TURKS AND CAICOS ISLANDS
FINANCIAL SERVICES
COMMISSION

ANNUAL REPORT 2017/2018

DIRECTORS OF THE FINANCIAL SERVICES COMMISSION

Seated from Left to Right:
Mr. Neville Grant, Sir Errol Allen (Chairman) and Mr. Oswald Simons (Deputy Chairman)

Standing Left to Right:
Mr. Kevin Mann, Mrs. Athenee Harvey-Basden (PS Finance), Dr. David Oakden and Mr. Niguel Streete (Managing Director)

DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

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

SENIOR MANAGEMENT

Niguel Streete	-	Managing Director
Kenisha Bacchus	-	Director Human Resources and Administration
Corine Bolton	-	Director Insurance
Claudia Coalbrooke	-	Director Company Managers & Investments
Paul Coleman	-	Director AML Supervision
Karlene Ferrier	-	Registrar of Companies
Marlon Joseph	-	Director Bank and Trust
Desmond Morrison	-	Director Finance
Cathrice Williams	-	Director Information Technology

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SECTION A

REPORT OF THE COMMISSION

PROFILE OF THE DIRECTORS

ERROL ALLEN
CHAIRMAN

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

OSWALD SIMONS
DEPUTY CHAIRMAN

Mr. Simons is a retired banker whose career spanned over 30 years with various banking groups. Mr. Simons also served as Chairman of the Turks and Caicos Investments Agency.

NEVILLE GRANT
DIRECTOR

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

KEVIN MANN
DIRECTOR

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

DAVID OAKDEN
DIRECTOR

Dr Oakden joined the board in October 2016. He brings to the Commission considerable experience in the field of insurance. He is a Fellow of the Canadian Institute of Actuaries and a Fellow of the Casualty Actuarial Society. Dr Oakden holds a Ph.D. in Mathematics from the University of Toronto. His training and experience greatly complements the skill set of the Board.

ATHENEE HARVEY-BASDEN
PERMANENT SECRETARY, MINISTRY OF FINANCE

Mrs. Harvey-Basden served in various positions in the Turks and Caicos Islands Government, including at the Treasury Division, as Accountant General and since 2012 she has held the position of Permanent Secretary, Ministry of Finance. Mrs. Harvey-Basden has various degrees in Accounting.

NIGUEL STREETE
MANAGING DIRECTOR

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

1.0 CHAIRMAN'S REPORT

It is my distinct pleasure to present the Chairman's Report for the financial year ended 31 March 2018, a year in which we made tremendous strides in improving efficiency in the Commission's operations. It was also a year in which the Turks and Caicos Islands were impacted by two major hurricanes, Irma and Maria. Both hurricanes had a negative impact on the Commission's operations and the economy of the TCI, resulting in a consequential decline in the Commission's revenue; however, the Commission continued to deliver on its statutory mandate. We were very pleased with the resilience of the financial services sector in responding to these storms. The Insurance sector had no difficulty in covering the claims presented to them, a testament to the strength of the industry and the quality of regulation by the Commission.

Notwithstanding the diversions caused by both hurricanes, our goal has been to consolidate and build on regulatory and organisational gains made in recent years and to position the TCI financial services industry among the premier regulated financial services centers in the Caribbean. At its Executive Retreat in December 2017, the Board accepted the recommendation to enhance the Commission's vision and mission to more adequately guide its operations. New Mission, Vision and Values Statements approved in February 2018 reflect the Commission's commitment to fairness, effectiveness and risk-focused supervision, and its role in contributing to financial sector stability, economic development and building confidence in the financial services industry. The values which will guide and act as watchwords for the Commission are Integrity, Transparency, Independence and Efficiency, which are all necessary for effective regulation.

The key objectives of the Commission's 2018 – 2020 strategic plan are:

a) Maintaining financial sector stability
b) Protecting users of the financial system
c) Developing a strong and respected brand
d) Maintaining confidence in the financial services sector in TCI
e) Facilitating the judicious growth of the financial sector

The strategic plan is supported by annual work programmes to guide and monitor its success.

The Commission recognises the need to modernise its existing legislative structures and has started this transformation with the assistance of the Attorney General's

Chambers. The first phase was the introduction of the Companies Ordinance 2017, which modernised the legal framework and operations relevant to companies. All financial centres must have a sound and reliable mechanism to allow for the orderly wind-up of companies and the TCI is no different. Accordingly, complementing the new Companies Ordinance is the Insolvency Ordinance 2017. Supporting this framework is the Financial Institutions Resolution Bill being proposed by the Commission. These Ordinances/Bills enhance the protection provided to users of the financial system.

The strategic plan also addresses the efficient delivery of services to clients. While efficiency targets are being established for all interaction with clients, the emphasis continues to be on the delivery of service through the registries. After many years of intermittent development, it is my pleasure to announce that the KRegistry was launched in March 2018 and will continue to be rolled out in phases over the next year. Following this, an electronic online solution will be pursued for trademarks and patents.

The Cabinet commissioned Statutory Bodies Review provided the Commission with independent confirmation of the strength of its governance and risk management framework. While noting areas for improvement, which the Commission is in an advanced stage of addressing, the study was generally complimentary of the work of the Commission. Much of the work of the Commission over the past year has been guided by the need for increased compliance with international standards. In 2018 the TCI will be assessed by two international standard setting bodies CFATF and EU Global Forum. The Commission is working expeditiously to prepare for these two assessments.

On behalf of my fellow Board of Directors I wish to commend Management and Staff for their active participation in formulation of the Strategic Plan and would urge a similar commitment and dedication towards the monitoring process of the Annual Work Programme.

Sir Errol Allen
Chairman

2.0 MANAGING DIRECTOR'S REPORT

2.1 OVERVIEW

It is now a decade since the onset of the 2007-2008 global financial crisis; over that period, the jurisdiction's financial system has been challenged, first by the volatility brought on by the crisis, and in more recent years by ever more pressing demands to implement global regulatory reforms. I am pleased to report that ten years on, our system is healthy and the outlook for 2018/19 remains broadly positive.

The just concluded 2017/18 financial year was, however, not without its challenges.

2.2 IMPACT OF HURRICANES IRMA AND MARIA

The passages in quick succession of Hurricanes Irma and Maria in September took a considerable toll on the infrastructure of the Islands. However, even with combined insurance losses of over $300M, net claims of local insurers totalled less than $18.4M, as the majority of claims were reinsured. Though the hurricanes affected several jurisdictions across the Caribbean, loss adjustors and claims management teams were swift in arriving to facilitate assessment and payment of claims.

The Commission's operations were not unscathed by the hurricanes, as both revealed vulnerabilities in our business continuity infrastructure. Though our physical premises on both islands suffered only minor damage, ensuing communications disruptions across the island of Grand Turk in particular, hampered service delivery in the Companies Registry for a number of weeks. We were grateful for the understanding of our licensees and clients during that period. Our team has since taken careful inventory of the vulnerabilities in our disaster recovery and business continuity frameworks and continues to work to improve the speed and appropriateness of our response to critical incidents.

2.3 ACHIEVEMENTS

Even with the disruption caused by both storms, we were able to deliver most of the key outcomes promised for 2017/18. Notably, in February, the Commission rolled out the Beneficial Ownership Registry and in the following month, the much anticipated online filing platform, KRegistry, was launched. Though we are pleased to have both registries now operational, we recognise their unveilings as mere first steps that will very likely evolve in the coming years with changing requirements and expectations on transparency and as our team effects continual improvements for the convenience of end users.

Last year also saw the development and passage of key legislation on both ends of the company life cycle, with the enactment of a modern Companies Ordinance 2017 (which will run concurrently for a period with, and thereafter replace, the long in-force Companies Ordinance, Cap 16.08) and introduction of an Insolvency Ordinance. Both pieces of legislation represent significant progress for the jurisdiction. The transition period for the new Companies Ordinance 2017 is already in effect and subsidiary rules are now being developed to support the Insolvency Ordinance. Once those have been passed, the Commission will move to develop a licensing regime for insolvency practitioners and, in due course, move to operationalise its liquidator-of-last-resort powers as provided for under the Insolvency Ordinance.

Throughout 2017/18, the Commission continued its close work with stakeholders within and outside of the Islands. Notably, the Commission successfully hosted the 2017 meeting of British Overseas Territories' regulators in the Caribbean region. These meetings, which are convened annually, serve to promote and foster greater regulatory cooperation among the British Overseas Territories in the region. Collaboration of this nature is arguably even more critical in the context of still unfolding developments relating to transparency of beneficial ownership, anti-money laundering, countering terrorist financing, and de-risking; accordingly, the Commission will continue to leverage these meetings and similar opportunities to advance the Islands' interests.

Last year's programme also firmly pivoted on work being done with domestic partners to prepare for two very important country assessments. The Commission, together with the other competent authorities represented on the national Anti-Money Laundering Committee (AMLC), has worked hard to prepare for an upcoming mutual evaluation of the Islands by the Caribbean Financial Action Task Force (CFATF). The evaluation process is a lengthy and rigorous one, which requires the jurisdiction to demonstrate that it has effective laws and systems in place to protect the jurisdiction from abuse. During the year, the Commission also contributed to preparations for a July 2018 country visit by assessors from the Global Forum on Transparency and Exchange of Information for Tax Purposes, which will, among other things, seek to verify the jurisdiction's progress against our stated commitments to promote transparency and discourage tax evasion. A great deal hinges on the outcomes of both assessments and the Commission remains committed to supporting this work to the full extent required.

Our strong focus on anti-money laundering has also been evident in the work of the supervisory departments, which have ramped up the number and intensity of examinations of this risk and have worked to achieve greater coordination in the discharge of our anti-money laundering supervisory responsibilities. We have also begun internal reorganisation of our supervisory departments to make our structure more conducive to seamless supervision of our licensees.

The global financial crisis underscored the need for strong systemic risk surveillance and crisis preparedness as critical lines of defence to support microprudential supervision and to reduce losses caused by financial crises. This global crisis experience has informed work now ongoing within the Commission, with technical support from the Caribbean Regional Technical Assistance Centre (CARTAC), to build out a framework to monitor financial stability and develop crisis management and response protocols. Last year, we placed strong emphasis on strengthening capacity to monitor and interpret macro-prudential indicators. Much of our systemic risk focus in recent years has been centred on our banking sector, given its size relative to the financial system. During 2018/19, we will expand this work to also include the insurance and asset management sectors, and on the crisis preparedness front, work to ensure that the Commission is equipped to respond appropriately to systemic events.

2.4 STATUTORY BODIES REVIEW

In the second half of the financial year, the Commission was the subject, along with 16 other statutory bodies and agencies, of a review commissioned by the Cabinet, which examined the adequacy and robustness of governance arrangements. We are pleased that the assessment findings in large measure affirmed the steps we have undertaken to strengthen the prevailing governance and risk management cultures within our operations. The report did however highlight areas for improvement, including the need for rebalancing of the board complement to include more human resource and registry expertise and better articulation of the link between our strategic objectives and some of the key performance indicators for our management. We have already implemented several of these recommendations and have timetabled completion of the remaining items by the end of 2020.

2.5 RESOURCES

Throughout 2017/18, the Commission operated within judicious budgetary limits. As our audited financial statements reflect, the Commission recorded a surplus of $3.9M, most of which has already been transferred into the Consolidated Fund.

We continue to target efficiency, despite an expanding remit and a profound challenge in retaining staff in recent years. Our staffing has been affected by a number of factors including changes in work permit requirements; a moratorium on promotions, increments and new hires; and an underlying need to realign employee compensation. Our resilience has been tested this past year, but I am very grateful to our team, whose tenacity and experience have been proven in this period of transformational organisational and operational changes. I am also indebted to our Board of Directors for their strong support during this period, as well as to His Excellency the Governor, for his stewardship as Sponsoring Officer, over our operations.

2.6 LOOKING FORWARD

The coming year will no doubt be even more demanding. In addition to contributing to two external assessments, we have plotted a very ambitious calendar of supervisory and operational initiatives. We will of course, continue to implement risk-based supervision across the various sectors. Our licensees and industry groups can therefore expect even more interaction with us to inform this implementation as it progresses. We also intend to pursue a number of legislative changes, including Domestic Insurance Regulations to support the new Ordinance for that sector, as well as an Insurance Amendment Bill, which will give effect to a new regime for our Producer Owned Reinsurance Company (PORC) licensees. Work will commence, as well, on drafting a more modern Business Names Bill and establishment of a Special Resolution Regime to govern smooth and orderly resolution of distressed financial entities.

I offer my firm commitment that, while working through this agenda, we will continue to strive to deliver high quality risk-based prudential supervision, and to protect the reputation of these Beautiful by Nature Islands. The upcoming year will no doubt present us with challenges but we will continue to work together and with our industry stakeholders to meet them with zeal.

Niguel Streete
Managing Director

3.0 BANK AND TRUST DEPARTMENT

3.1 OVERVIEW

The department's supervisory focus remained on banks, trust companies and money services businesses (MSBs) pursuant to the relevant governing legislation, regulatory policies and international standards.

A key focus of the department's regulatory effort was on liquidity risk management in the banking sector[1]. There was also ongoing consultation with key stakeholders on legislation, enhancement to guidelines and other initiatives that aided in the improvement of supervisory oversight. Training and development of staff remained a significant goal of the department.

The number of financial institutions regulated by the department remained at 19: seven banks, nine trust companies and three MSBs. The department received four applications, and a number of expressions of interest, for licences during the year under review.

3.1.1 ACTION PLAN 2017-2020

During the year under review, the department also updated a number of guidelines, application forms and templates for submitting information to the Commission. The guideline on liquidity requirements for licensed banks was finalised and issued in the third quarter.

Work continued on the Commission's risk-based supervisory framework, which the Board of Directors approved in the third quarter of the financial year. The department continued its development of staff competencies through internal and external training, conducting risk-based examinations and monitoring licensees with a focus on risks. This effort will continue in the next financial year with further training, consultation with licensees, realignment of regulatory processes, restructuring the department, and anticipated continued technical support from the Caribbean Regional Technical Assistance Centre (CARTAC).

3.1.2 REGULATORY ACTIVITIES DURING THE YEAR

During the review period, the department conducted a pilot risk-based onsite examination under the new framework and a targeted onsite examination.

The department continued with its annual regulatory meetings with senior management of licensees but also met with licensees more frequently as needed.

3.1.3 ENFORCEMENT ACTIONS

Enforcement action was initiated against one licensee during the year and notices to take enforcement action were issued to two other licensees.

3.1.4 LEGISLATIVE INITIATIVES

Following passage of the Credit Union Ordinance in 2016, the department has assumed responsibility for the supervisory oversight of credit unions once these are licensed. During the year, the department continued to work on the drafting of supporting Regulations and Code as well as model by-laws. Work also continued on the Banking Bill, while legislation governing the money services business sector remained under review to strengthen regulation of the sector.

3.2 BANKING SECTOR

3.2.1 CAPITAL ADEQUACY

The banking sector remained adequately capitalized at 24.3%, well above the 11.0% minimum statutory required Capital Adequacy

[1]The revised guideline came into effect in January 2018.

Ratio (CAR)[2] . However, the banking sector's CAR declined, reflecting the faster growth in risk weighted assets relative to qualifying capital.

3.2.2 ASSET QUALITY

Sector credit[3] expanded by 1.4% to account for 39.5% of assets. Asset growth was however concentrated in placements[4], which overtook credit as the largest asset category following a 67.7% increase, to account for 52.5% of overall assets. Investments also recorded a notable (110.8%) increase, to account for 4.8% of assets. Despite representing a diminished share of assets, credit continued to be the leading earning asset, with interest income from that portfolio accounting for 60.3% of gross income. See Charts 1 and 2 for key asset trends and for the composition of the sector's assets.

The quality of sector credit improved significantly, with non-performing loans (NPLs) declining by 21.5% to account for a reduced 7.5% of the credit portfolio, down from 9.3% in the previous year. Loss provisioning levels increased across the sector, both in anticipation of economic losses on the heels of Hurricanes Irma and Maria, as well as new accounting requirements ushered in under IFRS 9. Consequently, provisions increased by 20.6% to account for 68.9% of NPLs, compared to 44.8% in the previous year. *Chart 3 reflects the trend of NPLs and provisions between the 2015 and 2018 financial year ends.*

Chart 1: Banking Sector Asset Profile (2015 to 2018)

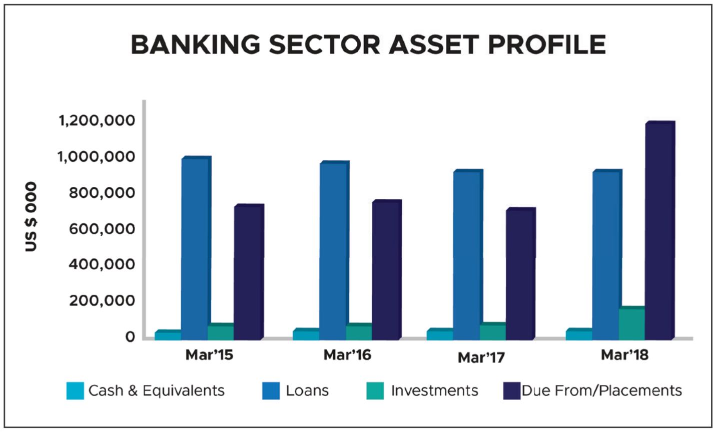


Chart 2: Banking Sector Assets Profile

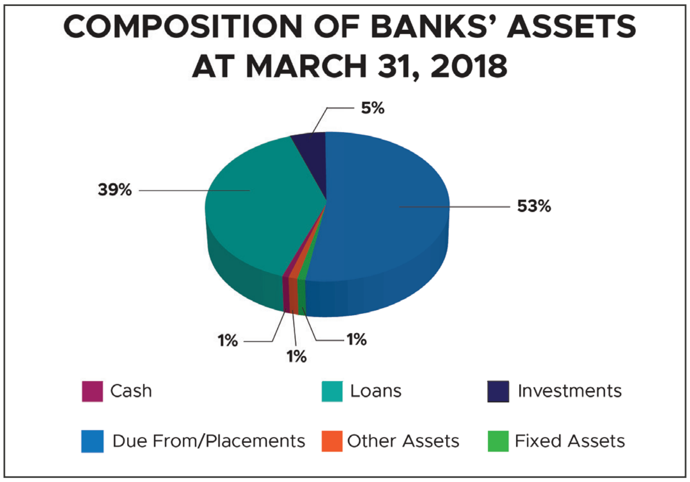
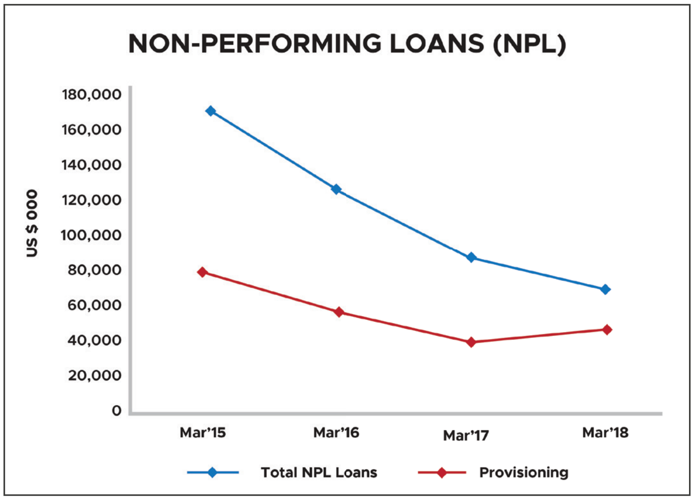


Chart 3: Non-Performing Loans



3.2.3 LIQUIDITY

All banks maintained adequate liquidity throughout the review period, exceeding the statutory minimum of 12.0% Liquid Asset Ratio[5]. Liquid assets accounted for 64.0% of deposits and borrowings. The shift to placements increased liquidity but created concerns for the sustainability of earnings; the average return on placements was less than 2% per annum. The high liquidity level was reflected mainly in two banks, which accounted for 82.2% of the liquidity in the system.

Funding for assets was mainly sourced from deposits, which accounted for 61.7% ($1.4B)

[2]The Capital Adequacy Ratio is the ratio of qualifying capital divided to risk-weighted assets. It mainly measures the adequacy of capital against the credit risk in a bank's asset portfolio.
[3]Loans and advances
[4]Deposits held with other financial institutions.

of total assets, up by 18.8% over the previous year. Borrowings also showed significant movement, increasing by 157.1% to $507.6M and representing 22.8% of total assets.

3.2.4 EARNINGS

During the year, the banking sector generated (unaudited) profits of $35.9M, an increase of 9.3% ($3.1M) when compared to the previous year. The increase in profit was mainly attributable to higher interest income. All banks reported a profit and, with the exception of one bank, had increased profit margins for the 2017/2018 financial year.

Gross income grew 9.1% above the 2016/17 levels. Income was generated from interest[6], 71.3%, and fee income[7], 28.7%. Interest income increased by 21.7%, while fee income declined by 13.2%. The increase in interest income was mainly from credit, despite the marginal increase in the credit portfolio.

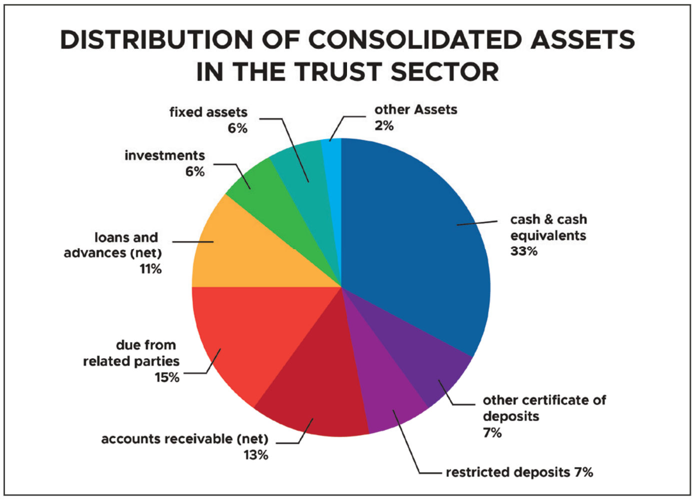
Expenses in the sector grew by 8.8% to $54.0M, influenced by increases in provisioning for loan losses and interest expenses. The increase in interest expense was attributable to the growth in customers' deposits and the balances due to other financial institutions (borrowings). Nevertheless, banks controlled expenses through significant reductions in write-offs and other costs when compared with the previous financial year.

Despite the sector's increased profit margin, key profitability indicators revealed that return on assets employed was lower than the previous year, as assets and capital increased by larger margins, while expenses stymied profit growth. The return on assets (ROA) declined by 0.2 percentage point to 1.7%, while the return on equity (ROE) declined by 0.9 percentage point to 12.6%. Nevertheless, there was improved efficiency as reflected in the 12 percentage points (to 41.6%) contraction in the ratio of non-interest expenses to gross income.

3.3 TRUST SECTOR[8]

As at 31 December 2017, the trust sector had on balance sheet assets of $22.7M, an expansion of 15.0% during the year. This increase was mainly influenced by one trust company that expanded into a joint venture operation. Cash and cash equivalent items remained the sector's largest asset class, accounting for 33.2%, relative to 36.9% the previous year. Chart 4 illustrates the components of the sector's assets.

Chart 4: On-balance sheet Assets in the Trust Sector



The sector's profitability improved substantially during the year ended 31 December 2017 to $2.4M, compared to $528K the previous year.

Two of the nine trust companies accounted for 77.5% of the sector's assets, while three companies were mainly responsible for the higher level of profit.

As at 31 December 2017, trust companies managed total assets of $948.8M, relative to $752.5M twelve months prior. The increase in assets under management was reflected in all categories of fiduciary activities.

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[5] Liquid assets as a percentage of customers' deposits and balances due to financial institutions.

[6] loans, placements and investments

[7] services, commissions, foreign exchange transactions and other income

[8] The following analysis on the trust sector represents the financial position of the sector as at December 2017 relative to December 2016, as the reporting structure does not provide for information as at March 2018.

However, there continued to be a notable decline in the number of trust accounts under administration, while there was a higher demand for other fiduciary activities.

3.4 MONEY SERVICES BUSINESSES (MSBS)

Despite the impact of de-risking, the money services sector continued to grow in every area of its operation. At 31 March 2018, the three MSBs in the TCI had total assets of $4.8M, an increase of 58.6% when compared to the previous year. Consistent with the increase in assets, the sector's profit margin grew by 10.0% ($695K), following the 17.1% contraction in the previous financial year. Despite the sector's increased profit, the ROE and ROA, while remaining relatively high, declined to 17.8% and 46.1% respectively, when compared to 23.0% and 50.0% for the 2016/2017 financial year.

During the review period, the MSBs transmitted $122.3M, of which 93.8% represented outflows and 6.2% was inflows. There was continued growth in both inflows and outflows.

The Haitian and the Dominican Republic markets continued to be the main recipients of outbound remittances, together accounting for 58.2% ($66.8M) of the total outflows. Inflows were mainly from the United States of America, accounting for 49.1% ($3.8M) of total inflows. Charts 5 & 6 show the percentages of remittance inflows and outflows by countries.

Chart 5: Remittance Inflows

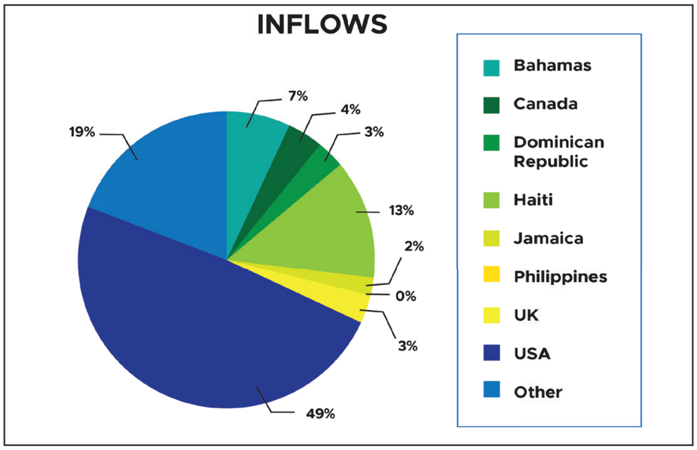
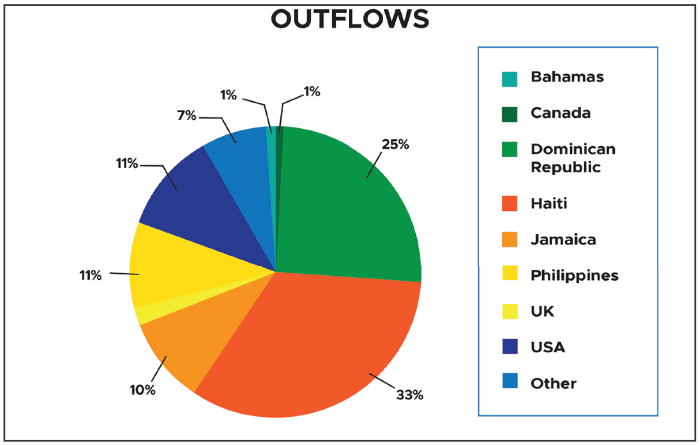


Chart 6: Remittance Outflows



3.5 STAFF COMPLEMENT

The department's staff complement remained unchanged at five; however, efforts continue to recruit additional staff to fill existing vacancies.

3.6 SUMMARY OF SELECT FINANCIAL DATA

Select data for the Banking, Trust and MSB sectors for the years March 2017 and 2018 and the trust sector as at December 2016 and 2017 are set out in table 1.

Table 1: Summary of Statistics

FINANCIAL DATA				
Description	**March -17**	**March -18**	**Change**	
	$'000	**$'000**	**$'000**	**%**
BANKING SECTOR				
Capital Adequacy:				
Qualifying Capital	251,864	270,610	18,745	7.44
Risk weighted Assets	907,374	1,115,437	208,064	22.93
Capital Adequacy Ratio (%)	27.76	24.26		
Asset Quality:				
Gross Assets	1,667,151	2,223,545	556,394	33.37
Assets (net)	1,629,502	2,178,144	548,642	33.67
Loans and Advances	865,869	878,073	12,204	1.41
Investments	50,519	106,512	55,993	110.84
Placements	701,042	1,174,971	473,929	67.60
Non-performing Loans	84,037	65,936	(18,101)	(21.54)
Provisioning	37,649	45,401	7,752	20.59
Earnings:				
Gross Income	82,468	89,864	7,396	8.97
Profit	32,815	35,859	3,044	9.28
Interest Income	52,720	64,070	11,350	21.53
Fee Income	44,047	37,354	(6,693)	(15.20)
Expenses	49,653	54,005	4,352	8.76
Return on Assets (%)	1.90	1.70		
Return on Equity (%)	13.50	12.60		
Liquidity:				
Liquid Asset	707,667	1,202,226	494,559	69.89
Deposit and Borrowings	1,352,071	1,878,990	526,919	38.97
Liquid Asset Ratio (%)	52.34	63.98		
MONEY SERVICES BUSINESS SECTOR				
Total Assets	3,025	4,798	1,773	58.61
Net Income	632	695	63	9.93
Outflows	100,732	114,683	13,950	13.85
Inflows	7,359	7,644	285	3.87
Return on Assets (%)	23.00	17.80		
Return on Equity (%)	50.00	46.10		
Description	**Dec-16**	**Dec-17**	**Change**	
	$'000	**$'000**	**$'000**	**%**
TRUST SECTOR				
Total Assets	19,739	22,699	2,960	15.00
Cash & Cash Equivalents	8,377	7,531	(846.00)	(10.10)
Net Income	528	2,939	2,411	456.63
Assets under Management	752,531	948,759	196,228	26.08

4.0 INSURANCE DEPARTMENT

4.1 OVERVIEW AND GENERAL DISCUSSION

The Turks and Caicos Islands has two distinct categories of insurers: i) international insurers that are authorised to only write non-TCI risk, and ii) domestic insurers that are able to write both local and foreign risk. Given the structure of the sector, the Insurance Department was organised into two units: i) the International Insurance Unit (IIU), which operated from Grand Turk, and ii) the Domestic Insurance Unit (DIU), which operated from Providenciales.

4.1.1 IMPACT OF THE HURRICANES

The 2017 Atlantic hurricane season was very active, with Hurricanes Irma and Maria having a significant impact on the Turks and Caicos Islands. Hurricane Irma was the more significant of the two events, affecting all domestic general insurers with 3,154 claims reported. Updated information presented to the Commission subsequent to 30 April 2018, indicated that total claims incurred, paid and reserved, for damages caused by hurricane Irma was $315.4M of which more than 86% was recovered from international reinsurers. The Commission was advised that 18 claims complaints were made to insurers; as at June 2018, three complaints remained unresolved. Hurricane Maria affected the Islands within a week of Hurricane Irma whilst policyholders and insurers were in assessment mode. Only one insurer reported a claim as a result of hurricane Maria. This claim was settled at the date of this report.

The financial impact of the hurricanes is evident in the significant increases in the assets and liabilities of the domestic insurance sector, with insurers reporting considerable increases in claims outstanding and a corresponding increase in amounts recoverable from reinsurers.

4.1.2 NUMBER OF LICENSEES

The department regulated or supervised 7,455 (7,138 in 2017) licensees as at 31 March 2018. As can be seen from Table 2 below, the insurance sector was dominated, in number, by international insurers, primarily Producer Owned Reinsurance Companies (“PORCs”).

There were 7,410 international insurers operating from the TCI, a 4.5% increase when compared to the previous period. Growth in

Table 2: Total insurance licences

Licenses	2018	2017	2016	2015	2014
Reinsurers (PORCs)					
Credit Life	6,725	6,404	6,391	5,704	3,962
Non- Credit Life	609	617	538	448	2,992
Captives	69	65	66	65	80
Insurance Managers	7	7	7	7	6
Total International Insurers	**7,410**	**7,093**	**7,002**	**6,224**	**7,040**
Domestic Insurers	19	19	19	18	21
Insurance Brokers	11	11	13	13	13
Insurance Agents	5	5	5	5	11
Insurance Sub-Agents	10	10	8	4	3
Total Domestic Insurance Licensees	**45**	**45**	**45**	**40**	**48**
Total Licensees	**7,455**	**7,138**	**7,047**	**6,264**	**7,088**

the sector was tempered by the cancellation of 272 PORC licences and the surrender of 1 captive and 21 PORC licences. The number of domestic insurers remained unchanged at 45: one licence was issued to write general insurance but this was offset by the surrender of a long-term insurance licence. Table 3 below reflects the movement in the number of licensees broken down by class and type in respect of licensing activity for the year under review.

In respect of the International Insurance Unit, work continued on some aspects of its action plan. A draft Cabinet Paper, along with the framework for a new International Insurance Bill, was submitted to the Attorney General's Chambers for review and onward submission to Cabinet. It is envisioned that the proposal for the new Bill will be approved by Cabinet and thereafter drafting will commence. This new bill will take into consideration modern principles for international insurance business.

Table 3: Movement in the number of licensees in the International Sector

Particulars	Total	Credit Life	Non-Credit Life	Captives
New licences	611	541	65	5
Reinstatements	0	0	0	0
Surrenders	22	16	5	1
Cancellations	272	204	68	0
Net movement during the year	**317**	**321**	**(8)**	**4**

4.2 ACTION PLAN 2012/2016

All the goals set out in the 2012-2016 Action Plan for the DIU were achieved except for the issuance of a guideline detailing the minimum requirements for an acceptable reinsurance programme. This guideline is scheduled to be circulated to the industry for consultation during the 2018/19 financial year.

Following through on the recommendation of the IMF FSAP Mission, the DIU produced policy papers on:

i) Solvency Standards for Home Regulators, which is intended to familiarise and update staff on the solvency standards of the home jurisdictions of the respective licensed insurers operating in or from within the Turks and Caicos Islands. This will assist the department in assessing the risk of domestic insurers in the area of capital adequacy and solvency.

ii) Allocation of Expense by Foreign Branches which provides guidance on how expenses incurred by head office for the benefit of its branch office operations should be treated.

During the review period, the IIU worked on or finalised the following internal procedures as part of its Internal Procedure Manual:

i) streamlining and formalising its procedures for processing PORC applications and applications for corporate changes;

ii) formalising and documenting procedures for processing various types of fees; and

iii) finalising its procedures for processing captive applications.

The IIU reviewed and enhanced the framework for the supervision of captives, and the collection, compilation and publishing of statistics for international insurers.

4.3 REGULATORY ACTIVITIES DURING THE YEAR

During the year, the department issued one Regulatory Advisory to provide guidance to insurers and other licensees on the legislative requirements to pay annual fees on or before the statutory due date. Additionally, the department participated in the development of the Commission's Risk Based Supervision Framework. The framework provides a structured approach for understanding and assessing key risks affecting an institution or the industry.

4.3.1 DOMESTIC INSURANCE

The DIU continued to utilize the CARAMELS[9] Risk Based Assessment methodology to prepare the Annual Risk Assessment and to develop risk profiles on insurers. Where deficiencies were identified during the review, a compliance letter was sent to the insurer describing the deficiencies, recommending appropriate corrective action, and setting out a timeline for correcting the deficiency. Additionally, the department continued the preparation of quarterly risk assessments for domestic insurers.

The department carried out a comprehensive review of the audited financial statements submitted by brokers during the period and the aggregated industry figures were posted on the Commission's website.

The regulatory framework was further enhanced by continued dialogue with other insurance regulators. The Commission participated in four College of Regulators[10] meetings with the Bermuda Monetary Authority and members of the Caribbean Association of Insurance Regulators. The meetings were held to discuss insurance companies that operate in the TCI and other Caribbean Islands.

Table 4: Table Regulatory Activities: Domestic Insurance Sector

Activity	2017/2018	2016/2017	2015/2016	2014/2015
Licences Issued	1	2	2	6
Onsite Examinations Conducted	7	4	4	4
Revocation/Surrender of Licences	1	2	2	1
Other Actions - Warnings, Cease & Desist Orders	4	7	14	58
Number of Meetings & Discussions Held	6	6	24	13

The overall risk rating of a company determines whether it will be scheduled for an onsite examination. During the review period, onsite examinations were conducted on seven licensees; one follow-up examination on an insurer, and six targeted examinations of insurance brokers. Table 4 provides data on this and other areas of activity during the period.

4.3.2 INTERNATIONAL INSURANCE

During the review period, the Commission, through the department, continued its active engagement with the insurance sector. A key aspect of this engagement was the work of the PORC working group, which continued to collaborate on issues affecting the PORC sector.

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

[10] This is a meeting of regional insurance regulators involved in the regulation, supervision, and oversight of an insurance entity.

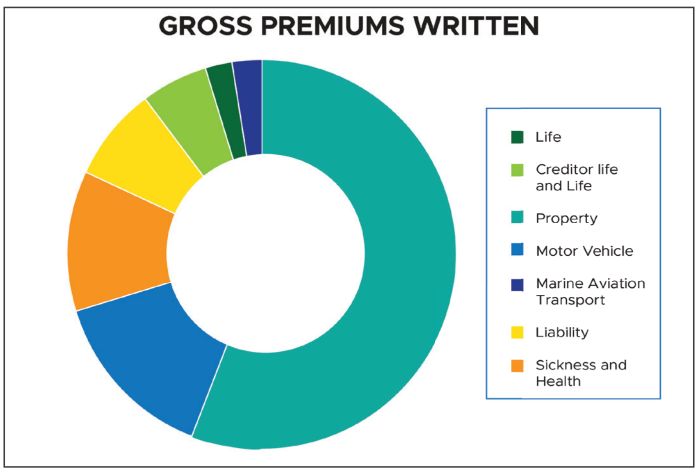
4.4 ENFORCEMENT ACTIONS

During the year, the Commission issued 332 Notices of Intention to take Disciplinary Action against international insurers for failure to pay annual licence fees for 2016/2017. Additionally, Notices of Intention to take Disciplinary Action were issued against four insurance brokers for placing policies or contracts of domestic business with one or more unlicensed insurers without obtaining special dispensation from the Commission.

4.5 FINANCIAL AND STATISTICAL REVIEW OF THE DOMESTIC INSURANCE SECTOR

The domestic insurance sector comprises insurers - locally incorporated and branches of foreign insurance companies - insurance brokers, insurance agents and insurance sub-agents. A significant percentage of the domestic insurance business was written through insurance brokers. As can be seen in Chart 7 below, property was the dominant class (by value) of business written in the TCI.

Chart 7: Gross premiums written



Gross premiums written by the domestic sector during the 2017/2018 financial year decreased by 3.9% when compared to the prior period. Premiums ceded to reinsurers represented 69.4% of gross premiums.

Chart 8 shows continuous growth of the domestic insurance sector over the last five years. Total insurance liabilities for the general insurance sector stood at $151.1M, compared to $0.6M as at 31 March 2017; which reflected claims associated with Hurricanes Maria and Irma. Claims reserves amounted to $135.6M and accounted for 89.7% of total insurance reserves. Reinsurers' share of insurance liabilities was $141.9M.

Chart 8: Select Insurance Indicators

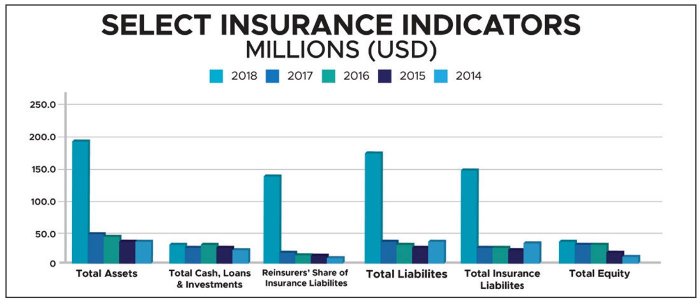
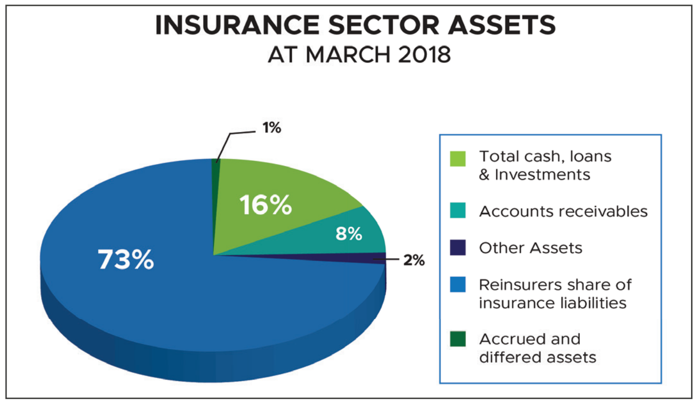


Chart 9 provides a breakdown of the industry's assets as at 31 March 2018.

Chart 9: Insurance Sector Assets



4.6 LEGISLATIVE AGENDA

The Department continues to work with the Attorney General's Chambers to develop regulations in support of the Domestic Insurance Ordinance; these regulations are required for the Ordinance to come into effect. The Ordinance is expected to strengthen existing protections and provide additional ones for policyholders, and generally enhance the regulation of domestic insurance business in the TCI. The coming into effect of the Domestic Insurance Ordinance will repeal certain sections of the current Insurance Ordinance. The current Ordinance (with repealed sections) will provide for regulation of the international insurance sector until an International Insurance Bill is passed.

4.7 STAFF COMPLEMENT

The department had a staff complement of five and a number of vacancies. The staff had varying levels of technical, educational and regulatory training.

5.0 COMPANY MANAGERS AND INVESTMENTS DEPARTMENT

5.1 OVERVIEW

The department began the year with the introduction of a new licensing regime for company managers. This change better aligned the Commission's licensing processes with the Companies Management (Licensing) Ordinance (CMLO), which requires licences to be renewed annually and provides for the issuance of licences with conditions.

As a result of this change, all licences issued under the CMLO which expired as at 31 March 2017 were replaced with new licences following a desk based review of each licensee's risk management framework. The review was based on information provided in an annual self-assessment Supervisory Questionnaire which was supported by specific risk management documents. This review resulted in about 60% of licences being renewed with no conditions; the remaining licences were renewed with conditions or enforcement actions were initiated.

During the year, the number of corporate service providers (CSPs) reduced to 36, following the surrender of a licence. Table 5 provides a summary.

While there was no change in the number of investment dealers and mutual fund administrators during the review period, these numbers are expected to change based on the level of interest being expressed in these sectors.

As at 31 March 2018, investments under management was reported as US$996,801,900, representing a 35% increase ($258,202,159) when compared to the previous year.

5.2 ACTION PLAN 2012-2016

Amendments proposed to the Investment Dealers (Licensing) Ordinance, with particular emphasis on a separate regulatory regime for Investment Advisers, as well as amendments to the Company Management (Licensing) Ordinance (CMLO) to close gaps in the governance and AML/PTF requirements, were further advanced during the year.

5.3 REGULATORY ACTIVITIES

Regulatory compliance continued to be a concern reflected in the results of the newly introduced licensing regime. Regulatory activities included five regulatory meetings and three on-site examinations.

Table 5: Department Licensees

Licensees by Type		
Type of Licensee	**Licensees at 31/3/2017**	**Licensees at 31/3/2018**
Company Management	37	36
Mutual Funds (MF)	5	5
Exempt Mutual Funds	5	5
MF Administrators	3	3
Investment Dealers	6	6
Total	56	55

5.4 ENFORCEMENT ACTIONS

As part of the remedies available to the Commission to address non-compliance, three licensees were issued with Notices of Intention to take Disciplinary Action (NIDA) for breaches of the conditions of their licence. A financial penalty was imposed in one of these instances.

5.5 LEGISLATIVE AGENDA

As a result of shifting priorities, the introduction of new securities legislation was not advanced during the review period; this is now planned for 2019. As a signatory to the International Organisation of Securities Commissions' (IOSCO) Memorandum of Understanding, the proposed new legislation will consider IOSCO's Principles on Securities Regulation, as they apply to investment business in the Turks and Caicos Islands. The principles give effect to IOSCO's core objectives, which are i) the protection of investors, ii) ensuring that markets are fair, efficient and transparent, and iii) the reduction of systemic risk.

As part of the Commission's legislative agenda, updated Mutual Funds legislation will also follow in successive fiscal periods.

5.6 STAFF COMPLEMENT

The department had a staff complement of three; the Director and two Compliance Analysts. The complement is under review to ensure staffing levels and regulatory capacity are appropriately maintained.

6.0 AML SUPERVISION DEPARTMENT

6.1 OVERVIEW

During the review period, the Compliance Unit was upgraded and re-designated the AML Supervision Department. The change of the name to the AML Supervision Department seeks to reflect the core mandate of the department, which is to coordinate the regulation/supervision of money laundering and terrorist financing risks faced by regulated institutions and sectors, and Designated Non-Financial Businesses and Professions (DNFBPs).

As at 31 March 2018, the Commission had anti-money laundering and countering terrorist financing supervisory responsibility for a total of 410 entities, consisting of;

i) 83 licensed financial institutions.

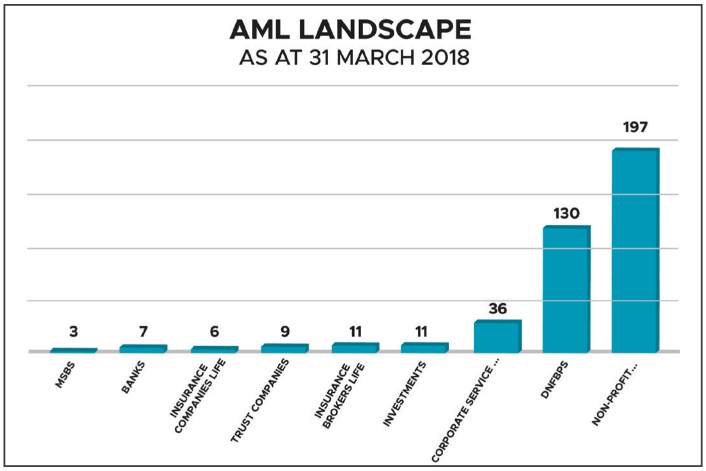
ii) 130 registered DNFBPs in the Commission's capacity as the appointed DNFBP Supervisor (an increase of 8% against prior year)

iii) 197 Non-Profit Organizations (NPOs) in the Commission's capacity as the appointed NPO Supervisor (an increase of 21% compared to 31st March 2017).

The supervisory mix is dominated by DNFBPs and NPOs to the extent that those entities represent 74% of the overall supervisory landscape.

Chart 10 provides the split of DNFBPs and regulatory sectors to which the AML Regulations apply. It shows that NPOs and DNFBPs account for the majority of the entities regulated/supervised.

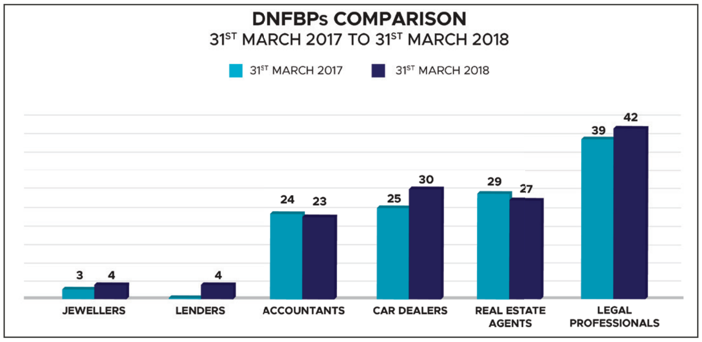
Chart 10 AML Supervision Department Entities Supervised



6.2 DESIGNATED NON-FINANCIAL BUSINESSES AND PROFESSIONS (DNFBPS)

The group of non-financial businesses referred to as DNFBPs has continued to grow over the year. The most significant change in the make-up of DNFBPs has been the introduction of micro-finance and payday lenders (referred to as "lenders" see chart 11), albeit a small number of four registrants. In addition, the category car dealership, which falls into the category of high value dealers, has shown an increase of 20% to 30 in total. See chart 11 for the change in numbers.

Chart 11: Change in the Constituent of DNFBPs 31 March 2017 to 31 March 2018



6.3 NON-PROFIT ORGANIZATIONS (NPOS)

The registration of non-profit organisations continued to grow at a steady rate, with 197 registered as at 31 March 2018.

6.4 SUPERVISORY ACTIVITIES

During the year seven on-site examinations were carried out in relation to one trust company, two money service businesses and four corporate service providers.

To increase on-site examination coverage and to improve off-site surveillance, the "Coordinated Examination" project was initiated in late December 2017. The Coordinated Examination Approach, when fully launched, will introduce a number of changes to on-site and off-site processes which will improve the quality of supervision. The processes include:

i) Examination Methodology: increased focus on the design and operating effectiveness of the internal control system in place by the licensee to mitigate the risks of money laundering and terrorist financing.

ii) Examination reports: the adoption of a common style and format of examination reports across the Commission.

iii) Joint on-site examinations: the conduct of joint AML and prudential onsite examinations to reduce the regulatory burden and disruption on licensees.

iv) Off-site surveillance: critical ML/TF risk metrics of licensees of the respective regulatory departments and DNFBPs will be provided for analysis and reporting to the AML Supervision Department.

In March 2018, a pilot exercise commenced between the AML Supervision Department and the Banking and Trust Department to undertake an on-site examination of a bank licensee, incorporating the revised methodology. Pilot examinations with each of the other regulatory departments will commence during the next financial year.

6.5 NATIONAL RISK ASSESSMENT

The Commission played a lead role in the conduct of the National AML/CFT Risk Assessment (NRA), which commenced in October 2014 and concluded with the final workshop in June 2017. The NRA Report in its entirety was adopted by Cabinet and published in August 2017. Table 6 provides a summary of the risk rating in the report.

The table shows that four sectors were rated as medium high, five as medium, one as medium low and one as low.

The NRA has provided the foundation upon which risk-based AML/CFT supervisory activities will take place for all regulated sectors and DNFBPs.

Table 6: Money Laundering Risk Rating of Sector and DNFBP

Sector	Risk Rating
Banking Sector	Medium High
Corporate Services Providers	Medium High
DNFBP - Independent Legal Professionals	Medium High
Trust Company Business Sector	Medium High
Money Services Business Sector	Medium
DNFBP - Real Estate Sector	Medium
DNFBP - Accountants	Medium
Investments Sector	Medium
DNFBP - High Value Dealers	Medium
International Insurance Sector	Medium Low
Domestic Insurance Sector	Low

6.6 CFATF MUTUAL EVALUATION

The TCI is scheduled for a Mutual Evaluation by the Caribbean Financial Action Task Force (CFATF), with the on-site element taking place in September 2018. The evaluation is an assessment of the effective implementation of the AML/CFT regime across the TCI. During the review period, the AML Supervision Department has contributed significantly to the preparatory work for this evaluation.

6.7 STAFF COMPLEMENT

The department operated with four members of staff, including the Director, and one vacant position. The staffing needs of the department continue to be evaluated to ensure that resources are appropriately aligned to the expanding mandate of the department.

During the year two former experienced members of the department joined risk management teams of licensees of the Commission, which allowed them to continue the management of money laundering and terrorist financing risk in the jurisdiction.

7.0 REGISTRY

7.1 OVERVIEW

The Registry[11] continued to pursue its statutory mandate to administer the following Ordinances:

i) Companies Ordinance CAP 16.08
ii) Companies Ordinance 2017
iii) Limited Partnership Ordinance
iv) Trademarks Ordinance
v) Patents Ordinance
vi) Business Names (Registration) Ordinance

7.2 COMPANIES REGISTRY

7.2.1 LEGISLATION

The 2017/2018 financial year was an exceptionally busy year for the Registry as it concentrated on developing and administering the Companies Ordinance 2017, establishment of a beneficial ownership register, improving the integrity of information and digitization of the registries.

Much of the effort during the year focused on operationalising the legislative changes ushered in by the Companies Ordinance 2017. The new Companies Ordinance is a welcome update to the 1981 legislation and incorporates international best practice and modern provisions for companies operating in a financial services jurisdiction. Some key elements include:

i) improved incorporation and registration procedures,
ii) improved provisions governing directors, their duties and liabilities,
iii) improved provisions for member protection,
iv) improved provisions for amalgamation, mergers and consolidation,
v) introduction of a register of charges and priority, and
vi) improved winding up and restoration procedures.

The Companies Ordinance 2017 is intended to work in tandem with the Insolvency Ordinance 2017 which should become operational in the next financial year.

In addition to assisting with the legislation, the Registry was required to prepare itself for administering the new Companies Ordinance and was therefore tasked with the preparation of relevant filing forms, guidelines for staff and practitioners, new policies and procedures for staff; training staff on procedures under the new regime, educating the public on impending changes and conducting training for the industry.

7.2.2 KREGISTRY

In March 2018, the Registry launched KRegistry, its online register. The online platform allowed clients to file annual returns for exempted companies in real time from anywhere in the world. Seven Corporate Service Providers (CSPs) used the online platform during the first month; it is hoped that usage will increase over time. The Registry continues to encourage the use of the online platform, as information filed via the online portal is less prone to errors; online filing will also improve the speed of access to filed information. During March 2018, CSPs were able to file annual declarations via the online portal. The other online services will be deployed during the next financial year. The pending features include name reservation, incorporation, post incorporation services and electronic searches.

7.2.3 BENEFICIAL OWNERSHIP REGISTRY

One of the major new requirements coming out of the Companies Ordinance 2017 is the development and maintenance of the Beneficial Ownership Registry through which companies will file relevant information on beneficial owners in accordance with the criteria set in the legislation. The Registry led the Commission's effort to establish an electronic 'air gapped' Beneficial Ownership Register and continued to provide support with its administration.

The Registry took several measures to assist the industry in preparing for the Beneficial

[11] The Registry includes the Companies, Patents, Trademarks, and Beneficial Ownership registries.

Ownership Register, including providing information on how to set up and maintain the register. The Commission also organised training on the legislative requirements and key features of the beneficial ownership register; approximately 70 people attended.

7.2.4 DATA INTEGRITY

The Registry continued to work on improving the integrity of information held. This has been a manual process with staff reviewing information on the system against physical files, and requesting updated/missing information from clients where discrepancies existed. We anticipate that these discrepancies will be addressed as part of companies' application for voluntary registration or as part of the filing requirements under automatic registration.

review period.

7.3 TRADEMARKS AND PATENTS

During the review period 410 trademarks were registered compared to 403 during the 2016/17 financial year. Patents trended in the opposite direction with 16 registered in the 2017/18 financial year compared to 22 in the previous financial year.

7.4 BUSINESS NAMES

The number of new business names registered during the year remained relatively unchanged; 1,292 in 2017/2018 compared to 1,200 in 2016/2017.

Table 7: Incorporations/Registrations

Description	YEAR			
	Mar-15	Mar-16	Mar-17	Mar-18
Companies				
Domestic (Ordinary)	5,016	4,916	5,509	5,670
International (Exempted)- Incorporations	10,230	10,633	10,119	10,653
International (Foreign Exempted)-Continuations	168	162	152	170
Limited Life (Exempted/International)	21	21	17	17
Foreign Ordinary/Foreign	65	67	72	77
Protected Cell	2	2	2	2
Total Companies	**15,502**	**15,801**	**15,871**	**16,589**
Limited Partnerships	**62**	**63**	**65**	**70**
of which are exempted	46	46	46	46
Total Companies and Partnerships	**15,564**	**15,864**	**15,936**	**16,659**

7.2.5 INCORPORATIONS/REGISTRATIONS

While there was an 11% decline in companies incorporated during the financial year when compared to the previous year, this might not be reflective of a genuine slowdown in incorporations. The slowdown in incorporations were most evident during September 2017 and March 2018, which coincided with the passages of Hurricanes Irma and Maria, the introduction of new requirements under the Companies Ordinance 2017 and the launch of KRegistry.

Table 7 provides a breakdown of the incorporations/registrations during the

8.0 LEGAL AND ENFORCEMENT UNIT

8.1 OVERVIEW

During the 2017/2018 financial year, the Legal and Enforcement Unit continued its mandate to provide support and advice to the Commission and the Board of Directors. The unit was challenged to keep pace with its expanding mandate and requirements, however, from time to time it benefited from assistance from the Director of Human Resources and Administration, in her capacity as advisor to the Managing Director on legal and AML matters. It is anticipated that the unit will benefit from additional staff during the next financial year, which should lead to improved efficiency.

8.2 LEGISLATIVE AGENDA

The unit enjoyed a strong working relationship with the Attorney General's Chambers, as it worked to advance the Commission's legislative agenda. The most significant legislative milestone for the period was the passing and coming into effect of the Companies Ordinance 2017 and its suite of supporting subsidiary legislation. The Commission was involved in facilitating passage of the legislation which came into operation on 1 February 2018 (which will operate concurrently with the older Companies Ordinance Cap 16.08 until 31 December 2018 when the older Ordinance will be repealed). The Companies Ordinance 2017 includes provisions for improved governance, beneficial ownership registration, shareholder protection, directors' duties and liabilities, registration of charges, mergers and more streamlined and appropriate liquidation, winding up and restoration provisions.

The Insolvency Ordinance 2017 was passed to complement the Companies legislation and it will modernise the arrangements for dealing with insolvency, liquidation and winding up of companies, and includes provisions for personal insolvency and bankruptcy. While passed, the Ordinance did not come into operation during the review period, as the issuance of Insolvency Rules was pending.

In support of the Domestic Insurance Ordinance, the Commission drafted and worked with the Attorney General's Chambers to develop relevant and appropriate Regulations. In addition, the Commission developed a framework for a new International Insurance Ordinance which will be drafted and submitted to the House of Assembly during the 2018/2019 financial year.

The Commission recognises the need for swift and orderly winding up of financial institutions (outside of regular insolvency proceedings) and the importance of having adequate powers to resolve distressed financial institutions in the interest of protecting depositors. As a result, the Commission proposed and developed a general framework for a Financial Services Resolution Ordinance. Work on this framework was awaiting Cabinet's approval; it is expected that work will commence in the 2018/2019 financial year.

Other pieces of legislation considered in the financial period included the Business Names Ordinance, Insurance (Amendment) Bill and the Investment Dealers (Amendment) Ordinance; all of which have been approved by Cabinet for drafting. The Credit Union Regulations were drafted by the Commission; it is to be submitted to the Cabinet for approval.

8.3 ENFORCEMENT

The unit provided legal support to regulatory departments in taking enforcement actions where licensees failed to comply with their regulatory responsibilities. The following is a summary of enforcement actions taken during the financial year under review:

Table 8: Enforcement Action

Enforcement Action	Banks	Trust	Insurance	Corporate Service Providers	Total 2017/18	Total 2016/17
Notice of intention to take enforcement action	1	4	6	1	12	13
Penalty Notice	1		5	1	7	3
Notice to Produce	2		2	2	6	3
Directives	-	1	-	1	2	1

Work will continue on improving the Commission's enforcement and disciplinary regime during the next financial year.

8.4 LITIGATION

The Commission successfully completed its defence against claims initiated in August 2015 by the principal of a former licensee. Further, the Commission participated in a number of procedural matters involving applications made to the Court for reinstatement of struck companies.

8.5 CO-OPERATION

As part of its mandate to support and facilitate regulatory cooperation pursuant to the Commission's duty under the Financial Services Commission Ordinance, the unit provided regulatory support to domestic and international authorities including the Integrity Commission, SIPT, USA Securities and Exchange Commission, and Malta Financial Services Authority. In addition, during the review period, the Commission concluded a Memorandum of Understanding (MoU) with the Anguilla Financial Services Commission and drafted terms for a MoU with the Royal Turks and Caicos Islands Police Force to facilitate the operation and processing of requests for information from the Beneficial Ownership Registry. The unit also provided comments on the proposed Caribbean Association of Insurance Regulators (CAIR) MMoU.

8.6 INTERNATIONAL ASSESSMENTS

The Commission contributed to a number of the jurisdiction's responses to international standard setting bodies' assessment questionnaires. In September 2017, the unit was heavily involved with the completion of the CFATF Technical Compliance Assessment Questionnaire in preparation for the country's assessment in September 2018. In addition, the unit provided support in completing the assessment questionnaires from the Global Forum, GIFCS, and UKFCO in relation to beneficial ownership.

8.7 GENERAL SUPPORT

The unit continued to provide general legal advice to all departments. As part of the rollout of the Companies Ordinance 2017, the unit provided specialised support, advice and training to the Registry, the industry and other stakeholders. The unit also coordinated the operationalisation of the Beneficial Ownership Registry which is a requirement under the Companies Ordinance 2017.

8.8 SECRETARIAT

The unit continued to provide support to the Board of Directors as Secretary to the Board. It also provided legal and governance advice to the Board.

9.0 INFORMATION TECHNOLOGY DEPARTMENT

9.1 OVERVIEW

The deployment and use of technology continued to be crucial to the Commission's ability to achieve its strategic objectives. Over the review period, the IT Department contributed to these overall objectives by:

i) promoting the efficient use of technology;

ii) enhancing existing IT services;

iii) fostering innovation through the use of technology; and

iv) upgrading existing IT systems.

9.2 CHALLENGES

The department was challenged by the passage of two hurricanes, which affected the Commission's ability to communicate with its Grand Turk office. The department incorporated failover planning in many of its systems; this included the internet and telephone services. However, the hurricanes severely impacted the two major telecommunication companies which resulted in the island of Grand Turk being without telecommunication services for a considerable period in some areas of the island.

Since the passage of the hurricanes, the department has revisited its Disaster Recovery Plan, enhancing the telecommunication strategy to include provisions for the use of satellite phones during periods of interruption.

9.3 CYBER AND NETWORK SECURITY

Security continued to be one of the department's highest priorities, especially since the launch of the KRegistry online system. Before the launch, the department conducted a review of IT security and implemented a raft of new security measures including a Network Management System to assist in monitoring and maintaining the network. Network Detection Tools were also used to identify a number of suspicious activities that were addressed. The review of IT Security will continue into the next financial year.

Recognising that data security starts with people, the department expanded its Security Awareness Program by creating and publishing its own newsletter entitled "The Human Firewall". This newsletter was created to promote and maintain awareness of IT security protocols among staff.

9.4 SYSTEMS SUPPORT

The department provided technical support and assistance on a number of projects, including:

i) The implementation of the KRegistry Online System.

ii) The upgrade of the counter processing platform for the KRegistry.

iii) The implementation of the Beneficial Ownership Register.

9.5 STAFF COMPLEMENT

The department had a staff complement of eight; including a Director, two Systems Administrators, one IT Officer and four Data Entry Clerks. Two of the staff were located in Providenciales and six on Grand Turk.

10.0 HUMAN RESOURCES AND ADMINISTRATION DEPARTMENT

10.1 OVERVIEW

The department was established in October 2016 to manage and coordinate the development of the Commission's most important resource, its staff. The department was also responsible for providing centralised administrative support services.

The department was successful in aligning and integrating human resources (HR) and administrative processes with the Commission's mission, by taking a proactive approach to identifying issues, especially as they relate to human resources, and executing timely and effective corrective measures. The department also continued to review existing policies and procedures to determine ways to produce greater synergies throughout the Commission.

10.2 HUMAN RESOURCE INITIATIVES

The department undertook a number of initiatives during the review period, including:

i) Review and upgrading of the leave administration system and creation of a platform to monitor leave across both of the Commission's locations.
ii) Review and updating of policies and procedures relating to the education assistance program.
iii) Clarification of the personal days leave policy.
iv) Review and update the Commission's Employee Manual, including the consolidation of several policies into one comprehensive document aligned to the TCIG's Staff Manual and benchmarked against requirements set out in the Employment Ordinance.
v) Establishment of a succession plan and framework, which were approved by the Board of Directors and presented to the Immigration Department.

10.3 TRAINING

During the year, the Commission continued to offer employees, at all levels, a wide range of training opportunities to build on professional competencies, increase knowledge and improve on skillsets to better contribute to the work of the Commission. This assistance was instrumental in staff development as the Commission implemented its succession plan. In particular, the Commission continued to offer opportunities to achieve professional competencies in areas such as Compliance, Trust and Estate Planning, Anti-Money Laundering, Network and Cyber-Security, Finance and Accounting. The Commission also assisted staff in pursuing academic training at both the undergraduate and postgraduate levels.

The Commission has successfully leveraged the use of technology as a means to cut costs and improve internal efficiencies in delivery of internal training across its two locations. One such training tool employed during the year was the webinar format, an initiative piloted by the AML Supervision Department.

Staff also benefited from a number of internal training sessions and had continued access to the FSI Connect online learning portal, which covers a wide array of modules on, inter alia, banking supervision and financial risk management.

In addition to the training noted above, internal training initiatives were held during the period on Risk Based Supervision, Risk and Control and on the Companies Ordinance 2017. Moreover, there have been training events in the form of third-party supplied webinars or in-house delivery of emerging AML/CFT matters that have been provided to the AML Supervision Department staff and the wider regulatory departments.

Table 9: Training by Department

	Description of Training	Attending Departments
i.	Anti-Money Laundering/Countering Financing of Terrorism (AML/CFT) Course, facilitated by the Association of Supervisors of Banks of the Americas (ASBA) and the US Comptroller of the Currency.	AML Supervision, Bank and Trust, Company Management and Investments
ii.	Best Practices and Recommendations for Financial Consumer Protection – ASBA.	Bank and Trust
iii.	Credit Risk Analysis course, facilitated by ASBA and the US Federal Deposits Insurance Corporation (FDIC).	Bank and Trust
iv.	Asset Classification and Provisioning from a Prudential and IFRS Perspective, facilitated by CARTAC and the Caribbean Group of Bank Supervisors.	Bank and Trust
v.	Strengthening the Supervisory and Regulatory Capacities of Credit Union Supervisors and Regulators across the Region, facilitated by Caribbean Association of Credit Union Supervisors (CACS) & CARTAC.	Bank and Trust
vi.	Workshop on Risk-Based Supervision (RBS), Developing and Executing a RBS Strategy, facilitated by CARTAC.	Bank and Trust, Company Management and Investments, Insurance
vii.	F&I Reinsurance & Product Conference (F&I) Seminar.	Insurance
viii.	Lloyd's International Regulators' Programme.	Insurance
ix.	Pension Conference and Insurance Conference facilitated by CARTAC.	Insurance
x.	Annual Caribbean Group of Securities Regulators Conference	Company Management and Investments
xi.	Financial Action Task Force Standards and Assessor Training facilitated by the Caribbean Financial Action Task Force (CFATF) in association with the TCI Government.	AML Supervision, Bank and Trust, Company Management and Investments, Insurance
xii.	CFATF Pre-Assessment Training by the Caribbean Financial Action Task Force (CFATF) in association with the TCI Government.	AML Supervision, Bank and Trust, Company Management and Investments, Insurance
xiii.	ISACA's Cybersecurity Fundamentals	Information Technology
xiv.	ISACA's Cybersecurity Conference	Information Technology

During the next fiscal year staff will continue to participate in online courses on Insurance Core Principles and the FIRST ONE Programme, an FSI-IAIS Regulatory and Supervisory Online Programme (Virtual Seminar), internal training and other regional training activities to increase their regulatory knowledge and technical ability.

10.4 STAFFING

As at 31 March 2018, the Commission had a staff complement of 71; 66 permanent and 5 temporary employees.

The Companies Registry continued to be the dominant department, by number of staff, with 39% of the staff, followed by the Insurance and Information Technology Departments with 11%; the remaining departments individually accounted for less than 10% of the total staff complement. Please see table 10.

10.4.1 NEW HIRES

The year began with a total staff complement of 77 employees. The Commission took on nine new employees during the year in permanent and temporary positions. However, there was a net loss of six employees, which reduced the staff count to 71 at the end of the financial year.

Table 10: Staffing Levels by Department

Department	March 2018	March 2017
Management Core	3	3
AML Supervision	4	5
Bank and Trust	5	6
Company Management and Investment	3	3
Finance	6	6
Human Resources and Administration	7	8
Information Technology	7	8
Insurance	8	10
Registry	28	28
Total	**71**	**77**

10.4.2 EMPLOYEE RELATIONS & WELL-BEING

The Commission held a staff award function in February 2018 to, among other things, recognise a number of outstanding employees. At that event, the Commission honoured its long serving employees. The employee and manager of the year for Grand Turk and Providenciales were also recognised, and a new award was established for the employee who best embodied the spirit of the Commission.

The Annual Staff Social was held in March 2018 in Providenciales for the first time. The event was in the form of a beach fun day. This change was well received and those that attended enjoyed the fun, games and camaraderie.

The Commission continued to encourage the physical well-being of its employees through sponsorship of gym memberships for staff. Additionally, the Commission sponsored a staff team to enter the local softball competition; the team placed second in the tournament.

10.5 COMMUNITY OUTREACH

The Commission continued to participate in the TCIG Annual Job Readiness Program which focused on prospective graduates at the H J Robinson and Clement Howell High Schools. The Commission also participated in the Turks and Caicos Community College's work experience by employing a student who is pursuing a Bachelor's degree at the College. In addition, the Commission provided financial support to the TCI National Museum, the TCI Tennis Federation and events such as Lipstick & Things 2018 and other Kids Community Events.

10.6 ADMINISTRATION

The department continued to manage the procurement contracts for goods and services, whilst working to ensure policy adherence and financial responsibility in accordance with the Public Procurement Ordinance. To this end an internal Procurement Committee was established whose core function is overseeing the way in which the Commission procures goods, services and capital works.

11.0 FINANCE DEPARTMENT

11.1 FINANCIAL AND RISK MANAGEMENT SYSTEMS REVIEWS

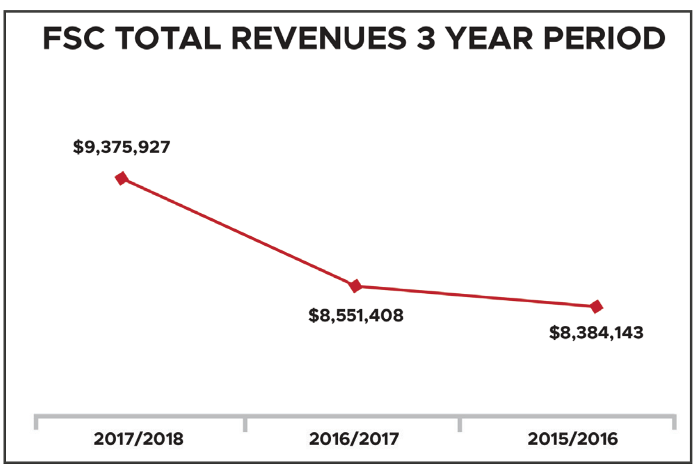
The Finance Department, as part of its ongoing review of financial and control systems, completed updating of specific policies and procedures relating to accounting, procurement and risk management. These were implemented during the year. Additional measures were prepared, approved and implemented with respect to a Board of Directors Statement on Internal Control and Fraud Risk. Enhanced reliance will be placed on the use of Risk Control Self-Assessments (RCSA) to guide the review and understanding of risk levels and adequacy of controls within units/departments; this will allow for a fuller understanding of the risk universe of the Commission.

11.2 FINANCIAL PERFORMANCE REVIEW

11.2.1 REVENUE

The Commission recorded total revenue[12] of $9.4M for the period 2017/2018, up from $8.6M for 2016/2017 and $8.4M for 2015/2016. The chart below shows the revenue trend over the three years.

Chart 16, Total Revenue 3 year Period

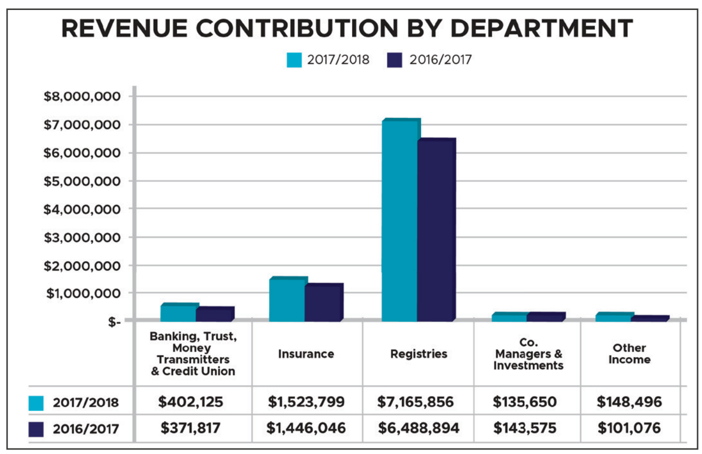


Total revenue grew by 11.8% over the three-year period. On a year over year basis, revenue increased by 9.64% for the current period over the previous, and by 2% when 2016/2017 is compared to 2015/2016.

A significant contributor to the increase in revenue of 9.64% was inflows from land share transfer duties, which amounted to $2.2M compared to $0.7M in the prior period. Land share transfer duty is a fluctuating and unpredictable revenue source for the Commission.

The Registries[13] continued to account for the bulk of the revenue generated by the Commission. The Registries generated 76.4% ($7.2M) of total revenue in the 2017/2018 financial year and 75.88% ($6.5M) in the prior year (see chart 17).

Chart 17, Revenue by Department (Dollar Value)



	Banking, Trust, Money Transmitters & Credit Union	Insurance	Registries	Co. Managers & Investments	Other Income
2017/2018	$402,125	$1,523,799	$7,165,856	$135,650	$148,496
2016/2017	$371,817	$1,446,046	$6,488,894	$143,575	$101,076

There was an 11.83% underperformance relative to the budget in revenue generated from the filing of annual returns with the Registries for the year. This resulted from some companies taking advantage of the extension in the deadline for filing annual returns to beyond the year end to accommodate the rollout of KRegistry Online Filing Platform.

[12] Revenue from all sources, including land share transfer duty and sundry fees.
[13] Companies; Trademarks; Patents and Business Names.

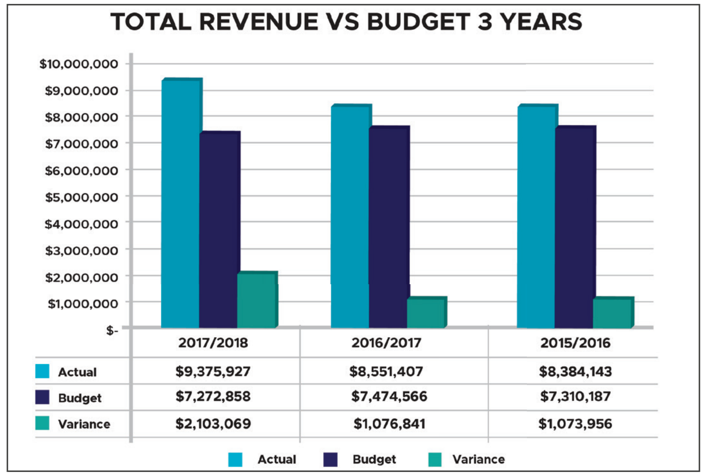
Insurance continued to be the second leading contributor to the Commission's revenue, contributing 16.25% in 2017/18 down from 16.91% in 2016/17. Banking's contribution remained at about 4%.

The increase in revenue reported by the Registries of 10.4% outpaced the overall growth in revenue for the Commission of 9.64%. Revenue from banking, trusts, money transmitters and credit unions increased by 8.15%. This resulted from the licensing of a number of money transmitters sub-agents and application for a credit union licence. Revenue from insurance increased by 5.38% due primarily to the performance of the Producer Owned Reinsurance Sector. Table 11 below provides a summary of revenue collected by department as well as growth rate year over year.

The Commission has outperformed its budget over the last three years. The positive variances relative to the original budgets for the periods 2017/18, 2016/17 and 2015/16 were 28.92%, 14.40% and 14.69% respectively. With the exception of 2017/18 when the variance largely reflected collections from land share transfer duties, the prior years' variances reflected above expectation performances in trademarks, business names, sundry companies fees and penalties (which were not budgeted).

The actual performance vs budgeted for each year is represented in the chart below.

Chart 18 Total Revenue vs Budget 2015/2016 to 2017/2018



11.2.2 MEASURES TO GROW REVENUE

A number of initiatives were, or are being, put in place to grow revenue through a mix of changes to legislation and business processes.

Work continued on completion of the KRegistry electronic platform; there were only a few items remaining, namely credit card integration, online forms filing consistent with the 2017 Companies Ordinance, and a necessary system upgrade to allow online access. The KRegistry is expected to make the Registry more marketable from

Table 11: Revenue Contribution by Department and Growth Rates 2016-2018

Revenue by Department	2017/2018	2016/2017	Growth Yr. Over Yr.	% Share Total Rev 2017/2018	% Share Total Rev 2016/2017
Banking, Trust, Money Transmitters & Credit Union	$402,125	$371,817	8.15%	4.29%	4.35%
Insurance	$1,523,799	$1,446,046	5.38%	16.25%	26.91%
Registries	$7,165,856	$6,488,894	10.43%	76.43%	75.88%
Co. Managers & Investments	$135,650	$143,575	-5.52%	1.45%	1.68%
Other Income	$148,496	$101,076	46.92%	1.58%	1.18%
	$9,375,927	$8,551,407	9.64%	100%	100%

an international perspective by facilitating quicker and remote incorporations, searches and filing services.

The Commission also looks forward to growth in the financial services sector, which should result from new measures emanating from the strategic review of the industry conducted by the Government during the financial year. The Commission has placed all planned changes to fees on hold pending the findings of that study.

11.3 EXPENDITURE

Total expenditure contracted by 8.33% for the financial year; moving from $6.0M in 2016/17 to $5.5M in the current year. This was due primarily to employee costs contracting by 10.38%. The reduction in employee costs resulted from a number of vacancies, which remained unfilled during the year as well as the reversal of an amount which had been provided for in the previous year in respect of performance incentives. The Commission continued to try to fill these vacancies while ensuring compliance with the new requirements of the Governor's Sponsorship Letter and all work permit requirements.

Staff shortages, more restrictive public procurement requirements and streamlining of the Commission's education assistance program affected a number of the cost drivers. The public procurement requirements affected the recruitment and retention of consultants, while staff shortages impacted staff cost and training. The introduction of a performance bond and 20% co-payment for education assistance[14] above $5,000 also contributed to cost containment in training expense.

The table below provides a snapshot of key expenditure outcomes for the current and previous financial year.

11.4 ASSETS AND LIABILITIES AND RESERVE FUNDS

Total assets, excluding fixed and intangible assets, increased by 21% during the period; from $10.2M in 2016/17 to $12.4M as at reporting date. This was accounted for largely through the operating surplus generated for the financial year of $3.9M, of which $3.2M remained to be paid over to the Turks and Caicos Islands Government (TCIG) at the end of the financial year.

Cash and interest bearing assets accounted for 94% of the total specified assets[15], up from 91% in the previous period. Investment holdings continued to reflect a mix of local certificates of deposit and foreign treasury bonds of the highest ratings. Treasury bonds accounted for 13% of the investment portfolio, down from 16% in the prior period.

Table 12: Select Expenditure Outcome Two Years

Expenditure Category	2017/2018	2016/2017
Staff Costs	$3,381,372	$3,773,218
Professional & Consultancy Fees	$195,351	$302,224
Travel Costs	$106,783	$99,625
Communication	$106,253	$103,446
Subscriptions & Contributions	$75,100	$23,169
Training Costs	$44,629	$118,695

[14] The Commission still paid 100% of Commission- initiated training.

[15] Total assets excluding fixed and intangible assets.

This reflected the Commission's strategy to invest in shorter dated instruments (cash and cash equivalents) as opposed to longer dated treasury bonds.

Other than cash and cash equivalents, and investments (and excluding fixed assets), the other major asset of the Commission was trade receivables. During the year under review, there was an 11.98% reduction in receivables, due to the net off of provisions made in respect of outstanding balances from the prior period. The Commission continued to review its systems to increase controls and collectability over receivables. The impairment provisions of International Financial Reporting Standard 9, *Financial Instruments*, will be applied as from 1 April 2018 in respect of the trade receivables, using the 'provision matrix' option set out in that standard.

Liabilities of the Commission were largely in respect of amounts owed to the TCIG and accrued expenses[16]. The Commission is expected to pay the Government approximately $3.2M at the end of the financial year, resulting from the surplus generated during the last quarter of the financial year.

The Reserve Fund was reduced from the prior year, as a result of the consolidation of the accounts of the Commission and its wholly owned subsidiary. The Fund stood at approximately $6.8M at year end, down from the $7.0M reported for the prior period.

The Commission has established a capital reserve fund to address certain long term infrastructural needs. The fund was established by conversion of liabilities to equity that had built up in its subsidiary company. The distribution of operating surplus for the year was largely unaffected. The capital reserve fund at year end stood at $1,308,412.

11.5 LOOKING AHEAD

The department will continue its thrust of reviewing, updating and testing its various control and financial systems. Compliance and corporate governance will remain guiding principles as part of the department's focus.

[16] Payments for supplies, accrued employment contract gratuities and statutory deductions.

SECTION B

FINANCIAL SERVICES COMMISSION

STATEMENT ON INTERNAL CONTROL & CONSOLIDATED FINANCIAL STATEMENTS

FOR YEAR ENDED MARCH 31, 2018

FINANCIAL SERVICES COMMISSION

BOARD OF DIRECTORS STATEMENT ON INTERNAL CONTROL

[ISSUED PURSUANT TO REGULATION 145(5) OF THE PUBLIC FINANCE MANAGEMENT REGULATIONS 2012]

SCOPE AND RESPONSIBILITY

The Board of Directors is responsible for oversight of the Commission and for ensuring that it has a strong risk management and internal control function.

The Board has established an Audit and Risk Management Committee (ARMC). This Committee carries out certain oversight functions and provides guidance to the Board on areas which include: the annual financial statements and annual report; the internal control environment; compliance with statutory financial obligations and relevant board-approved policies; and the performance of the external auditors and management of the work of the internal auditor.

The Managing Director is responsible for managing the daily control environment to eliminate or mitigate risks in the Commission's operations. Management is responsible for ensuring that all employees understand the requirements for, and their roles in, maintaining a strong and effective internal control environment, and for ensuring adherence to all controls.

PURPOSE OF SYSTEMS OF INTERNAL CONTROL

The overall objective of establishing risk management and control systems is to ensure that the Commission's assets are protected and that risk is minimised. The internal control process is designed to provide reasonable assurance over the reliability of the financial reporting process, and compliance with legislation, regulations and accounting policies. Internal control is part of the system for managing risks throughout the organisation; procedures are established to identify, measure, monitor, report and manage risks, and to minimise losses and/or to maximise opportunities.

The Commission had a fully documented risk management framework in operation throughout the year. Material elements of that framework were Board and ARMC oversight, regular management reports, an internal audit process, and the use of an organisation wide risk register.

CAPACITY TO HANDLE RISK

The Commission's capacity to manage risk is maturing, with additional training to be provided to staff overtime in respect of quantitative aspects of the risk management process, as well as the identification and development of Key Risk Indicators (KRIs). The previous focus was primarily qualitative. All frontline management and staff were exposed to the risk management policies and procedures, and the requirement to identify and report risk. The use of a risk-based framework for regulation created a greater appreciation for risk management and further enhanced the risk management culture across the organisation. The Board has the capacity and expertise to understand, develop policies around and manage the Commission's risk. The internal audit function provides an independent assessment of the risk and controls and reports to the Board on risk management.

RISK AND CONTROL FRAMEWORK

The risk management framework has been bolstered by the issuance and adoption of an Internal Control Statement and a Fraud Risk Policy during the past year. These Board approved documents set out the Commission's strategies for managing risk (including stipulating a generally low risk appetite) and its expectations of staff regarding the protection of the assets, reputation and integrity of the Commission. Clear reporting lines and procedures were established. The risk and control frameworks also has the following elements: (1) the use of a risk register which (a) sets out ownership of risks (b) establishes the reporting frequency for related risks, and (c) ranks risks by degree of severity; and (2) a requirement for departments to document their business processes and the related procedures.

REVIEW OF EFFECTIVENESS

The effectiveness of the risk and control framework is assessed based on its success in reducing/mitigating risk and in identifying, measuring, monitoring and managing new risk.

The internal auditor conducted a review of the Information Technology Department with particular emphasis on data integrity, security, system resilience and business continuity. The issues raised were escalated to the Board. All risks in the risk register were assessed, ranked and trends reviewed; the findings of the review were presented to the Board. The ARMC met as required to discuss the various issues.

The Finance Department temporarily assumed responsibility for risk compliance oversight and the first Risk Management Report was submitted to the Board. One key new regulatory risk was identified and highlighted for the Board's attention. The report outlined the operational and financial risks - including liquidity, credit and market risks - faced by the Commission, and the materiality of these risks. The Report included four recommendations to the Board on how to enhance the risk management process.

The Board considered the risk and control frameworks to have been effective during the past year.

Board of Directors
Financial Services Commission
16 August 2018

Consolidated Financial Statements of

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Year ended March 31, 2018

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Consolidated Financial Statements

Year ended March 31, 2018

KPMG Ltd.
KPMG Building
18 The Village at Grace Bay
PO Box 357
Providenciales
Turks and Caicos Islands, BWI
Telephone: 649 946 4613, Fax: 649 946 4619

INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the Turks and Caicos Islands Financial Services Commission and its subsidiary (together "the FSC"), which comprise the consolidated statement of financial position as at March 31, 2018, the consolidated statements of revenue, expenditures and other comprehensive income, changes in reserves and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the FSC as at March 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the FSC in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the FSC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the FSC or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the FSC's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 FSC's internal control.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements, continued

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the FSC's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the FSC to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the FSC to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the FSC audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

In accordance with the Turks and Caicos Islands' Financial Services Commission Ordinance (2007) (as amended) (hereafter referred to as "the Ordinance"), we also report the following:

- We have obtained all the information and explanations we consider necessary for the purposes of our audit.
- In our opinion, the FSC has complied with its obligations under section 21 of the Ordinance.

Report on Other Legal and Regulatory Requirements, continued

- In our opinion, the FSC's consolidated financial statements are in agreement with its financial records and give a true and fair view of the consolidated financial position of the FSC as at March 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended.
- In our opinion, except for the matters disclosed at notes 14 and 32 to these consolidated financial statements, the FSC has discharged with diligence, its obligations in relation to the collection of its revenues and the Turks and Caicos Islands (TCI) government's revenues.

Intended Use of Report

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

KPMG Ltd.

Chartered Accountants

Providenciales, Turks and Caicos Islands

November 14, 2018

TURKS AND CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION

Consolidated Statement of Financial Position

At March 31, 2018
with comparative figures at March 31, 2017

		2018	2017
Assets			
Current assets:			
Cash and cash equivalents (note 5)	US$	9,846,287	7,245,225
Term deposit (note 6)		312,826	608,531
Accounts receivable (note 7)		548,862	623,231
Due from employees (note 8)		132,560	175,565
Current portion of held-to-maturity investments (note 9)		599,580	603,114
Prepayments and other receivables (note 10)		108,424	91,212
		11,548,539	9,346,878
Non-current assets:			
Held-to-maturity investments (note 9)		899,418	899,247
Intangible assets (note 11)		316,830	395,871
Property and equipment (note 12)		1,855,365	2,066,318
		3,071,613	3,361,436
	US$	14,620,152	12,708,314
Liabilities and Reserves			
Current liabilities:			
Accounts payable and accrued expenses (note 13)	US$	540,063	590,805
Due to TCIG (note 14)		3,221,858	2,918,408
Current portion of deferred income (note 15)		1,562,607	923,961
		5,324,528	4,433,174
Non-current liability:			
Non-current portion of deferred income (note 15)		189,970	259,047
		5,514,498	4,692,221
Reserves:			
Reserve fund (note 29)		6,841,236	7,060,087
Capital reserve fund (note 14)		1,308,412	–
Retained surplus (note 16)		956,006	956,006
		9,105,654	8,016,093
	US$	14,620,152	12,708,314

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

These consolidated financial statements were approved on behalf of the Board of Directors on November 14, 2018 by the following:

Oswald Simons Deputy Chairman Niguel Streete Managing Director

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TURKS AND CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION

Consolidated Statement of Revenue, Expenditures and Other Comprehensive Income

Year ended March 31, 2018
with comparative figures for year ended March 31, 2017

		2018	2017
Revenue:			
Fees and charges (note 17)	US$	9,236,530	8,459,282
Interest income		52,652	38,404
Government grants		45,143	45,143
Other income		41,602	8,579
		9,375,927	8,551,408
Expenditures:			
Staff costs (note 18)		(3,381,372)	(3,773,218)
Depreciation (note 12)		(247,739)	(248,213)
Rental of buildings (note 19)		(246,000)	(258,550)
Professional and consultancy fees (note 20)		(195,351)	(302,224)
Office expenses (note 21)		(139,734)	(148,184)
Directors' fees and expenses (note 22)		(125,179)	(144,135)
Amortisation of intangible assets (note 11)		(112,991)	(111,779)
Travel and subsistence (note 23)		(106,783)	(99,625)
Communication (note 24)		(106,253)	(103,446)
Repairs and maintenance		(105,573)	(80,577)
Local hosting and entertainment		(90,134)	(77,918)
Utilities		(86,802)	(74,448)
Impairment loss on accounts receivable (note 7)		(85,520)	(178,466)
Insurance		(84,868)	(84,577)
Audit and accounting		(84,657)	(62,344)
Subscriptions and contributions		(75,100)	(23,169)
Advertising		(51,622)	(50,770)
Security		(49,098)	(45,336)
Other operating expenses (note 25)		(46,221)	(49,634)
Training (note 26)		(44,629)	(118,695)
Loss on disposal of property and equipment		–	(542)
		(5,465,626)	(6,035,850)
Surplus before other comprehensive income		3,910,301	2,515,558
Other comprehensive income		–	–
Net surplus for year	US$	3,910,301	2,515,558
Net surplus for year transferred to:			
Reserve fund	US$	(218,851)	14,409
TCIG (note 14)		4,129,152	2,501,149
	US$	3,910,301	2,515,558

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

TURKS AND CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION

Consolidated Statement of Changes in Reserves

Year ended March 31, 2018
with comparative figures for year ended March 31, 2017

	Reserve fund	Capital reserve fund	Retained surplus	Total
	US$	US$	US$	US$
Balance at April 1, 2016	7,045,678	–	956,006	8,001,684
Net surplus for year	2,515,558	–	–	2,515,558
Reserve fund transferred to amount due to TCIG (note 14)	(2,501,149)	–	–	(2,501,149)
Balance at March 31, 2017	7,060,087	–	956,006	8,016,093
Balance at April 1, 2017	7,060,087	–	956,006	8,016,093
Net surplus for year	3,910,301	–	–	3,910,301
Reserve fund transferred to amount due to TCIG (note 14)	(4,129,152)	–	–	(4,129,152)
Capital reserve fund (note 14)	–	1,308,412	–	1,308,412
Balance at March 31, 2018	6,841,236	1,308,412	956,006	9,105,654

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

TURKS AND CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION

Consolidated Statement of Cash Flows

Year ended March 31, 2018
with comparative figures for year ended March 31, 2017

		2018	2017
Cash flows from operating activities:			
Net surplus for year	US$	3,910,301	2,515,558
Adjustments for:			
Depreciation		247,739	248,213
Amortisation of intangible assets		112,991	111,779
Impairment loss on accounts receivable		85,520	178,466
Interest income		(52,652)	(38,404)
Loss on disposal of property and equipment		–	542
		4,303,899	3,016,154
Changes in operating assets:			
Change in accounts receivable, gross of impairment loss		(11,151)	(318,019)
Change in due from employees		43,005	(50,535)
Change in prepayments and other receivables		(17,212)	(43,854)
Changes in operating liabilities:			
Change in accounts payable and accrued expenses		(50,742)	(363,884)
Change in deferred income		569,569	(37,026)
Net cash from operating activities		4,837,368	2,202,836
Cash flows from/(used in) investing activities:			
Change in term deposit		295,705	(1,490)
Proceeds from disposal of held-to-maturity investments		450,219	300,317
Acquisition of held-to-maturity investments		(448,412)	(304,495)
Additions to intangible assets		(33,950)	–
Additions to property and equipment		(36,786)	(227,494)
Interest income received		54,208	38,283
Net cash from/(used in) investing activities		280,984	(194,879)
Cash flows used in financing activity:			
Cash transferred to TCIG (note 14)		(2,517,290)	–
Net cash used in financing activity		(2,517,290)	–
Net increase in cash and cash equivalents		2,601,062	2,007,957
Cash and cash equivalents at beginning of year		7,245,225	5,237,268
Cash and cash equivalents at end of year	US$	9,846,287	7,245,225

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

1. General information

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

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

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

2. Basis of preparation

(a) Basis of accounting

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

Details of the Company's significant accounting policies are included at note 3.

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

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

(b) Functional and presentation currency

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

(c) Use of estimates and judgements

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

2. Basis of preparation, continued

(c) Use of estimates and judgements, continued

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

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

- Note 7 – Accounts receivable
- Note 11 – Intangible assets
- Note 12 – Property and equipment

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

3. Significant accounting policies

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

(a) Basis of consolidation

These consolidated financial statements comprise the consolidated financial position of the Commission and its wholly owned subsidiary as at March 31, 2018 and its consolidated financial performance and its cash flows for the year then ended.

(i) Subsidiary

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

(ii) Non-controlling interest

Non-controlling interest is measured initially at its proportionate share of the acquiree’s identifiable net assets at the date of acquisition.

Changes in the Commission’s interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

3. Significant accounting policies, continued

(a) Basis of consolidation, continued

(iii) Loss of control

When the Commission loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of reserves.

Any resulting gain or loss is recognised in the consolidated statement of revenue, expenditures and other comprehensive income. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iv) Transactions eliminated on consolidation

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

(b) Non-derivative financial instruments

The FSC classifies non-derivative financial assets into the following categories: loans and receivables and held-to-maturity investments

The FSC classifies non-derivative financial liabilities as other financial liabilities.

(i) Non-derivative financial assets and financial liabilities – Recognition and derecognition

The FSC initially recognises loans and receivables on the date they are originated. All other financial assets and financial liabilities are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument.

The FSC derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the FSC is recognised as a separate asset or liability.

3. Significant accounting policies, continued

(b) Non-derivative financial instruments, continued

(i) Non-derivative financial assets and financial liabilities – Recognition and derecognition, continued

The FSC derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

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

The gross carrying amount of a financial asset is written-off (either partially or in full) to the extent that there is no prospect of recovery. This is generally the case when the FSC determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to write-off. However, financial assets that are written-off could still be subject to enforcement activities in order to comply with the FSC's procedures for the recovery of the amounts due.

(ii) Non-derivative financial assets – Measurement

Loans and receivables

These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method.

The effective interest rate method is a method that is used in the calculation of the amortised cost of a financial asset or a financial liability and in the allocation and recognition of the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability.

Loans and receivables comprise: cash and cash equivalents, term deposit, accounts receivable, due from employees and other receivables.

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

3. Significant accounting policies, continued

(b) Non-derivative financial instruments, continued

(ii) Non-derivative financial assets – Measurement, continued

Loans and receivables, continued

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

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

Held-to-maturity investments

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

(iii) Non-derivative financial liabilities – Measurement

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

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

3. Significant accounting policies, continued

(c) Intangible assets

(i) Recognition and measurement

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

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

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

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

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

(ii) Subsequent costs

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

(iii) Amortisation

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

3. Significant accounting policies, continued

(c) Intangible assets, continued

(iii) Amortisation, continued

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

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

(d) Property and equipment

(i) Recognition and measurement

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

Cost includes expenditure that is directly attributable to the acquisition of property and equipment.

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

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

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

(ii) Subsequent costs

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

3. Significant accounting policies, continued

(d) Property and equipment, continued

(iii) Depreciation

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

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

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

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

(e) Provisions

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

(f) Government grants

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

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

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

3. Significant accounting policies, continued

(g) Reserves

(i) Reserve fund

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

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

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

(ii) Capital reserve fund

The FSC established a capital reserve fund for the purpose of financing its capital infrastructural needs. The capital reserve fund was established pursuant to a resolution of the Board of Directors of the FSC and after having received the approval of H.E. the Governor of TCI, to whom the FSC reports. Transfers to the capital reserve fund are made by way of an allocation of amounts due to TCIG. The capital reserve fund will be utilized for the FSC's infrastructural needs after consultation with, and express approval from, H.E. the Governor of TCI in respect of each specific capital project to which the capital reserve fund will be applied. The capital reserve fund is reported as part of the FSC's reserves.

(h) Revenue recognition

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

(i) Fees and charges

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

3. Significant accounting policies, continued

(h) Revenue recognition, continued

(i) Fees and charges, continued

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

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

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

(ii) Interest income

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

(i) Employee benefits

(i) Short-term employee benefits

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

(ii) Post-employment benefits

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

3. Significant accounting policies, continued

(j) Impairment

(i) Non-derivative financial assets

Financial assets not classified as at fair value through profit or loss are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtor;
- restructuring of an amount due to the FSC on terms that the FSC would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

Financial assets measured at amortised cost

The FSC considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment, the FSC uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

3. Significant accounting policies, continued

(j) Impairment, continued

(i) Non-derivative financial assets, continued

Financial assets measured at amortised cost, continued

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in the consolidated statement of revenue, expenditures and other comprehensive income and reflected in an allowance account. When the FSC considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed in the consolidated statement of revenue, expenditures and other comprehensive income.

(ii) Non-financial assets

At each reporting date, the FSC reviews the carrying amounts of its non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets generating cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

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

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3. Significant accounting policies, continued

(k) Operating leases

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

(l) Taxation

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

(m) Related parties

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

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

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

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

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

3. Significant accounting policies, continued

(m) Related parties, continued

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

- A person identified above has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

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

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

The following new standards, amendments and interpretations to published standards that are relevant to the FSC's operations were issued but are not effective for the financial year beginning April 1, 2017 and were not early adopted by the FSC:

- IFRS 9, *Financial Instruments* – IFRS 9, published in July 2014, replaces the existing guidance in IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

  Although the permissible measurement bases for financial assets, amortised cost, fair value through other comprehensive income and fair value through profit or loss, are similar to IAS 39, the criteria for classification into the appropriate measurement categories are significantly different. IFRS 9 also replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

  The expected credit loss model is more forward looking and will require use of reasonable and supportable forecasts of future economic conditions to determine increases in credit risk and measurement of expected credit losses. It may also result in an increase in the total level of impairment allowance as all financial assets will be assessed for impairment, and the population size will be greater than that for financial assets with objective evidence of impairment under IAS 39.

3. Significant accounting policies, continued

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

- IFRS 9, *Financial Instruments, continued*

  IFRS 9 is effective for annual reporting periods beginning on or after January 1, 2018, with early adoption permitted.

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

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

- IFRS 17, *Insurance Contracts* – IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. IFRS 17 is effective for annual reporting periods beginning on or after January 1, 2021, with early adoption permitted only for entities that also apply both IFRS 9 and 15.

The FSC is currently assessing the potential future impact on its consolidated financial statements resulting from the application of IFRS 9, 15 and 16. IFRS 17 is expected by management to be either not relevant or not significant to the FSC's operations and, accordingly, will not have a material impact on the FSC's consolidated financial statements and/or accounting policies.

4. Determination of fair values

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

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

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

The following methods and assumptions have been used:

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

(a) Loans and receivables

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

(b) Held-to-maturity investments

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

(c) Other financial instruments

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

4. Determination of fair values, continued

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

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments;
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data;
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instruments' valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value, discounted cash flow models and comparison with similar instruments for which an observable market exists. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates.

The objective of the valuation technique is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

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

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

5. Cash and cash equivalents

		2018	2017
Certificates of deposit	US$	5,168,670	2,048,985
Current accounts		3,524,626	4,067,172
Savings accounts		1,152,141	1,128,218
Cash on hand		850	850
	US$	9,846,287	7,245,225

The US$5,168,670 certificates of deposit held at March 31, 2018 (2018: US$2,048,985) comprised the following:

	2018			
	Principal amount	Maturity value	Interest rate per annum	Maturity Date
	US$	US$		
CIBC First Caribbean International Bank (CIBC)	2,017,586	2,024,882	1.47%	June 25, 2018
CIBC	1,807,700	1,809,016	0.83%	April 3, 2018
Scotiabank (Turks and Caicos) Ltd. (Scotiabank)	500,054	500,116	0.14%	April 16, 2018
Turks & Caicos Banking Company Limited (TCBC)	400,000	400,228	0.50%	April 30, 2018
CIBC	400,000	400,000	0.60%	April 16, 2018
RBC Royal Bank (RBC)	43,330	43,341	0.10%	April 23, 2018
	5,168,670	5,177,583		

	2017			
	Principal amount	Maturity value	Interest rate per annum	Maturity Date
	US$	US$		
CIBC	2,005,583	2,008,433	0.58%	June 26, 2017
RBC	43,402	43,413	0.10%	April 23, 2017
	2,048,985	2,051,846		

During the year, the savings accounts earned interest at a rate of 0.40% per annum (2017: 0.40%). Current accounts are non-interest bearing.

6. Term deposit

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

	Principal amount	Maturity value	Interest rate per annum	Maturity Date
	US$	US$		
March 31, 2018	312,826	314,011	0.77%	June 12, 2018
March 31, 2017	608,531	610,437	0.63%	June 5, 2017

7. Accounts receivable

		2018	2017
Company managers	US$	520,242	513,785
Insurance providers and intermediaries		12,605	20,730
Trust companies		10,000	10,000
Others		6,015	3,010
Banks		–	40,206
Insurance managers		–	35,500
	US$	548,862	623,231

During the year ended March 31, 2018, an impairment loss of US$85,520 (2017: US$178,466) on accounts receivable was recognized in the consolidated statement of revenue, expenditures and other comprehensive income.

Information about the FSC's exposure to credit risk, and impairment loss on accounts receivable, is included at note 28(a) to these consolidated financial statements.

8. Due from employees

		2018	2017
Christmas advances	US$	74,912	104,496
Regular salary advances		57,648	71,069
	US$	132,560	175,565

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

9. Held-to-maturity investments

Held-to-maturity investments at March 31, 2018 represented investments in various US debt securities with original maturity periods ranging from one to seven years (2017: one to seven years) and nominal interest rates of 0.88% to 2.88% (2017: 0.63% to 2.88%).

		2018	2017
Face value	US$	1,500,000	1,500,000
Net (discount)/premium		(1,002)	2,361
	US$	1,498,998	1,502,361
Carrying value	US$	1,498,998	1,502,361
Less current portion		(599,580)	(603,114)
	US$	899,418	899,247

During the year the FSC earned US$23,821 (2017: US$18,583) of interest on held-to-maturity investments which was included in interest income in the consolidated statement of revenue, expenditures and other comprehensive income.

During the year an additional US$1,556 (2017: US$121) of discount on held-to-maturity investments was amortised which was also included in interest income in the consolidated statement of revenue, expenditures and other comprehensive income.

10. Prepayments and other receivables

		2018	2017
Prepayments to suppliers	US$	93,483	88,623
Other receivables		14,941	2,589
	US$	108,424	91,212

Other receivables at March 31 were non-interest bearing, unsecured and repayable on demand.

11. Intangible assets

		2018	2017
Software development cost:			
At beginning of year	US$	782,450	782,450
Additions		33,950	–
At end of year	US$	816,400	782,450
Accumulated amortisation:			
At beginning of year	US$	386,579	274,800
Amortisation for year		112,991	111,779
At end of year	US$	499,570	386,579
Carrying value	US$	316,830	395,871

The FSC has been engaged in developing an online Companies Registry (Registry) since 2006. At March 31, 2018 the associated software development costs had a carrying value of US$316,830 (2017: US$395,871). Costs capitalised are amortised over their estimated useful life of seven years.

The Registry was brought into use for internal purposes during the year ended March 31, 2013 and was brought into use for online filing by external users in March 2018. The FSC is continuing to work towards bringing the Registry into full use and expects to achieve this during the year ended March 31, 2019. In January 2016, the contract with the supplier of the Registry was amended to include additional services and to amend the payment terms per the original agreement.

12. Property and equipment

	Land, buildings, improvements & work-in-progress	Office furniture	Office equipment	Computer equipment	Motor vehicles	Total
	US$	US$	US$	US$	US$	US$
Cost:						
April 1, 2016	2,035,433	263,332	126,391	387,676	110,048	2,922,880
Additions	91,017	13,163	55,848	67,466	–	227,494
Disposals	–	(1,833)	(26,285)	(7,870)	–	(35,988)
March 31, 2017	2,126,450	274,662	155,954	447,272	110,048	3,114,386
April 1, 2017	2,126,450	274,662	155,954	447,272	110,048	3,114,386
Additions	–	8,547	10,015	18,224	–	36,786
Disposals	–	–	–	–	–	–
March 31, 2018	2,126,450	283,209	165,969	465,496	110,048	3,151,172

12. Property and equipment, continued

	Land, buildings, improvements	Office furniture	Office equipment	Computer equipment	Motor vehicles	Total
	US$	US$	US$	US$	US$	US$
Accumulated depreciation:						
April 1, 2016	310,788	133,057	47,833	294,262	49,361	835,301
Depreciation	146,527	22,364	19,925	43,186	16,211	248,213
Disposals	–	(1,833)	(25,743)	(7,870)	–	(35,446)
March 31, 2017	457,315	153,588	42,015	329,578	65,572	1,048,068
April 1, 2017	457,315	153,588	42,015	329,578	65,572	1,048,068
Depreciation	152,183	22,123	15,199	42,023	16,211	247,739
Disposals	–	–	–	–	–	–
March 31, 2018	609,498	175,711	57,214	371,601	81,783	1,295,807
Carrying value:						
March 31, 2017	1,669,135	121,074	113,939	117,694	44,476	2,066,318
March 31, 2018	1,516,952	107,498	108,755	93,895	28,265	1,855,365

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

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

	March 31, 2018				
	Land and buildings	Improve-ments	Total cost	Accumulated depreciation	Carrying value
	US$	US$	US$	US$	US$
Land and buildings					
Units C7 & C8	236,731	162,834	399,565	(108,663)	290,902
Units C11 & C12	259,650	169,775	429,425	(126,998)	302,427
Units D7 & D8	269,690	145,527	415,217	(159,636)	255,581
Units K11 & K12	327,448	339,277	666,725	(89,488)	577,237
Leasehold	–	215,518	215,518	(124,713)	90,805
	1,093,519	1,032,931	2,126,450	(609,498)	1,516,952

12. Property and equipment, continued

	March 31, 2017				
	Land and buildings	Improve-ments	Total cost	Accumulated depreciation	Carrying value
	US$	US$	US$	US$	US$
Land and buildings					
Units C7 & C8	236,731	162,834	399,565	(86,461)	313,104
Units C11 & C12	259,650	169,775	429,425	(103,529)	325,896
Units D7 & D8	269,690	145,527	415,217	(138,341)	276,876
Units K11 & K12	327,448	339,277	666,725	(47,374)	619,351
Leasehold	–	215,518	215,518	(81,610)	133,908
	1,093,519	1,032,931	2,126,450	(457,315)	1,669,135

13. Accounts payable and accrued expenses

		2018	2017
Accrued employee benefits	US$	209,669	150,148
Accounts payable		200,036	160,640
Accrued legal fees and expenses		99,275	146,740
Statutory contributions payable		31,083	32,526
Accrued employee salary incentives		–	100,751
	US$	540,063	590,805

The US$209,669 accrued employee benefits at March 31, 2018 (2017: US$150,148) pertained primarily to US$183,491 (2017: US$129,214) gratuity payable, being a short-term employee benefit, to certain employees of the FSC. The gratuity was calculated at 15% of the employee's basic annual salary, to be paid upon satisfactory completion of the employee's employment contract. The gratuity is expensed in the consolidated statement of revenue, expenditures and other comprehensive income as the related service is provided.

During the year ended March 31, 2017 the FSC recognised salary incentives, being a short-term employee benefit, of US$100,751 for certain employees awarded following the FSC's organisational review. This incentive was calculated at 5% - 7% of the employee's basic annual salary. During the year ended March 31, 2018 the FSC derecognised this incentive to comply with the sponsorship letter of the Governor of TCI. The US$100,751 salary incentives were offset against the salaries and wages recognised by the FSC in the consolidated statement of revenue, expenditure and other comprehensive income during the year ended March 31, 2018 (note 18).

14. Due to TCIG

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

During the years ended March 31, 2018 and 2017 quarterly assessments of amounts due to TCIG were conducted but payments to TCIG were not always made in full within the time specified in the Ordinance. As at March 31, 2018 and March 31, 2017 the excess payable to TCIG had not been settled in full within fourteen days as specified in the Ordinance. During the year ended March 31, 2017 no payments were made to TCIG.

At March 31, 2018, US$4,530,270 (2017: US$2,918,408) was due to TCIG in this regard, prior to the establishment of FSC's capital reserve fund.

On September 17, 2018, with an effective date of March 31, 2018, the Governor of TCI approved the establishment of a capital reserve fund of US$1,308,412 funded out of an allocation of amounts due to TCIG at March 31, 2018. The capital reserve fund will be used to construct a Companies Registry building on Grand Turk, TCI. The capital reserve fund was recognised as part of FSC's reserves on the consolidated statement of financial position as at March 31, 2018.

During the year ended March 31, 2018 US$2,517,290 (2017: US$nil) was transferred to TCIG.

		2018	2017
Due to TCIG at beginning of year	US$	2,918,408	417,259
Payments during year:			
May 2, 2017	US$	(1,700,000)	–
July 12, 2017		(132,407)	–
July 12, 2017		(220,162)	–
October 16, 2017		(464,721)	–
	US$	(2,517,290)	–
Quarterly assessment of amounts due:			
April - June	US$	220,162	–
July - September		464,721	–
October - December		–	–
January - March		3,444,269	2,501,149
	US$	4,129,152	2,501,149
Transfer to capital reserve fund	US$	(1,308,412)	–
Amount due to TCIG at end of year	US$	3,221,858	2,918,408

15. Deferred income

		2018	2017
Annual licence fees	US$	998,631	763,475
Annual renewal fees		454,990	–
Annual maintenance fees		253,813	282,447
Government grants		45,143	90,286
Land share transfer duty		–	46,800
	US$	1,752,577	1,183,008
Current portion:			
Annual licence fees	US$	998,631	763,475
Annual renewal fees		454,990	–
Annual maintenance fees		63,843	68,543
Government grants		45,143	45,143
Land share transfer duty		–	46,800
	US$	1,562,607	923,961
	US$	189,970	259,047

(a) Annual licence fees

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

		2018	2017
Banks	US$	480,871	257,500
Insurance providers and intermediaries		251,000	245,000
Company managers		113,510	107,200
Trust companies		90,000	90,000
Insurance managers		24,500	24,500
Investment dealers		18,000	18,000
Money transmitters		12,750	12,375
Mutual funds and mutual funds managers		8,000	8,900
	US$	998,631	763,475

15. Deferred income, continued

(b) Annual renewal fees

Annual renewal fees pertain mainly to advance payments and deposits received for annual company renewal fees, business name renewal fees, name clearance fees and other related fees. Following the implementation of online filing for external users in March 2018 the FSC received US$415,200 of advance payments for annual company renewal fees at March 31, 2018 which will be applied in subsequent company renewal transactions.

(c) Annual maintenance fees

Annual maintenance fees pertain to advance payments for maintenance of registered trademarks pursuant to the TCI Trade Marks Ordinance. The annual maintenance fees are non-refundable and applicable for financial years ranging from 2019 to 2026 (2017: 2018 to 2026).

(d) Government grants

		2018	2017
Capital Warrants Project No. 2878	US$	358,746	358,746
Accumulated amortisation: Project No. 2878	US$	313,603	268,460
	US$	45,143	90,286

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

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

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

15. Deferred income, continued

(d) Government grants, continued

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

16. Retained surplus

The retained surplus of US$956,006 at March 31, 2018 (2017: US$956,006) represented the accumulated surplus of the FSC in 2007 prior to implementation of section 17, *Reserve Fund*, of the Ordinance.

17. Fees and charges

		2018	2017
Annual company renewal fees	US$	3,420,650	4,188,925
Land share transfer duty		2,234,441	708,714
Annual licence fees		1,892,669	1,769,203
Application fees		930,413	967,291
Penalties and other fees		568,197	594,309
Business names registration fees		190,160	230,840
	US$	9,236,530	8,459,282

18. Staff costs

		2018	2017
Salaries and wages, net (note 13)	US$	2,911,701	3,297,046
Insurance and health benefits		204,899	211,747
Gratuities		144,554	155,519
Contribution to defined contribution pension plan		63,937	61,366
Transportation allowances		56,281	47,540
	US$	3,381,372	3,773,218

19. Rental of buildings

		2018	2017
FSC office - Grand Turk	US$	216,000	216,000
Accommodation for Managing Director		30,000	30,150
FSC office - Providenciales		–	11,200
Other lease payments		–	1,200
	US$	246,000	258,550

19. Rental of buildings, continued

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

20. Professional and consultancy fees

		2018	2017
Legal fees and expenses	US$	141,698	153,592
Consultancy and other fees		53,653	148,632
	US$	195,351	302,224

In the ordinary course of the FSC's activities, the FSC is a party to several legal actions. During the year ended March 31, 2018 the FSC incurred US$nil (2017: US$8,910) of costs and damages on adverse findings by the TCI court in relation to these legal actions.

21. Office expenses

		2018	2017
Office supplies	US$	105,314	103,204
Cleaning services		31,224	38,094
Printing and binding		3,196	6,886
	US$	139,734	148,184

22. Directors' fees and expenses

		2018	2017
Directors fees	US$	90,000	84,000
Directors expenses		35,179	60,135
	US$	125,179	144,135

23. Travel and subsistence

		2018	2017
International:			
Accommodation and subsistence	US$	42,306	45,357
Airfares		22,412	21,701
Others		2,051	2,443
	US$	66,769	69,501
Local:			
Accommodation and subsistence	US$	25,221	18,097
Air and sea fares		13,989	12,027
Others		804	–
	US$	40,014	30,124
	US$	106,783	99,625

24. Communication

		2018	2017
Line rental	US$	56,539	49,482
Telephone - local costs		23,894	26,323
Internet charges		13,194	16,856
Telephone - international costs		6,671	7,176
Postage and courier		5,955	3,609
	US$	106,253	103,446

25. Other operating expenses

		2018	2017
Bank charges	US$	28,219	29,893
Work permit expenses		14,153	16,321
Others		3,849	3,420
	US$	46,221	49,634

26. Training

		2018	2017
Academic	US$	33,494	39,866
Overseas		10,940	5,370
Local		195	73,459
	US$	44,629	118,695

27. Related party balances and transactions

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

		2018	2017
Transactions			
NHIB contributions	US$	91,459	96,603
NIB contributions	US$	113,440	115,143
Reserve fund transferred to amount due to TCIG (note 14)	US$	4,129,152	2,501,149
Payments to TCIG (note 14)	US$	2,517,290	–
Amount due to TCIG transferred to capital reserve fund (note 14)	US$	1,308,412	–
Balances			
Statutory contributions payable (note 13)	US$	31,083	32,526
Amount due to TCIG (note 14)	US$	3,221,858	2,918,408
Key management personnel compensation			
Short-term benefits			
Salary and benefits of key management personnel	US$	979,516	901,789
Housing benefits of the managing director (note 19)	US$	30,000	30,150
Directors fees (note 22)	US$	90,000	84,000
Directors expenses (note 22)	US$	35,179	60,135
Post-employment benefit			
Contributions to pension fund	US$	11,155	9,566
Loans to key management personnel			
Beginning balance	US$	27,325	6,967
Loans advanced during year		36,500	57,100
Loan repayments received during year		(51,950)	(36,742)
Ending balance	US$	11,875	27,325

Loans to key management personnel, included in amounts due from employees (note 8), were non-interest bearing, unsecured and repayable within six to eight months.

28. Financial instruments

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

(a) Credit risk

(b) Liquidity risk

(c) Market risk

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

Risk management framework

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

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

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

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

28. Financial instruments, continued

Risk management framework, continued

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

(a) Credit risk

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

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

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

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

The maximum exposure to credit risk at March 31 was:

		Carrying Amount	
		2018	2017
Current assets:			
Cash and cash equivalents	US$	9,846,287	7,245,225
Term deposit		312,826	608,531
Accounts receivable		548,862	623,231
Due from employees		132,560	175,565
Other receivables (note 10)		14,941	2,589
Current portion of held-to-maturity investments		599,580	603,114
		11,455,056	9,258,255
Non-current assets:			
Held-to-maturity investments		899,418	899,247
	US$	12,354,474	10,157,502

At the reporting date, the FSC had a concentration of credit risk as fifty-seven percent (57%) (2017: eighty-five percent (85%)) of the FSC's total cash and cash equivalents and term deposit in TCI were held with CIBC.

28. Financial instruments, continued

(a) Credit risk, continued

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

		Carrying Amount 2018	2017
Company managers	US$	520,242	513,785
Insurance providers and intermediaries		12,605	20,730
Trust companies		10,000	10,000
Others		6,015	3,010
Banks		–	40,206
Insurance managers		–	35,500
	US$	548,862	623,231

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

		Carrying Amount 2018	2017
Providenciales	US$	525,262	615,425
Grand Turk		23,600	7,806
	US$	548,862	623,231

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

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

		2018		2017	
		Gross	Impairment	Gross	Impairment
Past due					
Not later than one month	US$	543,062	–	616,784	–
Later than one month but not later than three months		5,800	–	–	–
Later than three months		–	–	–	–
Outstanding but not past due		–	–	6,447	–
	US$	548,862	–	623,231	–

28. Financial instruments, continued

(a) Credit risk, continued

During the year ended March 31, 2018, an impairment loss of US$85,520 (2017: US$178,466) incurred relating to accounts receivable was recognised in the consolidated statement of revenue, expenditures and other comprehensive income (note 7).

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

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

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

	2018	2017
US Treasury bonds	AA+; Aaa	AA+; Aaa

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

		2018	2017
Turks and Caicos Islands			
Cash and cash equivalents	US$	9,846,287	7,245,225
Term deposit		312,826	608,531
		10,159,113	7,853,756
United States of America			
Held-to-maturity investments		1,498,998	1,502,361
	US$	11,658,111	9,356,117

(b) Liquidity risk

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

28. Financial instruments, continued

(b) Liquidity risk, continued

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

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

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

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

	2018			
	Carrying amount	Contractual cash flows	Under 1 year	> 1 year
	US$	US$	US$	US$
Cash and cash equivalents	9,846,287	9,855,404	9,855,404	–
Term deposit	312,826	314,011	314,011	–
Accounts receivable	548,862	548,862	548,862	–
Due from employees	132,560	132,560	132,560	–
Other receivables	14,941	14,941	14,941	–
Held-to-maturity investments	1,498,998	1,530,308	620,426	909,882
Accounts payable and accrued expenses	(540,063)	(540,063)	(540,063)	–
Due to TCIG	(3,221,858)	(3,221,858)	(3,221,858)	–
	8,592,553	8,634,165	7,724,283	909,882

	2018			
	Carrying amount	Contractual cash flows	Under 1 year	> 1 year
	US$	US$	US$	US$
Cash and cash equivalents	7,245,225	7,248,086	7,248,086	–
Term deposit	608,531	610,437	610,437	–
Accounts receivable	623,231	623,231	623,231	–
Due from employees	175,565	175,565	175,565	–
Other receivables	2,589	2,589	2,589	–
Held-to-maturity investments	1,502,361	1,540,630	618,434	922,196
Accounts payable and accrued expenses	(590,805)	(590,805)	(590,805)	–
Due to TCIG	(2,918,408)	(2,918,408)	(2,918,408)	–
	6,648,289	6,691,325	5,769,129	922,196

28. Financial instruments, continued

(c) Market risk

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

(i) Interest rate risk

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

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

		2018	2017
Fixed rate instruments:			
Financial assets			
Certificates of deposit	US$	5,168,670	2,048,985
Term deposit		312,826	608,531
Held-to-maturity investments		1,500,000	1,500,000
	US$	6,981,496	4,157,516

Cash flow sensitivity analysis for fixed rate instruments

A change of 100 basis points in interest rates for fixed rate instruments at March 31 would have increased/(decreased) surplus in the consolidated statement of revenue, expenditures and other comprehensive income by US$69,815/(US$69,815) (2017: US$41,575/(US$41,575)) assuming all other variables remained constant.

28. Financial instruments, continued

(c) Market risk, continued

(i) Interest rate risk, continued

		2018	2017
Variable rate instruments:			
Financial assets			
Savings accounts	US$	1,152,141	1,128,218
	US$	1,152,141	1,128,218

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates for variable rate instruments at March 31 would have increased/(decreased) surplus in the consolidated statement of revenue, expenditures and other comprehensive income by US$11,521/(US$11,521) (2017: US$11,282/(US$11,282)) assuming all other variables remained constant.

(ii) Fair values

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

	2018			
	Carrying Amount	Fair Value Level 1	Level 2	Level 3
	US$	US$	US$	US$
Cash and cash equivalents	9,846,287	–	–	–
Term deposit	312,826	–	–	–
Accounts receivable	548,862	–	–	–
Due from employees	132,560	–	–	–
Other receivables	14,941	–	–	–
Held-to-maturity investments	1,498,998	–	1,498,998	–
Accounts payable and accrued expenses	(540,063)	–	–	–
Due to TCIG	(3,221,858)	–	–	–

28. Financial instruments, continued

(c) Market risk, continued

(ii) Fair values, continued

	2017			
	Carrying Amount	Fair Value Level 1	Level 2	Level 3
	US$	US$	US$	US$
Cash and cash equivalents	7,245,225	–	–	–
Term deposit	608,531	–	–	–
Accounts receivable	623,231	–	–	–
Due from employees	175,565	–	–	–
Other receivables	2,589	–	–	–
Held-to-maturity investments	1,502,361	–	1,502,361	–
Accounts payable and accrued expenses	(590,805)	–	–	–
Due to TCIG	(2,918,408)	–	–	–

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

29. Capital management

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

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

29. Capital management, continued

At March 31, 2018 and 2017 the FSC had maintained the required reserve fund as required by section 17 of the Ordinance. At March 31, 2018 the required reserve fund was US$6,841,236 (2017: US$7,060,087) which also represented the FSC's budget, as submitted to the Governor of TCI, for the following year.

30. Comparison of actual results with budget during year

		March 31, 2018		
		Actual	Budget	Variance
Revenue				
Fees and charges	US$	9,236,530	7,242,859	1,993,671
Interest and other income		94,254	30,000	64,254
Government grants		45,143	–	45,143
		9,375,927	7,272,859	2,103,068
Expenditures				
Staff costs		(3,381,372)	(4,090,249)	708,877
Depreciation and amortisation		(360,730)	(360,000)	(730)
Rental of buildings		(246,000)	(498,000)	252,000
Professional and consultancy fees		(195,351)	(468,857)	273,506
Office expenses		(139,734)	(159,460)	19,726
Directors fees and expenses		(125,179)	(156,000)	30,821
Travel and subsistence		(106,783)	(210,978)	104,195
Communication		(106,253)	(119,584)	13,331
Repairs and maintenance		(105,573)	(172,212)	66,639
Local hosting and entertainment		(90,134)	(80,700)	(9,434)
Utilities		(86,802)	(75,734)	(11,068)
Impairment loss on accounts receivable		(85,520)	–	(85,520)
Insurance		(84,868)	(92,970)	8,102
Audit and accounting		(84,657)	(112,500)	27,843
Subscriptions and contributions		(75,100)	(96,542)	21,442
Advertising		(51,622)	(67,800)	16,178
Security		(49,098)	(54,960)	5,862
Other operating expenses		(46,221)	(48,441)	2,220
Training		(44,629)	(195,100)	150,471
		(5,465,626)	(7,060,087)	1,594,461
Net surplus	US$	3,910,301	212,772	3,697,529

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

		March 31, 2017		
		Actual	Budget	Variance
Revenue				
Fees and charges	US$	8,459,282	7,450,566	1,008,716
Government grants		45,143	–	45,143
Interest and other income		46,983	24,000	22,983
		8,551,408	7,474,566	1,076,842
Expenditures				
Staff costs		(3,773,218)	(4,230,741)	457,523
Depreciation and amortisation		(359,992)	(252,000)	(107,992)
Professional and consultancy fees		(302,224)	(396,200)	93,976
Rental of buildings		(258,550)	(516,600)	258,050
Impairment loss on accounts receivable		(178,466)	–	(178,466)
Office expenses		(148,184)	(184,210)	36,026
Directors fees and expenses		(144,135)	(173,050)	28,915
Training		(118,695)	(215,500)	96,805
Communication		(103,446)	(123,446)	20,000
Travel and subsistence		(99,625)	(218,194)	118,569
Insurance		(84,577)	(84,935)	358
Repairs and maintenance		(80,577)	(166,220)	85,643
Local hosting and entertainment		(77,918)	(73,500)	(4,418)
Utilities		(74,448)	(122,201)	47,753
Audit and accounting		(62,344)	(50,000)	(12,344)
Advertising		(50,770)	(71,800)	21,030
Other operating expenses		(49,634)	(39,000)	(10,634)
Security		(45,336)	(35,789)	(9,547)
Subscriptions and contributions		(23,169)	(92,292)	69,123
Loss on disposal of property and equipment		(542)	–	(542)
		(6,035,850)	(7,045,678)	1,009,828
Net surplus	US$	2,515,558	428,888	2,086,670

Included within the budget which management uses to determine the level of total expenditure are both operational and anticipated capital expenditures for the year. The above analyses consider the operational budget only.

31. Contingent liabilities

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

32. Breach of the Ordinance

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

During the years ended March 31, 2018 and 2017 such payments to TCIG were not always made in full within the time specified in the Ordinance. As at March 31, 2018 and March 31, 2017 the excess payable to TCIG had not been settled in full within fourteen days as specified in the Ordinance. During the year ended March 31, 2017 no payments were made to TCIG.

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