going efforts to develop its regulatory frameworks over the coming 5 year period.

The Plan looks individually at each regulatory department viz Banks and Trusts, Insurance (Domestic and International) and Securities (Mutual Funds and Investment Dealers) and considers separately the issues of Supervisory Methodology, Legal Framework and Professional Resources. A final section deals with the overall administration of the Commission itself.

BANKS & TRUSTS DEPARTMENT

Supervisory Methodology

- **Supervisory Manual** - The Commission is moving to implement a risk based supervisory system and has begun consulting licensees and sharing with them extensive new material detailing the methodology for application of the modernised supervisory regime. While full implementation of a risk-based system must necessarily await the enactment of new banking legislation, the FSC will move to implement in the interim those elements not requiring legislation. Current best practices utilised by the FSC still need to be documented more fully in certain respects, and areas such as "Problem Bank Resolution and Crisis Management" will need be added, having regard to the eventual scope and shape of new legal provisions in this important area. The existing manual will thus require further review and updating to reflect the new legislation in due course. **[On-going during 2012]**

- **Regulatory Reporting** - The current suite of statistical returns for banks requires revision. For example, there is a need to provide for more detailed reporting on Liquidity, in particular mis-matched positions, to clearly define the instruments that constitute liquid assets as well as to specifically provide for the banks reporting of their compliance or non-compliance with the prevailing regulatory minimum Liquidity Ratios. **[June-December 2012]**

- **Secondary Source Reporting** - There is a need to institutionalise the use by the FSC of the banks' existing internal information sources. The FSC will be looking to enhance its relationship with banks' Internal Auditors, Compliance Officers etc. and will be seeking to leverage its own work off their reports. In parallel, the FSC will be looking to develop a more effective relationship with banks' external auditors to further enhance its own off-site surveillance processes. **[Discussions with banks and their auditors to commence during H2 2012]**

- **Guidelines** - The FSC will complete its framework of guidelines to the industry covering such issues as Licensing, Capital, Liquidity, Loan Classification, Loan Loss Provisioning, Interest Non-Accrual etc. **[H2 2012]**

- **Market Information** - The FSC will produce a Quarterly Statistical Report containing the consolidated figures for the banking industry, based on the regulatory returns, for website publication. **[H1 2013]**

Legal Framework

The present legal framework for banking and trust in the territory is out-dated. The FSC proposes to have the following new legislation enacted:

- **Financial Services Commission Ordinance** - A number of the current provisions need to be reviewed and amended, and the FSC will be consulting with licensees and other stakeholders on proposed amendments. One area for consideration relates to the possibility of creating some form of specific appeals panel mechanism enabling licensees or applicants dissatisfied with certain regulatory decisions to appeal to a panel of experts instead of having judicial review as the only available remedy as at present. Secondly, it is expected that some enhancement of the current provisions with regard to regulatory codes will be required in order to ensure that they can be effectively enforced against licenses, as well as to ensure that the development and implementation of such codes is subject to proper consultation and transparency. The opportunity will also be taken to amend various provisions related to the internal governance of the Commission to ensure that it remains appropriate as the FSC continues to grow and develop. **[H1 2013]**

- **Banking Ordinance** - A complete revised statute has already been shared with the banking industry as a basis for consultation. This is intended to update the current ordinance and it includes important new/expanded powers to deal with such matters as the relationship between supervisor and bank external auditors , intervention triggers, sanctions and tools for dealing with problem banks, bank controllers, consolidated supervision, capital tests etc. **[On-going consultations during H2 2012, to include consultant parliamentary draftsman]**

- **Bank Insolvency Ordinance** - New provisions are proposed, reflecting detailed recommendations from an IMF team, intended to provide for bank resolution and insolvency, replacing the present Court-administered processes under the Banking and Companies Ordinances. The Commission will be consulting with stakeholders, with the IMF and law officers with regard to whether provisions will be included in the Banking Ordinance or in a separate statute, as well as how far it may be appropriate to provide correspondingly in respect of other types of financial services businesses. As part of this, changes in the present prioritization of claims in the insolvency of a bank are also likely to be proposed. **[Consultations in late 2012 and early with a view to draft legislation later in 2013]**

- **Deposit Insurance Ordinance** - In parallel with the Bank insolvency legislation, the IMF will be giving guidance on a proposed new draft statute for the creation of a new Deposit Insurance Fund. This is envisaged to take the form of enabling legislation, designed to come into effect only once certain pre-conditions for effective regulation, identified by the IMF, have been satisfied; but given its interconnectedness with the other new banking-related legislation, it is obviously sensible for it to come forward on a similar timetable to permit banks to see and comment on the whole package. **[Consultations during 2013 for phased implementation 2014-2016]**

- **Trustees Licensing Ordinance** - The statute is old and the Commission wishes to conduct a wide-ranging review of the present Ordinance with a view to its modernization. It is intended that this will be conducted in consultation with industry and will consider among other issues the adequacy of current regulatory provisions, including the powers of the Commission to obtain access to relevant information and to intervene when material concerns arise for the interests of clients. In the meantime, the Commission will also bring forward interim proposals for enabling the creation of a private trust company regime, possibly involving management by licensed trust companies. Certain aspects of the Trusts Ordinance will also be reviewed with a view to possible modernization. **[Proposals on private trust companies to be brought forward in 2013; consultation on a new Licensing Ordinance to commence in 2014.]**

Professional Resources

- **Recruitment** - The FSC expects to seek to expand its existing Banking & Trust team through the addition of two additional experienced bank regulators and one experienced trust regulator. **[H2 2012- H1 2013]**

- **Training** - The FSC will continue to give high priority to finding opportunities to develop the skills' base of its regulatory teams, including through the use of external supervisory experts, through secondments where appropriate, and through involvement in suitable training and professional development opportunities. To this end, it is also looking to extend its membership of relevant supervisory bodies such as ASBA (The Association of Supervisors of Banks of the Americas) to allow its staff to have access to the most advanced training resources in the region. In addition, the FSC will incorporate the completion of online training programs into the performance evaluation of entry-level staff members. **[On-going]**

INSURANCE DEPARTMENT

1. Domestic

Supervisory Methodology

- **Supervisory Manual** - The FSC does not currently have a manual for supervision of the insurance sector. It is proposed that a manual reflective of the requirements of the new domestic insurance legislation and the International Association of Insurance Supervisors (IAIS) core principles will be prepared in order to document procedures for both off-site surveillance and on-site examinations. **[By end 2013]**

- **Regulatory Reporting** - In 2010 the FSC introduced quarterly reporting for domestic insurers; however, these are not yet fully developed. It is proposed to utilise the suite of returns developed by CARTAC for the Caribbean Association of Insurance Regulators (CAIR) to improve the comprehensiveness of the data collection effort. **[Mid-2013]**

- **Secondary Source Reporting** - In addition to the submission of the annual audited financial statements, the FSC will institutionalise the submission of reports by Actuaries, Internal Auditors and Compliance Officers etc. in order to enhance its off-site surveillance methodology. **[End 2013]**

- **Guidelines** - The FSC will commence the development of a framework of industry guidelines for domestic insurers dealing with such issues as Licensing, Capital, Restricted Deposits, Solvency, Eligible Assets etc. together with guidance on the Commission's regulatory approach. **[End 2013]**

- **Market Information** - The FSC will produce a Quarterly Statistical Report containing the consolidated figures for the domestic insurance industry, based on the regulatory returns, for website publication. **[End 2013]**

Legal Framework

The present legal framework for domestic insurers proved inadequate when faced with the failure of CLICO and British American in 2009. In addition to developing a network of Memoranda of Understanding with regional insurance regulators, the FSC has already conducted extensive consultation with the industry on the draft of a new modern domestic insurance ordinance. **[To be enacted H1 2012]**

Professional Resources

- **Recruitment** - The FSC proposes to expand its regulatory team with the recruitment of an additional two senior insurance regulators and one additional insurance analyst. The FSC also intends to continue its approach of recruiting overseas experts to support and help train its own regulatory team in the application of onsite examinations and in ensuring compliance with IAIS principles. **[2013-2014]**

- **Training** - The FSC will utilise the IAIS online training modules for on-going staff training and the Toronto Centre Leadership Program for more advanced technical education. **[On-going]**

2. International

Supervisory Methodology

- **Supervisory Manual** -There is a need to clearly document the current regulatory practices for Captive insurers and PORCS. In particular there is a need for greater clarity in the definitions for each category of insurer and reinsurer. **[2013]**

- **Regulatory Reporting** - There is a need to ensure that each insurance manager is providing current information on international insurers for which they are responsible and it is proposed to introduce quarterly reporting for insurance managers. **[2013]**

- **Guidelines** - The FSC will issue industry guidelines dealing with such issues as the Role of the Insurance Manager, Restricted Deposits etc. **[To commence late 2012]**

Legal Framework

- The industry has requested amendments to the existing ordinance in connection with the definitions of PORCS. At the same time, it will be appropriate for the FSWC to review a number of aspects of the existing provisions as part of the task of replacing the existing Insurance Ordinance insofar as it applies to international insurers. In this connection, the Commission will also wish to review the means available to it to gain reassurance, as necessary, as to the financial condition of licensees, including possible alternatives to an external audit requirement.] Detailed consultations will be undertaken during 2013 with a view to new legislation subsequently. **[2013-2016]**

Professional Resources

- **Recruitment** - The FSC expects to recruit three additional insurance administrators. [On-going]
- **Training** - The FSC will utilise the online options available (IAIS) as well as the annual educational offerings of the Offshore Group of Insurance Supervisors (OGIS). **[On-going]**

SECURITIES DEPARTMENT

Supervisory Methodology

- **Supervisory Manual** - The FSC does not presently have a manual governing the supervision of the securities sector. It is proposed that a manual based on the IOSCO core principles, together with appropriate guidance for industry will be commissioned to cover both on and off-site supervision procedures, in relation to both investment firms and mutual funds. **[2014]**

Legal Framework

- The FSC will consult on amendments to the ordinance to facilitate the licensing of Investment Advisors. **[2014]**
- The FSC will consult on amendments to the securities ordinances to bring them more fully into line with IOSCO recommendations. **[2015]**
- The FSC will seek membership in IOSCO. **[2016]**

Professional Resources

- **Training** - The FSC will utilise the annual educational offerings of IOSCO to upgrade the skills of existing staff in the department. **[On-going]**

The Commission

The Commission has been working to enhance the effectiveness of its supervision through bringing its regulatory teams into closer proximity with the bulk of the licensed sector. It has successfully completed Phase 1 of its relocation exercise with the transfer of the Banks & Trusts department and the Finance & Administration department to the Providenciales offices. Phase 2, involving the relocation of the Insurance department. Is currently under way. To date, the Domestic Insurance Unit has been transferred while the International Insurance Unit's transfer has been awaiting the acquisition of additional office space in Caribbean Place and is now imminent. **[H2 2012]**

Following these changes, the Commission will be working to ensure that it has mechanisms in place for handling more effective consultation and regular liaison with the licensed sectors. At the same time, the FSC will be taking continuing steps to enhance, wherever possible, transparency with regard to its role, its supervisory approach and its proposals and intentions with regard to on-going development of its regulatory regimes. This will include the publication of greater guidance than in the past, of consultative papers on proposed amendments to legislation or practice, and fuller use of its Annual Report, new quarterly reports and of the web-site to alert, inform and seek feedback from stakeholders. **[H2 2012 and on-going]**

As noted earlier, the FSC will be seeking a number of amendments to the FSC Ordinance to enhance certain aspects of its operations and governance, having regard in particular to Basel Core principles and recommendations from the IMF and Toronto Centre. **[H1 2013]**

Financial Services Commission
April 2012

APPENDIX II FSC Board of Directors

AUDIT AND RISK MANAGEMENT COMMITTEE TERMS OF REFERENCE

Policy Type: Governance Procedures
Policy Number: 01/2011
Date Approved: October 25, 2011

Purpose

The Audit and Risk Management Committee assists the Board of the Financial Services Commission in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, and the audit process, as well as in monitoring compliance with financial policies and relevant legal provisions.

Composition and Conduct

1. The Committee shall comprise not less than three (3) and not more than four (4) directors.
2. Members of the Committee shall be appointed by the Chairman of the Board
3. At least one(1) member of the Committee shall have relevant experience in the field of financial matters qualifying him or her as a "financial expert"
4. Non-board members may be appointed to the Committee, provided that such members, being persons with appropriate expertise in financial matters, are at all times fewer in number than the directors appointed to the Committee.
5. The Secretary of the Board shall also act as secretary of the Committee
6. The term of appointment of a member shall be for two (2) years or such shorter period as coincides with the termination of his or her directorship.
7. The Committee shall elect its own chairman and may appoint a temporary chairman in the absence of the elected chairman
8. A majority of the members constitutes a quorum.

Meetings

1. The Committee shall meet at least two (2) times in each financial year, and otherwise as necessary
2. Minutes are to be taken at each sitting of the Committee
3. The chair of the any meeting of the Committee shall report at the next meeting of the Board of Directors on matters considered at its recent sitting.
4. The Committee may seek any information it requires from employees or relevant external

parties and may invite such persons to attend its meetings when it judges that necessary. All employees are expected to cooperate fully in responding to the Committee's requests.

Duties, Responsibilities and Powers

1. The Committee shall review and make recommendations to the board on:

   a. The annual financial statements and the Commission's Annual Report
   b. Significant accounting and reporting issues arising
   c. The internal control environment
   d. The fulfilment by the Commission of its statutory financial obligations pursuant to the FSC Ordinance and compliance with relevant Board-approved policies
   e. The performance of the external auditors and proposals for their (re-)appointment or discharge, including scope of engagement and fees.

2. The Committee shall oversee the annual audit process including the proposed scope and approach, the results of the audit and the responses to the external auditor's 'management letter'. In so doing, the Committee will have such contact and meetings with the external auditors and with any internal audit or compliance functions as it judges necessary.

3. The Committee may make enquiries into and conduct reviews of any financial matter it deems relevant, including but not limited to the following; when it judges necessary, the Committee has the power to engage assistance from professionally-qualified persons at the expense of the Commission:

   i. Operation of the Reserve Fund and the Reserve Fund Account pursuant to the Regulations, if any, guiding their operations;
   ii. The general financial condition of the Commission;
   iii. The condition and custody of assets belonging to the Commission;
   iv. Compensation and benefits paid or payable to employees;
   v. Evaluation and approval of major fixed assets acquisitions;
   vi. Monitoring of approved budget against actual performance, including requesting information on major variations.

AUDIT AND RISK MANAGEMENT COMMITTEE TERMS OF REFERENCE

4. The Committee shall maintain under review the risks inherent in the Commission's financial operations including:

   a. Ensuring that there is reasonable assurance that internal controls are present and are adequate over the Commission's resources and operations

   b. Oversee the implementation of a risk management strategy for identifying, monitoring, controlling and reporting risk in relation to assets and records

   c. Receiving an annual report in relation to risks identified and how they are being managed or mitigated.

   d. Ensuring that the Board is made aware of all material financial matters and risks.

5 The Committee shall maintain these Terms of Reference under review and make such recommendations to the Board for change as it sees fit.

APPENDIX III FSC Board of Directors

HUMAN RESOURCES COMMITTEE TERMS OF REFERENCE

Policy Type: Governance Procedures
Policy Number: 01/2012
Date Approved: December 15, 2011

Purpose

The Human Resources Committee shall be established to assist the Full Board of the Financial Services Commission in fulfilling its oversight responsibilities for (a) setting the policy of the Commission, notably those policies in relation to human resources issues (b) participating and or providing guidance in the appointment or selection of the Commission's senior officers and (c) providing guidance in relation to the human resources management of the Commission.

Composition and Conduct

9. The Committee shall comprise not less than three (3) and not more than four (4) directors.
10. Members of the Committee shall be appointed by the Chairman of the Board
11. At least one (1) member of the Committee should have relevant experience in the field of human resources.
12. Non-board members may be appointed to the Committee, provided that such members are at all times fewer in number than the directors appointed to the Committee.
13. The Secretary of the Board shall also act as secretary of the Committee
14. The term of appointment of a member shall be for two (2) years or such shorter period as coincides with the termination of his or her directorship.
15. The Committee shall elect its own chairman and may appoint a temporary chairman in the absence of the elected chairman
16. A majority of the members constitutes a quorum.

Meetings

5. The Committee shall meet at least one (1) time in each financial year, and otherwise as necessary
6. Minutes are to be taken at each sitting of the Committee, prepared promptly and circulated to the members. The chair of any meeting of the Committee shall report at the next meeting of the Board of Directors on matters considered at its recent sitting, with any necessary recommendations that the full board is required to approve.

7. The Committee may seek any information it requires from employees, either directly or through the staff representative, or relevant external parties and may invite such persons to attend its meetings when it deems it necessary. All employees are expected to cooperate fully in responding to the Committee's requests.

Communications & Confidentiality

1. All deliberations of the HRC shall be treated as confidential.
2. All communication between the HRC and the FSC staff will be carried out through the Secretary/Human Resources Manager. In the absence of an HR Manager, the Head of Administration shall be the appropriate channel.
3. The staff are required to choose a representative from amongst themselves for the purpose of liaison with the Committee, where such liaison is required and necessary.

Duties and Responsibilities

The Committee shall have the following duties and responsibilities:

1. To consider, review and make recommendations to the full Board on policy matters in cases where such policies impact the existing or anticipated role and responsibilities of the Human Resources Department or such department for the time being subsisting as such.
2. To consider, review and make recommendations to the full Board on matters contemplated by the HR[12] department which, either individually or collectively, are likely to have a significant financial impact on the FSC.
3. To consider, review and make recommendations to the full Board on such matters which, in either the opinion of the MD, the Committee itself or the full Board, require the Committee's input.
4. To make recommendations to the Board on appointments in relation to senior officers.
5. To consider and review any management reports of a human resources nature as may be deemed necessary or required from time to time.

Provided that the role and function of the Human Resources Committee may be subsumed by the full Board, where the full Board determines that any matter that would ordinarily be

[12]Where there is no designated HR Department, such department as the Administration Dept. for the time being in charge of HR affairs.

dealt with by the HRC is better and more properly dealt with by the full Board or is of such importance that deliberation before the full Board is more expedient or warranted.

In carrying out any of its duties and responsibilities the Committee may enquire into such human resources matters as it deems fit, inter alia:

i. Employment conditions such as terms of contracts, remuneration, overtime and leave.

ii. Workforce development such as workforce planning, succession planning, talent management, leadership development, performance management, appraisal and evaluation

iii. Human resources systems and processes such as policies and procedures and working conditions.

iv. Recruitment such as staffing levels, minimum required qualifications, recruitment guidelines etc.

Powers

In addition to its explicit and derived powers, the Committee shall also have the following powers

1. Power to call any employee or person to attend and give submission at its sittings;
2. Power to evaluate the performance of the Chief Executive Officer;
3. Power to request and receive the evaluation reports of senior staff;
4. Power to authorize salary scales, upon the submission of same by the Managing Director. Such power is provided so as to enquire into the appropriateness of the scale for any employee, inclusive of MD's salary;
5. Power to approve terms of reference of consultants, such approval to take place before the engagement of such consultants;
6. Power to settle grievances in the form and manner provided for by the policies.

Variation of Terms

The Committee shall maintain these Terms of Reference under review and make such recommendations to the Board for changes as it deems fit. Changes may also be made by the Full Board where it is considered necessary or expedient to so.