TURKS AND CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION

ANNUAL REPORT 2018/2019

REPORTING PERIOD 1 APRIL 2018 TO 31 MARCH 2019

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FINANCIAL SERVICES COMMISSION

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Reporting Period 1 April 2018 to 31 March 2019

COMMISSIONERS OF THE FINANCIAL SERVICES COMMISSION

Seated from left to right:

Mr Neville Grant, Sir Errol Allen (Chairman) and Mr Oswald Simons (Deputy Chairman).

Standing from left to right:

Mr Kevin Mann, Mrs Athenée Harvey-Basden (PS Finance), Dr David Oakden and Mr Niguel Streete (Managing Director).

COMMISSIONERS AND SENIOR MANAGEMENT

BOARD OF COMMISSIONERS

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

SENIOR MANAGEMENT

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

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SECTION A

REPORT OF THE COMMISSION

PROFILE OF THE COMMISSIONERS

Sir Errol Allen

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

Atheneé Harvey-Basden

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

Oswald Simons

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

Mr Grant has vast experience in the field of financial supervision and regulation. He was a consultant to the International Monetary Fund (IMF), and to the Governments of Jamaica, Vanuatu and Zambia. He is a past Managing Director of the Cayman Islands Monetary Authority.

Kevin Mann

Mr Mann is a Certified Anti-Money Laundering Specialist (CAMS). He has over 28 years in the supervision and regulation of the financial services industry in the UK and the British Overseas Territories. He was responsible for the oversight of regulatory standards for international financial services activities in the six British Overseas Territories of the Caribbean. He has played a critical role in assisting territories in preparations for successful OECD, CFATF and IMF evaluations.

David Oakden

Dr Oakden 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 PhD in Mathematics from the University of Toronto.

Niguel Streete

Mr Streete has extensive training and over 22 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

The operations of the Turks and Caicos Islands Financial Services Commission for the year ending 31 March 2019 have shown encouraging signs. Despite recent setbacks, the economy may be poised for accelerated growth in the year ahead. The global financial crisis, which unfolded in 2008, proved to be very challenging over a prolonged period. This was followed by two major hurricanes – Irma and Maria – in 2016.

The Commission's response to the impact of these most recent disasters has been to enhance its crisis management arrangements, support financial system resilience by improving the quality of supervision, and strengthen its AML/CFT oversight. Also featuring prominently has been debate on the legal requirements for the introduction of a deposit insurance scheme for the further protection of depositors.

The international financial services sector remains an important source of income for the Turks and Caicos Islands, despite the challenges that persist in a competitive world. In the aftermath of the 2008 financial crisis and in particular since the release of the Panama Papers, one has come to the realisation that the domestic financial system is but a fraction of the size of the international system. Our continuing challenge, both now and in the future, is for the Turks and Caicos Islands to carve out a niche for itself in this industry, and to deliver a highly efficient service.

The results of the Commission's operations during the period under review reflect its transitioning to the International Financial Reporting Standards (IFRS). IFRS is the International Accounting Standard Board's (IASB) response to the financial crisis, which is aimed at improving the accounting and reporting of financial assets and liabilities.

The IFRS 9 provision model requires banks to evaluate, at origination, how economic changes will affect their business model, capital plans and provisioning levels. IFRS 9 replaces IAS 39; this change significantly impacts banks' financial statements with the greatest impact being the calculation of impairments. Provision levels are expected to substantially increase under IFRS 9 compared to what it was under IAS 39. It is a situation where banks would be obliged to make forward-looking provision for the portion of a loan that is likely to default, as soon as the loan is originated.

We can not escape the fact that the persistent feature of our economic landscape is "change" and we must continue to plan for this eventuality. Our jurisdiction's continuing challenge is to carve out for itself an effective niche in the financial services sector.

On behalf of the Board of Commissioners, I wish to record our thanks and appreciation to the Managing Director and staff for their support in taking us through a successful year and look forward to their continued support in the year ahead.

Sir Errol N Allen
Chairman

2.0 MANAGING DIRECTOR'S REPORT

The financial system of the Turks and Caicos Islands remained healthy and stable throughout the 2018/19 financial year, against the backdrop of slowing global growth. Despite rising geopolitical tensions, the local economy recovered quickly in the aftermath of hurricanes Irma and Maria, buoyed by tourism revenues. This growth positively impacted the financial system, which expanded by 3.8%.

The banking sector remained highly liquid and well-capitalised. The sector ended the year with a liquid asset to total asset ratio of 65.7% up from 64.0% at the end of the 2017/18 financial year. Its capital adequacy ratio of 26.4% increased from 23.8% from the previous year.

Asset quality also improved with a significant reduction in legacy non-performing assets. As a result, the sector performed better in the 2018 credit stress tests compared to previous years. Given this growing resilience in the banking sector, risk levels are expected to remain stable over the next 12 to 18 months.

Though financial system indicators remained broadly positive, 2018/19 proved to be another demanding year for the Commission.

In July 2018, the Commission contributed, alongside other responsible agencies, to the national response to the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes' peer review of the jurisdiction. The review examined the efficacy of legal and regulatory arrangements put in place to meet the international standard on transparency and exchange of information. The final report, which was published in March 2019, pointed to the significant progress the jurisdiction has made, including remedying several deficiencies identified in the 2013 review. Among these were the introduction of a more modern Companies Ordinance and the establishment of stricter accounting and record-keeping requirements for trusts and companies. The Turks and Caicos Islands received an overall rating of 'Largely Compliant' with the standard.

The Commission was also one of several competent authorities represented on the national Anti-Money Laundering Committee (AMLC), which contributed to the jurisdiction's assessment under a Mutual Evaluation Review conducted by the Caribbean Financial Action Task Force (CFATF). The Commission recognises both the seriousness and value of such assessments and is keen to ensure that its supervisory programme is responsive to evolution in risks and attendant standards.

Though the report has not yet been finalised, the Commission has already identified opportunities to refine its anti-money laundering and countering financing of terrorism (AML/CFT) programme and looks forward to receipt of the recommendations in the second half of 2019.

On the supervisory front, there was an increase in the pace of on-site examinations and planning activities within the Commission, in support of our transition to risk-based supervision. After considerable work in-house to prepare ourselves and streamline our operations, the Commission is now ready to roll out the framework in phases, across the supervised sectors, commencing in 2020. Our team recognises that the overall success of this initiative will hinge heavily on the quality of engagement with licensees. With this in mind, we are committed to continually improving communication with licensees throughout this process.

The Commission also continues to monitor the impact of new legislation recently passed to guide the establishment, management and resolution of companies. While it is too early to determine what impact, if any, these new pieces of legislation have had on the company formations and registrations in the jurisdiction, they have led to greater conformity with international standards.

The 2018/19 financial year yielded positive results for the Commission. As our audited results reflect, the Commission recorded a surplus of $6.9M, most of which has already been transferred into the Consolidated Fund.

This increased return, coupled with the Commission's other programme achievements throughout the 2018/19 financial year, are attributable to the dedication of our staff who, despite an expanding remit, continue to do good work. I join our Chairman in commending the entire team for their unshakeable commitment to the vision and objectives of the Commission.

Of note, the Commission marked an important milestone in its succession planning programme with the appointment in October 2018 of Mrs Kenisha Bacchus, as our first ever Deputy Managing Director. Mrs Bacchus has served in several capacities during her career at the Commission, and she will no doubt bring this rich experience to bear in her new role.

Our Commission family was, however, profoundly saddened to learn of the passing of the immediate former Managing Director, Mr J Kevin Higgins, in December 2018. His strong leadership safely steered the Commission for seven years and was instrumental in the Commission's strategic expansion. We are deeply indebted to him for his invaluable service to our organization and to the people of these Islands.

Continuity will, no doubt, prove a central theme throughout the Commission's operations next year and beyond. We are now in a period of exciting change which we hope will greatly benefit all our stakeholder groups. We are grateful for the support of our external stakeholders and partners and look forward to our continued work together. The 2019/20 financial year will, almost certainly, present new challenges but as we forge ahead, we remain committed to our mission of maintaining public confidence in the financial services industry.

Niguel Streete
Managing Director

3.0 BANK AND TRUST DEPARTMENT REPORT

3.1 Overview

The department's supervisory focus remained on banks, trust companies and money services businesses (MSBs), with enhanced attention being placed on developing the regulatory and supervisory regime for credit unions.

The emphasis for the year in review was mainly AML/CFT on-site examinations, continued work on the development of the risk-based supervision (RBS) framework, and consultation with key stakeholders on legislation and prudential standards to align the department's work with international requirements.

Financial institutions regulated by the department increased to 20: seven banks, nine trust companies and four MSBs. During the financial year, two licensees began voluntary liquidations which are scheduled to conclude within the coming financial year. One licensee was placed under court-appointed administration[1]. The Commission denied two license applications, granted one license, and an application remained under review at the end of the financial year.

3.1.1 Action Plan 2017-2020

The year in review saw the department engaging in further work on operationalising the RBS framework, mainly coordinating the rollout of the framework across all regulatory departments, instituting templates; leading working groups; and providing training. The department also provided support to the AML Supervision department during the CFATF Mutual Evaluation Review and coordinated on several AML/CFT on-site examinations.

Training and development of the department's staff continued throughout the year, including training provided or sponsored by the Commission and regional regulatory bodies.

3.1.2 Regulatory Activities During the Year

AML/CFT on-site examinations were conducted for four banks and one trust company. These on-site examinations focused specifically on the appropriateness of the entities' governance and oversight, and the effectiveness of controls to manage ML/TF risks. In addition, the department continued to engage the management of various licensees as part of its annual regulatory meetings. This provided the opportunity to discuss existing and emerging risks, trends in the sector, strategic direction, among other concerns.

[1] At the time of this report, the institution had new owners who satisfactorily addressed the major regulatory concerns, which resulted in the court-appointed administrator being removed.

3.1.3 Enforcement Actions

One licensee was placed under administration while another received disciplinary action for regulatory infractions.

3.1.4 Legislative Initiatives

During the year, the department continued its efforts to complete the draft Regulations, Code and modelled By-Laws to supplement the Credit Union Ordinance.[2] Work on the Banking Bill and proposed revision to the Money Transmitters Ordinance remained on the department's action plan.

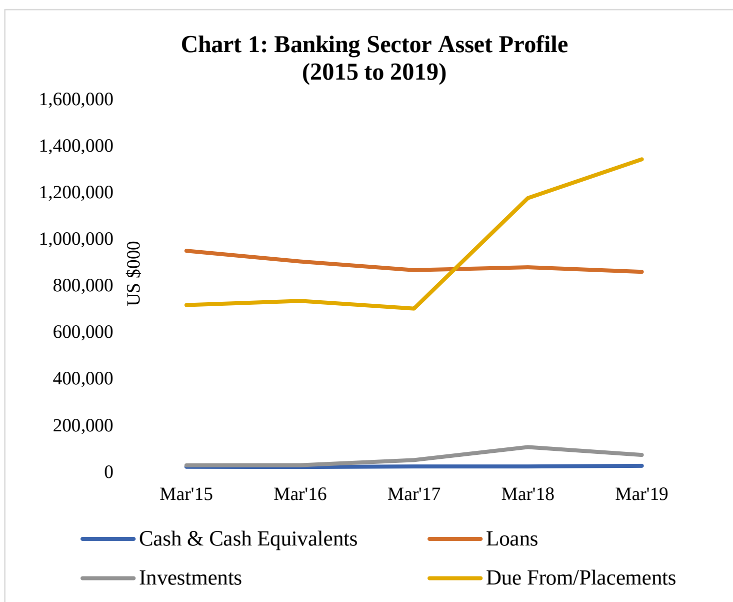
3.2 Banking Sector

3.2.1 Capital Adequacy

All the banks were adequately capitalised, with the sector maintaining a Capital Adequacy Ratio[3] (CAR) well above the 11.0% minimum statutory requirement. The sector's CAR improved by 2.6% (up from 23.8% in 2018) to 26.4%, due mainly to an increase in qualifying capital (15.4%) relative to the growth in risk-weighted assets (3.8%). The banks' individual CARs ranged from 21% to 94%, with the increased capital position reflected mainly in retained earnings and unaudited profits.

3.2.2 Asset Quality

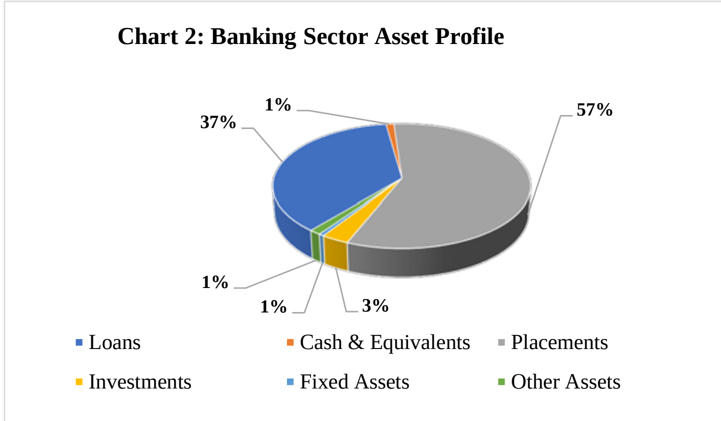
The sector's gross assets grew by 5.4% to $2.3B. The growth was primarily reflected in placements, while investments and loans declined. Placements remained the largest asset class, increasing by 4.5% to account for 57.3% of total assets.



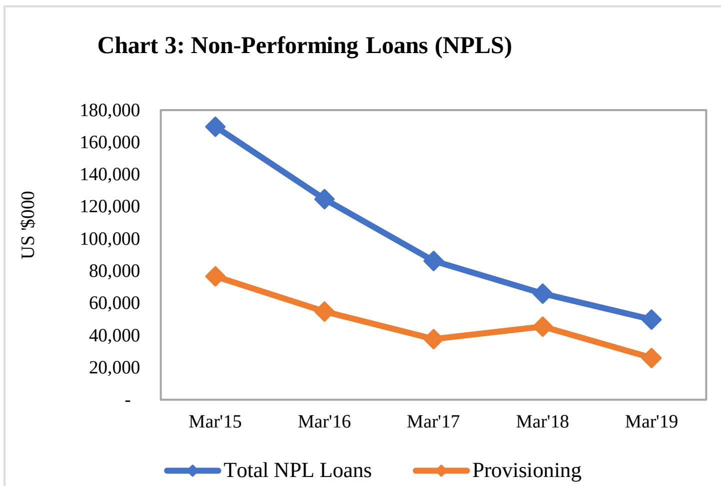
The sector's gross loans contracted by 2.2%, accounting for 36.7% of total assets, (from 39.5% in FYE 2017/2018), while investments had the most significant decline of 32.3%, accounting for just 3.1% of gross assets (4.8% in FYE 2017/2018). The

[2] The Credit Union Ordinance and Regulations are scheduled to come into effect during the next financial year.
[3] The Capital Adequacy Ratio (CAR) is the ratio of qualifying capital to risk-weighted assets. It mainly measures the adequacy of capital against the credit risk in a bank's asset portfolio.

sector's reduced credit portfolio was heavily attributed to write-offs and other measures employed to address non-performing loans. However, net loans (after provisioning for loan losses) remained relatively unchanged at $832.7M when compared to the previous financial year. Refer to Charts 1 and 2 for key asset trends and the composition of the sector's assets.



The sector rebounded relatively well following the hurricanes of 2017. All the banks, with exception of one, reported a decline in non-performing loans (NPLs). As a result, the sector's NPL continued its downward trajectory (24.3%), reflecting a continued improvement in the quality of the sector's credit. Nevertheless, 5.8% of the credit in the system remained non-performing, of which provisions were made to cover 52.2%. As depicted in Chart 3, the sector's provision for loan losses (PLLs) declined to its lowest level in five years ($26M), correlating with the trend in NPLs.



Some banks initiated programs to assist customers' recovery from the hurricanes. These programmes were deemed successful, and customers proved to be resilient to the economic shock resulting from these acts of nature. As a result, large provisions made during the 2017/2018 financial year, in anticipation of the economic impact of the 2017 hurricanes, were reversed.

However, despite the favourable quality of the credit portfolios, loan growth remained stagnant as banks competed with other market lenders and continued to assess their risk appetite for new lending opportunities. As a result, credit outlook remains stable.

3.2.3 Liquidity

The banking sector continued to be liquid throughout 2018/2019. It maintained liquidity levels well above the required 12.0%[4], ending the financial year at 65.7%, with the lowest level at 63% during the period. Most of the liquid assets were deposits (placements) at other financial institutions outside of the Turks and Caicos Islands, while deposit liabilities were mainly customer deposits which represent 60.6% of the sector's gross assets.

During the financial year, banks enhanced their liquidity risk management governance (which strengthens the sector's resilience to economic shocks) particularly in an environment with no lender of last resort or deposit insurance.

The sector's liquidity outlook remains positive.

3.2.4 Earnings

The banking sector remained profitable, registering unaudited profits at $50M (FY2017/2018: $35.9M), a return on assets of 2.2%, and return on capital of 17.6%.

The 39.5% ($14.2M) increase in the profit margin resulted from income growing at a higher rate (20.9%) than the growth in expenses (8.5%). The increase in interest income was reflected mainly in income from placements, as banks took advantage of the increase in interest rates on placements. Interest earned from placements grew by 138.1% ($11.8M). Despite the relatively low credit growth in the banking sector, interest income earned from loans and advances increased by 11.7% ($6.4M).

All categories of expenses had significant increases, except for a 172.7% (16.4%) decline in provision for loan losses. This decline offset the overall increase in expenditure and, as a result, greatly influenced the expanded profit margin. The sector was less efficient in managing costs, as reflected in the operating ratio of non-interest expense to gross income of 47.5% (compared to 41.6% for the previous financial year.)

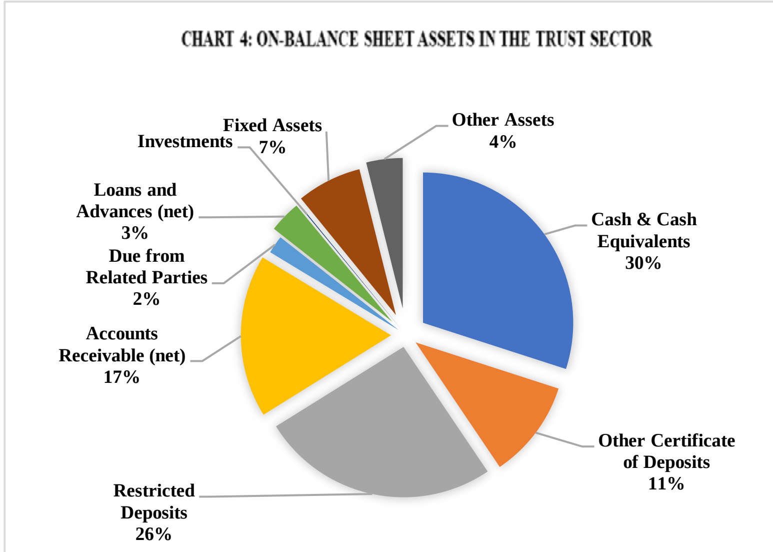
3.3 Trust Sector[5]

As at 31 December 2018, the trust sector's on-balance sheet assets stood at $4.4M, reflecting a 46.1% ($3.7M) contraction. The contraction was mainly due to a dividend *in specie* executed by

[4] Liquid Asset Ratio - liquid assets as a percentage of deposit liabilities (customers' deposits and balances due to financial institutions).

[5] The following analysis on the trust sector represents the financial position of the sector as at December 2018 relative to December 2017, as the reporting structure does not provide for information as at March 2019. Additionally, the consolidated information does not include one licensee, as the entity was under administration during the review period. For ease of comparison, the entity was also removed from the previous period's data.

one trust company, removing a large non-performing credit facility from its accounts. Chart 4 illustrates the components of the sector's on-balance sheet assets.



The sector's profit for calendar year 2018 contracted by 27.7% ($819K) following the significant increase in the previous year. The reduced profit margin was due to increased operating expenses (18.9%), while revenue declined by 0.7%.

Assets under management valued at $659.6M, representing 699 accounts and a 16.1% decline when compared with 31 December 2017. Except for one trust company, fiduciary activities declined for all institutions including one entity which was in the process of voluntary liquidation. Fiduciary services also declined across all categories, with the largest reduction reflected in trust assets accounts which fell by 12.6% ($71.1M).

3.4 Money Services Businesses (MSBs)

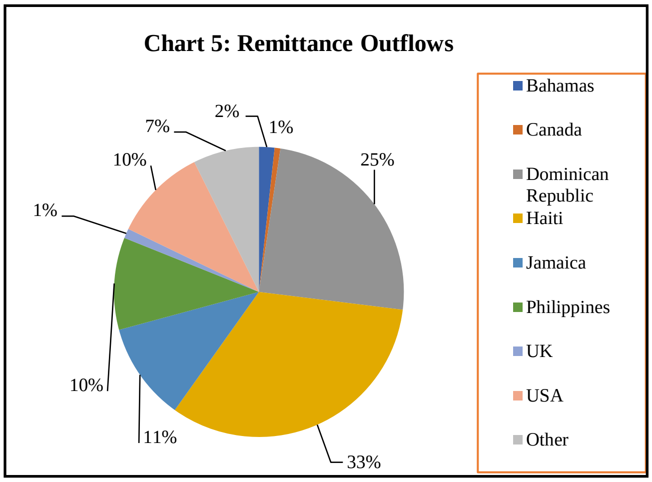
The MSBs sector continued to expand, enhancing its products, services and operational efficiencies. A new licensee entered the market, however, operations had not begun at FYE 2018/2019[6]. This report reviews the performance of the three licensees: NCS, GKMS and ITC[7]. Assets increased by 1.5% to $4.9M and profit expanded by 15.6%, amounting to $804k for the financial year.

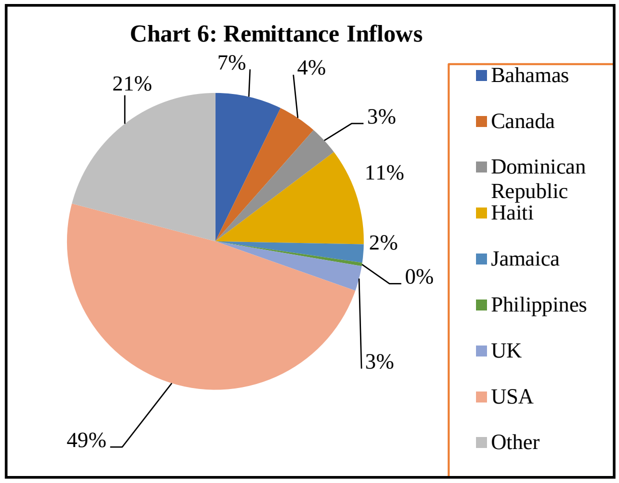
Despite the favourable performance in dollar value, net profit as a percentage of assets and capital employed, continued on a downward trajectory. The return on assets was 16.6%, 1.2% below the previous financial year, while return on equity recorded a deeper contraction of 5.8% to 40.3%, when compared with the 2017/2018 financial year.

The MSBs sector transmitted funds totalling $136.6M, up 11.7% ($14.3M) when compared with the previous corresponding period. Of the total transfers, outflows continued to account for the majority (94.4%) and inflows, the remaining 5.6%. Outbound remittances grew (12.5%) over the

[6] Thus, data for the new licensee are not included in this analysis.
[7] NCS – NCS EMoney Services, principal agent of MoneyGram; GKMS – GraceKennedy Money Services, principal agent of Western Union; and ITC – International Transfer Company trading as CAM.

review period, while inbound remittances remained relatively unchanged. Haiti and the Dominican Republic continued to be the main recipients of outbound remittances, comprising 57.5% ($74.1M) of the total outflows. The United States of America contributed the largest portion of the inflows to the Turks and Caicos Islands at 48.7% ($3.7M). Charts 5 and 6 show the percentages of remittance inflows and outflows by countries.





3.5 Staff Complement

The department complement stood at seven as at 31 March 2019, increasing by two personnel as a result of recruitment efforts made during the year.

3.6 Summary Select Financial Data

Select data of the banking sector relating to capital adequacy, asset quality, liquidity and earnings are set out as at March 2018 and 2019 in the Table 1. Select data for the money services sector and the trust companies are also in Table 1.

FINANCIAL DATA				
Description	Mar-18	Mar-19	Change	
	$ 000	$ 000	$ 000	%
BANKING SECTOR				
Capital Adequacy:				
Qualifying Capital*	265,157	305,872	40,715	15.4
Risk weighted Assets	1,115,437	1,157,530	42,092	3.8
Capital Adequacy Ratio (%)	23.8%	26.4%		
Asset Quality:				
Gross Assets	2,223,545	2,342,613	119,068	5.4
Assets (net)	2,178,144	2,316,583	138,439	6.4
Loans and advances (gross)	878,073	858,780	-19,293	-2.2
Investments	106,512	72,145	-34,367	-32.3
Placements	1,174,971	1,341,959	166,988	14.2
Non-performing Loans	65,936	49,882	-16,054	-24.3
Provisions for loan losses	45,401	26,030	-19,371	-42.7
Liquidity:				
Liquid Assets	1,202,226	1,305,383	103,157	8.6
Customers Deposits	1,371,399	1,419,508	48,109	3.5
Borrowings (due to Fish)	507,591	567,712	60,121	11.8
Liquid Asset Ratio (%)	64.0%	65.7%		
Earnings:				
Gross income	89,864	108,624	18,760	20.9
Net Profit	35,859	50,018	14,159	39.5
Interest Income	64,070	83,010	18,940	29.6
Fee Income*	25,794	25,614	-180	-0.70
Expenses	54,005	58,606	4,601.00	8.5
Return on Assets (%)	1.7%	2.2%		
Return on Equity (%)	12.6%	17.6%		
MONEY SERVICES BUSINESS SECTOR				
Total Assets	4,798	4,869	71.00	1.5
Net Income	695	804	108.68	15.6
Outflows	114,683	128,962	14,279.00	12.5
Inflows	7,644	7,644	0.00	0.0
Return on Assets (%)	17.8%	16.6%		
Return on Equity (%)	46.1%	40.3%		
Description	**Dec-17**	**Dec-18**	**Change**	**Change**
	$ 000	**$ 000**	**$ 000**	**%**
TRUST SECTOR				
Total Assets	8,114	4,371	-3,743	-46.1%
Cash & Cash Equivalents	1,795	1,310	-485	-27.0%
Net Income	2,953	2,134	-819	-27.7%
Assets Under Management	785,857	659,603	-126,254	-16.1%

*Indicates previous period data was revised.

Table 1: Summary of Statistics

4.0 INSURANCE DEPARTMENT REPORT

4.1 Overview and General Discussion

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

The department regulated 7,835 (7,455 in 2018) licensees as at 31 March 2019. As can be seen from Table 2, the insurance sector was dominated, in number, by international insurers, primarily Producer Owned Reinsurance Companies ("PORCs").

Licensees	2019	2018	2017	2016	2015
Reinsurers (PORCs)					
Credit Life	6,967	6,725	6,404	6,391	5,704
Non- Credit Life	749	609	617	538	448
Captives	67	69	65	66	65
Insurance Managers	7	7	7	7	7
Total International Insurance Licensees	**7,790**	**7,410**	**7,093**	**7,002**	**6,224**
Domestic Insurers	19	19	19	19	18
Insurance Brokers	11	11	11	13	13
Insurance Agents	7	5	5	5	5
Insurance Sub-Agents	8	10	10	8	4
Total Domestic Insurance Licensees	**45**	**45**	**45**	**45**	**40**
Total Insurance Licensees	**7,835**	**7,455**	**7,138**	**7,047**	**6,264**

Table 2: Total insurance licences

There were 7,790 international insurers operating from the Turks and Caicos Islands, a 5.1% increase when compared to the previous period. Growth in the sector was tempered by the cancellation and/or surrender of 352 PORC and three captive licences. The number of domestic insurers remained unchanged at 19, while the number of insurance agents increased by two. However, this was offset by the cancellation of two insurance sub-agent licences during the period. Table 3 reflects the movement in the number of licensees in the international sector, broken down by class and type in respect of licensing activity for the year under review.

Particulars	Total	Credit Life	Non-Credit Life	Captives
New licenses	724	545	178	1
Re-instatements	11	11	0	0
Surrenders/Cancellations	(355)	(313)	(39)	(3)
Net Movement during the year	380	243	139	(2)

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

4.2 Regulatory Activities during the Year

During the year, the department issued four Regulatory Advisories, providing guidance to insurers and other licensees on: i) payments to un-licensed persons for referrals, ii) requirements for the processing of applications for corporate changes, iii) the striking off and re-instatement of insurers, and iv) amendments to the PORC application form and legislative requirement to submit certificates of compliance.

4.2.1 Domestic Insurance Unit (DIU)

The DIU continued to utilize the CARAMELS[8] 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 overall risk rating of a company determines whether it will be scheduled for an on-site examination. During the review period, one on-site examination was conducted on a general insurer. Additionally, the department participated in a joint on-site examination of a life insurer with the AML Supervision Department.

Table 4 provides a synopsis of the major regulatory activities carried out during the current and prior periods.

[8] 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

Activity	2018/2019	2017/2018	2016/2017	2015/2016	2014/2015
Licenses Issued	2	1	2	2	6
Inspections Done	1	7	4	4	4
Revocation/ Surrender of licenses	2	1	2	2	1
Other Actions – Warnings, Cease and Desist Orders	2	4	7	14	58
Meetings and Discussions Held	7	6	6	24	13

Table 4: Regulatory activities - Domestic Insurance Sector

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

The regulatory framework was further enhanced by continued engagement with other insurance regulators. The Commission participated in two College of Regulators[9] meetings with the Bermuda Monetary Authority. The meetings were held to discuss insurance companies operating in the Turks and Caicos Islands whose parent companies are incorporated in Bermuda.

4.2.2 International Insurance

During the review period, the Commission, through the department, continued its active engagement with the international 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.

4.3 Enforcement Actions

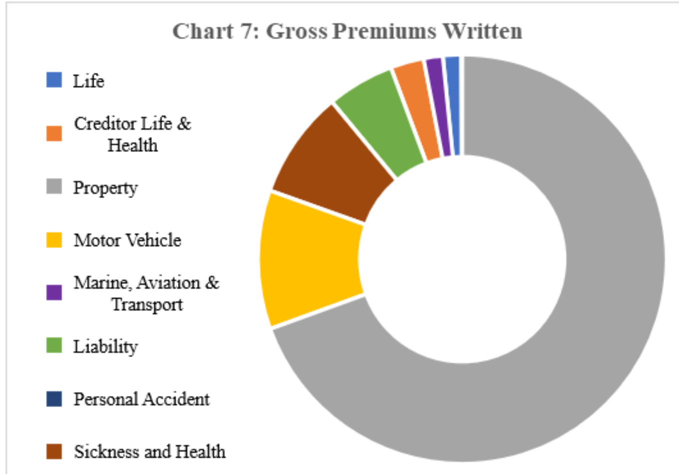
During the year, the Commission issued 14 Notices of Intention to take Disciplinary Action and nine Directives against international insurers for failure to submit annual returns as mandated by the Insurance Ordinance.

4.4 Financial and Statistical Review of the Domestic Insurance Sector

The domestic insurance sector comprised of 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, property was the dominant class (by value) of business written in the Turks and Caicos Islands.

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

Gross premiums written by the domestic sector during the 2018/2019 financial year increased significantly by 61.9% to $57.3M when compared to the prior period. Premiums ceded to re-insurers represented 74.1% of gross premiums.



As shown in Chart 8, there was a significant decline in select balance sheet indicators compared to the previous year. However, it should be noted that this prior year figure is an anomaly as it included the higher levels of reserves that were established to address insured losses due to hurricanes Irma and Maria, as well as cash held in order to meet timely settlement of claims.

The high levels of catastrophic excess of loss reinsurance, purchased by local insurers, resulted in more than 86% of claims paid being recovered from international reinsurers. Total insurance liabilities for the general insurance sub-sector stood at $53.1M, compared to $151.1M and $0.6M as at 31 March 2018 and 31 March 2017 respectively. The figures as at 31 March 2018 reflected unpaid claims associated with hurricanes Maria and Irma. Reinsurers' share of insurance liabilities was $39.3M compared with $141.9M and $11.6M as at 31 March 2018 and 31 March 2017 respectively. Moreover, Chart 8 shows that if the effects of the hurricanes were ignored, there was a steady growth in the domestic insurance sector over the last five years.

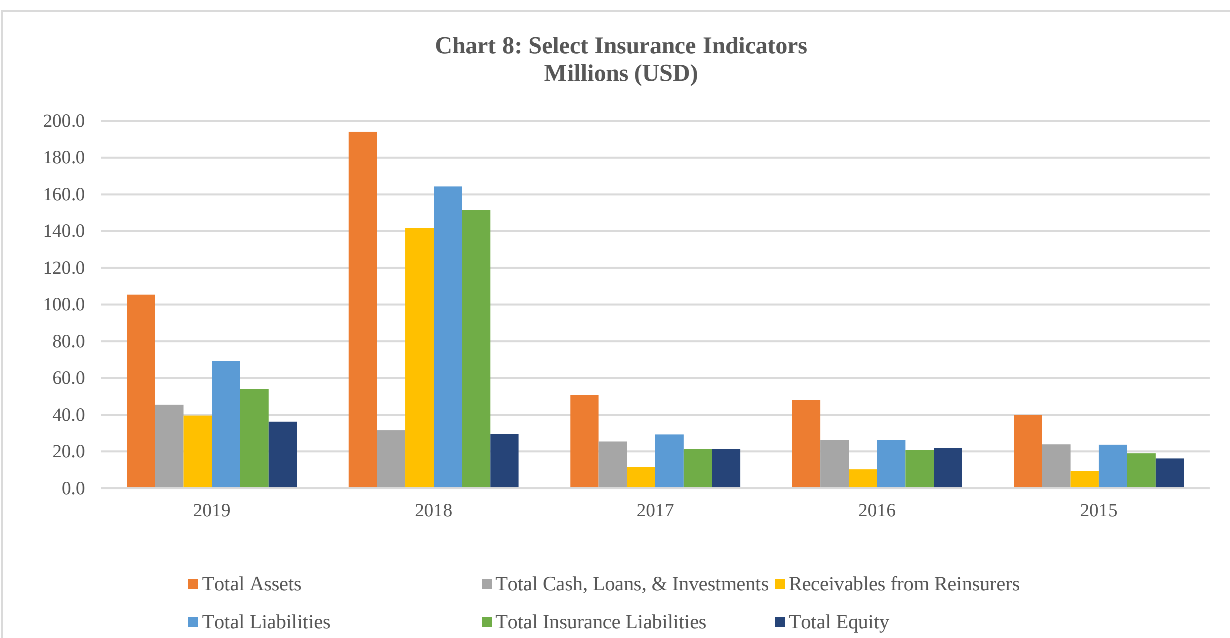


Chart 9 provides a breakdown of the industry's assets as at 31 March 2019.

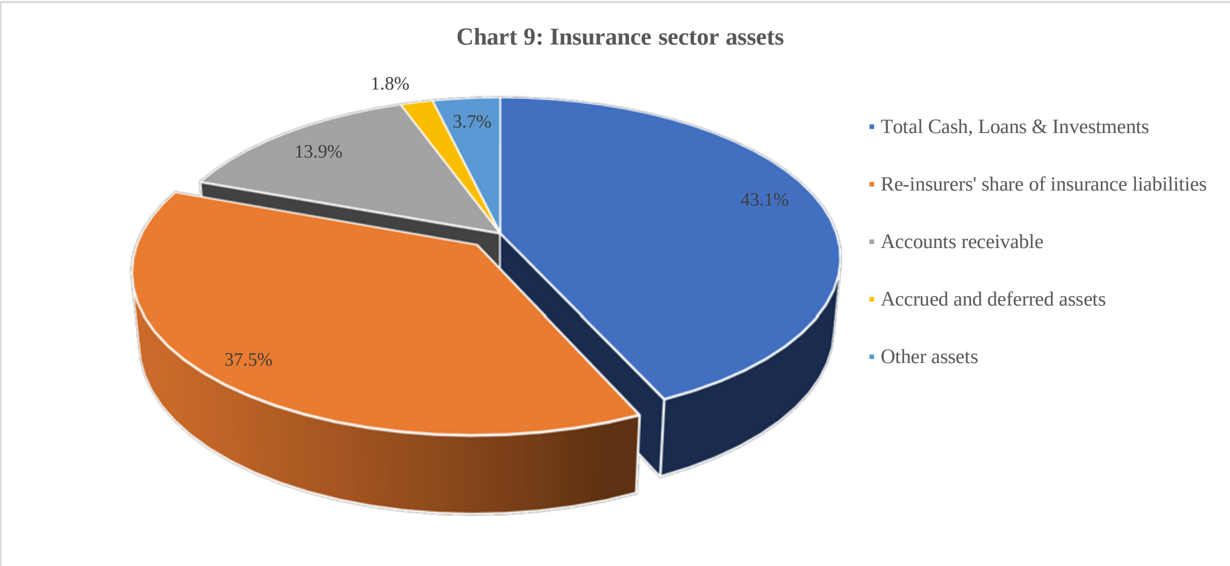


Chart 9: Insurance sector assets

4.5 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 establish new, and strengthen existing, protections for policy holders, and generally enhance the regulation of domestic insurance business in the Turks and Caicos Islands. The coming into effect of the Domestic Insurance Ordinance will repeal certain sections of the current Insurance Ordinance. The Insurance Ordinance (with repealed sections) will provide for the regulation of the international insurance sector until an International Insurance Ordinance is passed.

4.6 Training Activity

The Commission is committed to the development of its employees. During the year, members of the department participated in various training exercises, including:

i) Customer Screening Best Practices webinar

ii) GIICS/IAIS Training on Insurance Supervision of Captives and International Insurers

iii) Performance Appraisal training

iv) Keeping up with the Rapid Pace of Change in Technology and Compliance Obligations webinar

v) Source of Funds/Source of Wealth webinar

vi) Leadership Training for Supervisors

vii) Caribbean Association of Insurance Regulators (CAIR) workshop and conference - Enhancing Domestic and Cross-Border Supervision and Stress Testing in the Insurance Sector

The training sessions covered the assessment and examination of various risks, eg money laundering risk, credit risk, operational risk, liquidity risk, capital adequacy, and leadership.

During the next financial year, members of the department will participate in online courses on Insurance Core Principles and the FIRST ONE Programme (an FSI-IAIS Regulatory and Supervisory Online Programme delivered as a Virtual Seminar), as well as Risk Based Supervision. Additionally, internal training and other regional training activities to increase staff's regulatory knowledge and technical ability will be undertaken.

4.7 Staff Complement

The department had a staff complement of nine; however, there exists several vacancies. Staff have varying levels of technical and regulatory training and experience.

5.0 COMPANY MANAGERS AND INVESTMENTS DEPARTMENT REPORT

5.1 Overview

The regulatory landscape of company managers and investment businesses continued to evolve as significant focus was placed on improving regulatory oversight of the company managers and investment business sectors.

The supervisory regime, adopted for company managers in 2017, required the licensee's early submission of an application and supporting information to facilitate un-interrupted renewal of the licence. At the beginning of the year, 31% of company managers satisfied the conditions for renewal of their 2019-2020 licenses and were renewed with an effective date of 1 April 2019. The number of renewals at the start of the year was 19% lower than the previous year. This decrease was attributed, in part, to the additional reporting requirements under the Companies Ordinance 2017, which included re-registration of companies under management and the introduction of the Register of Beneficial Owners of Companies, the latter requiring that licensees compile and file beneficial owner information for each company under management.

Guidelines for the supervision of the investment business sector have been drafted and will be advanced during 2019.

With over 50% of company managers examined over recent years, a report on common examination findings was made to the sector in August 2019. Included in the presentation were recommendations to improve the non-compliant findings.

The CFATF Mutual Evaluation Review of the territory required the department to be fully engaged in preparation for the September 2018 on-site examination. The work continues through reviewing and commenting on various documents which form part of the evaluation process.

At the start of the year, a slight decline was recorded in the total number of licensees. It is anticipated that during 2019, these numbers would be offset by new applicants seeking to be licensed. During the year, the number of corporate service providers (CSPs) increased to 37 with a new license issued during 2018. However, at the end of 2019 one licensee surrendered its licence. Table 5 provides a summary of the licensees.

Departmental Licensees by Type		
Type of Licensee	**Licensees at 31/3/2018**	**Licensees at 31/3/2019**
Company Management/Agent	36	36
Mutual Funds (MF)	5	4
Exempt Mutual Funds	5	4
MF Administrators	3	3
Investment Dealers/Advisers	6	6
Total	**55**	**53**

Table 5: Department licensees

While the table above indicates a slight reduction in the number of mutual funds, the number of licensed investment dealers and mutual funds administrators remained unchanged.

As at 31 March 2019, the total value of the investments portfolio was reported as $1,115M, representing a 12% increase ($118M) when compared to the previous year. This performance is the result of 17% growth in investment dealings, while the value of the mutual funds' portfolio experienced a loss of 6.5% for the same period.

5.2 Action Plan 2012-2016

As a result of shifting priorities, 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 - could not be advanced during the year. Advancement of this work will be considered in the coming year.

5.3 Regulatory Activities

As part of its oversight regime, the department held four regulatory meetings and conducted eight on-site examinations. These activities focused on the effectiveness of licensees' internal risk management policies and procedures and, through follow-up visits, considered the status of remediation of earlier examination findings.

These interactions with licensees revealed general weaknesses in the management of business risks, particularly risks related to money laundering and terrorist financing. There was inadequate consideration by licensees of their vulnerability to certain prescribed risks factors. These weaknesses impaired licensees' ability to effectively design and implement risk-sensitive policies, systems and controls for the identification, mitigation and management of these risks.

In response to these findings, a stronger supervisory approach was adopted which included training, more frequent meetings with licensees, guidance on risk assessments, financial penalties and other enforcement actions.

5.4 Enforcement Actions

The findings in both the on-site and off-site examinations resulted in two licensees being issued Notices of Intention to Take Enforcement Action (NIDA) for breaches of the conditions of their licenses.

5.5 Legislative Agenda

As a result of shifting priorities, the introduction of new securities legislation was not advanced during the review period. 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 the 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. This work, along with the updated Mutual Funds legislation, will follow in successive financial periods.

5.6 Training Activity

During the year, staff participated in several local and regional compliance and associated training. Opportunities for staff training and awareness were as follows:

i) Caribbean Region Compliance Association (CRCA) Conference

ii) CARTAC-sponsored Risk-Based Supervision training

iii) CFATF Plenary (November 2018)

iv) Effective Implementation of FATF Recommendations on Terrorist Financing: Strategic Training Initiative (Nov 2018)

5.7 Staff Complement

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

6.0 AML SUPERVISION DEPARTMENT REPORT

6.1 Overview

The department continued its efforts to carry out its mandate which is to coordinate the regulation/supervision of money laundering and terrorist financing risks faced by regulated institutions and sectors, designated non-financial businesses and professions (DNFBPs), and non-profit organisations (NPOs).

As at 31 March 2019, the Commission had anti-money laundering and countering terrorist financing supervisory responsibility for a total of 437 entities, consisting of:

i) 83 licensed financial institutions

ii) 142 registered DNFBPs in the Commission's capacity as the appointed DNFBP Supervisor (an increase of 9% compared to 31 March 2018)

iii) 212 registered NPOs in the Commission's capacity as the appointed NPO Supervisor (an increase of 7% compared to 31 March 2018)

The supervisory mix was dominated by DNFBPs and NPOs to the extent that those entities represented 81% of the overall supervisory landscape. Chart 10 provides the breakdown of the regulated sectors to which the AML Regulations apply. It shows that NPOs and DNFBPs account for most of the entities regulated/supervised.

Chart 10: AML Supervision Department - entities supervised

6.2 Designated Non-Financial Businesses and Professions (DNFBPs)

DNFBPs continued to grow over the year. The car dealer sector dominated DNFBP registrations for the period, with that sector accounting for 60% of DNFBP registrations. The remaining DNFBPs registered during the period spanned the legal and accountancy sectors.

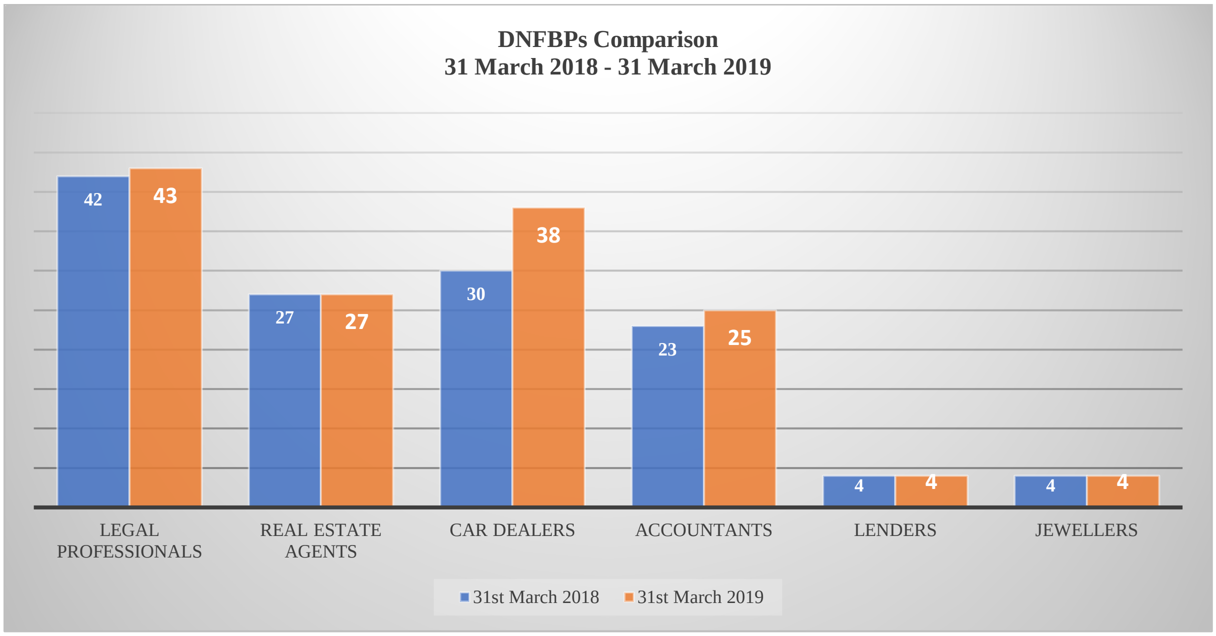


Chart 11: Change in the constituent of DNFBPs - 31 March 2018 to 31 March 2019

6.3 Non-Profit Organizations (NPOs)

The registration of NPOs continues to grow at a steady rate, with 212 registered as at 31 March 2019.

6.4 Supervisory Activities

6.4.1 On-site examinations of financial businesses and enforcement action

During the year, one desk-based review and six on-site examinations were carried out targeting:

i) real estate

ii) independent legal professionals

iii) banking

iv) corporate service providers

v) domestic insurance

vi) money services business

In keeping with the Commission's goal of increasing on-site examination coverage through the "Coordinated Examination" approach, one of the on-site examinations conducted followed this method. Additionally, the department was supported in two AML/CFT examinations by the Bank and Trust and the Insurance Departments.

The department also continued to engage, as necessary, in the processes needed to fully implement the Coordinated Examination approach. The processes which are to be finalised include:

i) *Examination Methodology* - an increased focus on the design and operating effectiveness of the internal control systems of 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 on-site examinations to reduce the regulatory burden and disruption on licensees

In keeping with the objectives reported on by the department in the 2017–2018 Annual Report, the department has conducted pilot examinations with each of the other regulatory departments.

6.4.2 Annual Supervisory Returns for DNFBPs and NPOs

To improve supervision of the DNFBP and NPO sectors, the department is in the process of finalising supervisory returns for these sectors. The returns will facilitate the collection of information on a risk-sensitive basis for registrants, which will allow the department to:

i) identify outdated and irrelevant information

ii) confirm the relevance of information previously supplied to the Commission

iii) confirm the risk exposure of registrants

iv) assess the internal controls of registrants with respect to preventing money laundering and terrorist financing

v) facilitate analysis of the sectors based on information obtained from individual registrants

6.4.3 Assignment of portfolios for NPOs

The department has assigned a portfolio of NPO registrants to each Analyst I (referred to as Relationship Officers). The Relationship Officers were tasked with monitoring and managing relationships with the registrants in their assigned portfolio, using benchmarks assigned to indicate proper monitoring of registrants.

6.5 National Risk Assessment (NRA)

The department produced a report in November 2018 which was intended to be the catalyst for drafting formal recommendation to the Anti-Money Laundering Committee (AMLC) for revisions to the NRA. The department has included this work as an action item on its 2019 Work Plan.

6.6 Caribbean Financial Action Task Force (CFATF) Mutual Evaluation Review (MER)

The Turks and Caicos Islands was subject to a MER by CFATF. The on-site examination took place in September 2018 and included a critical assessment of the effective implementation of the AML/CFT regime across the Turks and Caicos Islands. The department contributed significantly to the evaluation and its work program continues to be guided by the evaluation's findings.

6.7 Staff Resourcing

The department operated with four members of staff, including the Director. One member of staff joined the department in February 2019. The staffing needs of the department continue to be evaluated to ensure that resources are appropriately aligned to its expanding mandate.

6.8 Training

Training has continued to be a major focus of the department. Staff participated in the following training during the review period:

i) A one-week Terrorist Financing training workshop in November 2018 facilitated by the BVI Financial Services Commission

ii) Sponsorship of an analyst, by way of the Education Assistance Scheme, to continue successful studies towards achieving a law degree

iii) Four training events in the form of third-party webinars and in-house technical presentations on emerging AML/CFT matters

7.0 LEGAL AND ENFORCEMENT UNIT REPORT

7.1 Overview

During the 2018/2019 financial year, the unit continued operationalising its mandate to provide support and advice to the Commission and its Board of Commissioners. The unit was challenged to keep pace with its expanding mandate and requirements due to staff constraints, however it is anticipated that the unit will benefit from additional staff during the next financial year which should lead to improved efficiency.

7.2 Legislative Agenda

The unit continued to enjoy a strong working relationship with the Attorney General's Chambers (AGC). During the review period, legislative amendments to various pieces of legislation with respect to CFATF standards took priority. Steps were taken to bring various aspects of the Turks and Caicos' AML regime into compliance with the FATF standards, including the introduction of amendments to various pieces of legislation in anticipation of the on-island CFATF MER held in September 2018. Amendments affected various pieces of legislation, including the Proceeds of Crime Ordinance, AML Regulations and AML Code, Financial Services Commission Ordinance, Companies Ordinance, and the Non-Profit Organisations Regulations. The amendments affected all sectors of the Financial Services industry including DNFBPs, NPOs, Banking, Insurance, MSBs and Company Management.

During the review period, the unit was also heavily involved with work to bring the Insolvency and Credit Union legislations into operation. The Insolvency Ordinance, although passed, was not in operation as the relevant regulations and code remained pending. The said regulations and code were drafted and consulted on during the period. The entire suite of insolvency legislation was approved in March 2019, which facilitated its coming into operation early in the following financial year. The Official Assignee, established under the Insolvency Ordinance, is the Legal Consultant who commenced preparatory work to establish systems to facilitate the operation of the office, which includes the processing of insolvency practitioner licence applications.

The unit also worked on the Credit Union Regulations and Prudential Standards to facilitate the coming into operation of the full suite of legislation. Although a vast amount of work was done on the Regulations and Prudential Standards, the process was not completed in the 2018/2019 financial year. It is expected that this suite of legislation will come into effect early in the 2019/2020 financial year.

The unit, in consultation with the Insurance Department and AGC, worked on the Domestic Insurance Regulations with a view to having the new insurance regime operationalised in the financial year. Despite best efforts, the obligations surrounding the CFATF and European Union (EU) assessments impacted the completion of this task. That said, the Regulations were advanced and agreed by the Commission, the industry and the AGC. At the end of the review period, the Commission was in the process of reviewing the Domestic Insurance Ordinance to determine whether any amendments may have been necessary considering the newly drafted Regulations. This is expected to be completed in the 2019/2020 financial year, in anticipation of the Domestic Insurance Ordinance and Regulations coming into operation by the end of 2019.

Other pieces of legislation considered during the financial year 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 Commission sought approval from the Cabinet for the drafting of the Financial Institutions Resolution legislation and the International Insurance legislation; however, as at the time of writing this report approval remains outstanding.

7.3 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:

Enforcement Action	Banks	Trust	Insurance	Company Managers	Total 2018/19	Total 2017/18
Notice of intention to take enforcement action	0	2	14	2	18	12
Penalty Notice	1	2	14	2	18	7
Notice to Produce	0	0	0	1	1	6
Directives	0	1	9	3	13	2

Table 6: Enforcement Actions

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

7.4 Litigation

During the year, the Commission initiated administration proceedings against one licensee and sought court approval for the appointment of an Administrator. Court-supervised administration commenced in November 2018 and continued through the end of the financial period. In addition to this matter, the Registrar of Companies was named as a respondent in a Judicial Review matter in which the applicant is contending that the Registrar acted outside of her powers to restore a struck company. The unit is working with the Registrar and external counsel to respond appropriately to the application.

7.5 Regulatory 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 relevant assistance to domestic and international authorities including: the Integrity Commission, Special Investigation and Prosecution Team (SIPT), USA Securities and Exchange Commission, and the Malta Financial Services Authority. To improve the Commission's duty to cooperate with international authorities, the Commission executed three MOUs: Royal Turks and Caicos Islands Police Force, AMLC Authorities (domestic), and the Anguilla Financial Services Commission (international).

7.6 International Assessments

The unit led the Commission's efforts in responding to assessment questionnaires from international standard-setting bodies. Strong support was provided in facilitating the CFATF MER of the jurisdiction. This included working on the CFATF Technical Compliance Assessment and the Immediate Outcome Questionnaires, supporting the Turks and Caicos Islands team during the actual on-island MER assessment, and providing support with follow-up responses. In addition, support was provided via the completion of Assessment Questionnaires and assisting the team during the on-island meetings with the Global Forum as part of the latter's June 2018 assessment.

7.7 General Support

The unit continued to provide general legal advice to all departments. As part of the roll-out of the Companies Ordinance 2017, specialised support was provided to the Registry, including the development or vetting of approved forms and drafting of implementation of procedures. The unit also coordinated the operationalisation of the Beneficial Ownership Registry (BOR) which is a requirement under the Companies Ordinance 2017. Despite best efforts, the BOR has not been fully populated. The Commission will be taking steps in the new year to encourage compliance by, or initiate enforcement action against, delinquent companies. The Legal Consultant is the officer designated to process Beneficial Ownership requests received from the RTCIPF.

7.8 Secretariat

The Legal Unit continued to provide support to the Board of Commissioners by acting as Secretary to the Board. It also provided legal and governance advice to the Board.

8.0 REGISTRY REPORT

8.1 Overview

The Registry is the central source of public information on Turks and Caicos Islands' registered companies, trademarks, patents, limited partnerships and business names. As at 31 March 2019 the following Ordinances were administered by the Registry[10]:

i) Companies Ordinance 2017 (Companies Ordinance CAP 16.08 was repealed on 31 December 2018)

ii) Limited Partnership Ordinance

iii) Trademarks Ordinance

iv) Patents Ordinance

v) Business Names (Registration) Ordinance

8.1.1 Legislation

The following legislative changes, relating to the Companies Ordinance 2017, took place during the financial year:

i) *Repeal of Relevant Ordinances and Extension of Transition Period* - the repeal date for the Companies Ordinance CAP 16.08 and the Protected Cell Companies Ordinance, as well as the deadline to apply for voluntary registration under the Companies Ordinance 2017, were extended to 31 December 2018.

ii) *Reservation of Name* - changes introduced in the Companies Ordinance 2017 made it mandatory for a person, intending to apply for incorporation (registration) of a company (foreign company), to apply for reservation of the name prior to submission of the incorporation (registration) application. The amendment also applied to a company wishing to change its name.

iii) *Nominee Directors* - this amendment made it mandatory for companies to keep a register of its nominee directors at the office of its registered agent. A nominee director is a director who is accustomed or is under an obligation, whether formal or informal, to act in accordance with the directions, instructions or wishes of another person.

iv) *Extension of Payment Period* - Schedule 3 of the principal Regulations amended the deadline for payment of annual fees for International Companies from February to March.

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

v) *Companies and Limited Partnerships (Economic Substance) Ordinance* - Section 27 of the Companies and Limited Partnerships (Economic Substance) Ordinance, which came into force in December 2018, discontinued international companies with effect from 1 July 2019.

8.1.2 Developments Arising from the Companies Ordinance 2017

Voluntary Registration

All companies incorporated or continued in under the former Ordinance were transitioned to the Companies Ordinance 2017. The Ordinance provided for a voluntary registration period from February 2018 to 31 December 2018 (the transition period). Any company which, at the end of the transition period, had not applied for voluntary registration was automatically registered.

Companies applying for voluntary registration were required to submit:

i) Requisite application forms

ii) Notice of Directors

iii) Notice of Members

iv) Articles of Incorporation

v) Resolutions authorizing the application, approval of the Articles of Incorporation and appointment of the agent

As at the end of the transition period, 56% (8,933) of companies on the Register applied for registration under the 2017 Companies Ordinance.

Application to the Court for Restoration

The Companies Ordinance 2017, under paragraph 12 of Schedule 1, allows a company that had been struck and dissolved under the former Ordinance (Companies Ordinance CAP 16.08) to make an application to the Court for reinstatement.

Under the former Ordinance, a creditor, member or interested party, could have applied to the Court/Registrar for restoration up to five years after the date of the company being struck. The Companies Ordinance 2017 reduced the period to one year, during which time an application could be made to the Registrar while extending the period for application to the Court to 20 years. Once an order is granted by the Court and complied with by the company, the company is deemed never to have been struck off the Register established under the former Ordinance, or to have been dissolved.

During the year, the Registry received 17 applications from companies to be restored via the Court, with the majority of these being for companies that had been struck over five years.

Registration of Charges

While the former Ordinance provided for the registration of charges, the provision did not come into force up to the date of that Ordinance's repeal.

The Companies Ordinance 2017 provides that if a company creates a relevant charge, it may apply to the Registrar for registration of that charge. Four charges were registered during the year.

8.1.3 KRegistry

July 2018 saw the Registry taking another small step towards providing clients with online access for the filing of companies' documents with the rollout of forms for voluntary and automatic registration. The number of company managers and agents using the platform rose to 23, compared to seven that had used the online platform for annual fees in 2018. At 31 March 2019, 6,398 companies had filed forms via the online platform.

8.1.4 Incorporations/Registrations

There were 1,252 new companies incorporated/registered during the review period, an increase of 146 (13%) when compared to the previous year. Most of the increase in new incorporations/registrations, 106 or 72.6%, were continuations into the Turks and Caicos Islands. This might have been influenced by the coming into force of the Companies Ordinance 2017 and the flexibility it provided. The number of companies continued in represents the highest number of continuations ever in the Turks and Caicos Islands; the previous high was 15.

The increase in new incorporations/registrations did not result in an overall increase in the number of companies on the register; the increase was offset by strike offs and liquidations, which resulted in a net reduction of 2.3% of companies on the register.

Table 7 shows the total number of companies and partnerships at the end of each period 2015-2019.

DESCRIPTION	YEAR				
Companies	**Mar-15**	**Mar-16**	**Mar-17**	**Mar-18**	**Mar-19**
Domestic	4,908	4,797	5,385	5,541	5,496
International	10,419	10,816	10,288	10,840	10,499
Non-profit	108	119	122	129	131
Protected cell	2	2	2	2	3
Foreign	65	67	72	77	77
Total companies	**15,502**	**15,801**	**15,869**	**16,589**	**16,206**
Limited Partnerships	**62**	**63**	**65**	**70**	**71**
Total companies and limited partnerships	**15,564**	**15,864**	**15,934**	**16,659**	**16,277**

Table 7: Companies/Partnerships at Year End 2015-2019

8.2 Trademarks

During the review period, 410 trademarks were registered compared to 403 during the 2017/18 financial year. Patents trended in the opposite direction with 16 registered in the 2018/19 financial year compared to 22 in the previous financial year.

8.3 Business Names

The number of new business names registered during the year remained relatively unchanged: 1,292 in 2018/2019 compared to 1,200 in 2017/2018.

8.4 Training/Meetings

In February 2019, the Commission carried out training for industry practitioners. Its objective was to ensure that practitioners were aware of the difference in filing requirements under the Companies Ordinance 2017. The training, which was attended by some 30 industry practitioners, also sought to address industry concerns relating to the 2017 Ordinance.

In March 2019, the Registrar joined industry practitioners at a seminar on the Companies and Limited Partnerships (Economic Substance) Ordinance. The seminar focused on filing requirements and sought to address the potential impact the legislation would have on the financial services industry, particularly incorporation and registration of companies and limited partnerships.

8.5 Staffing

At March 2019, the Registry had a staff complement of 25 people, including the Registrar and Assistant Registrars.

In November 2018, the Registry bade farewell to its longest tenure staff - Mrs Deborah Saimpha. At the time of Mrs Saimpha's resignation, she served as Assistant Registrar III (the second highest position in the Registry) having risen from the ranks of Filing Clerk. Mrs Saimpha's invaluable service was greatly appreciated and we wish her continued success.

8.6 Plans/Initiatives

Consistent with its aim of providing clients with real-time access to information, the Registry has the following targets for the 2019/2020 financial year: i) continued updating the Registry's section of the Commission's website, and ii) allowing registered agents full access to all documents filed in respect of companies they represent. Furthermore, access will be provided via the KRegistry website to anyone wishing to authenticate any public document filed with the Registry.

The Registry will also focus on the following legislative and rule changes:

i) Companies Ordinance 2017: amend the Ordinance to address beneficial ownership requirements based on FATF standards.

ii) Business Names (Registration) Ordinance: remove reference to the repealed Companies Ordinance and ensure that there are no conflicts with the Companies Ordinance 2017.

iii) Limited Partnerships Ordinance: remove reference to the repealed Companies Ordinance, ensure that there are no conflicts with the Companies Ordinance 2017, and update the Ordinance to address beneficial ownership requirements in accordance with international (particularly FATF) standards.

iv) Trademark rules: the current rules are based on the repealed Trademarks Ordinance; accordingly, focus will also be on review of the fees to ensure that they remain competitive.

9.0 INFORMATION TECHNOLOGY DEPARTMENT REPORT

9.1 Overview and General Discussions

The Information Technology (IT) Department is dedicated to delivering reliable, secure and innovative technology to the Commission.

9.2 IT Initiatives 2018-2019

With the implementation of some of KRegistry's online services and the increase in cyberattacks globally, security remained at the forefront of all IT initiatives. Substantial investment was made in acquiring more advanced IT Security Auditing solutions to improve the Commission's defence-in-depth layers.

9.2.1 IT Audit

During the year, an IT Audit was conducted by internal audit[11] to evaluate the controls over Information and Cyber Security. The audit exercise provided the Commission with independent assurance of the adequacy and effectiveness of management's actions taken to address IT related issues. It involved assessing the effectiveness of IT Policies and Procedures, and the efficiency and effectiveness of the Commission's IT infrastructure. The findings of the audit were generally positive with corrective actions taken to address identified deficiencies.

9.2.2 Security Review

An Information Technology Security Review (ITSR) was also conducted during the year by an independent consulting firm. The ITSR included an external and internal penetration test, and a web application test on the KRegistry System. A variety of techniques were used during the review, including the industry recognised Open Web Application Security Project (OWASP) methodology for Web Application Testing. The review confirmed the general safety of the Commission's operating environment but highlighted a few areas which should be strengthened. The Commission immediately instituted remediation work to address the cited deficiencies, which should make its systems more robust and resilient to potential cyber-attacks.

9.2.3 Website

Recognising the importance of the Commission's website for communicating with and disseminating information to stakeholders and the general public, the IT Department led on the redesign of the Commission's website, providing for more user-friendly navigation. Noting the use of different devices for accessing online information, the website was designed to easily adapt to smart phones, tablets and desktop screens while ensuring a consistent user experience.

[11] The Commission has an outsourced internal audit function.

9.2.4 IT Business Process Improvement

In its relentless effort to improve business operations, the Commission invested in Software as a Service (SaaS) solution. This solution streamlined IT operations as well as improved employee productivity through collaboration and communication. This solution also provided a substantial improvement in IT service performance, security, scalability and availability.

9.3 Staff Complement

The IT Department had a staff complement of seven officers: the Director of IT, two Systems Administrators, one Junior Systems Administrator, one Help Desk Clerk and two Data Entry Clerks. Two of the staff were in Providenciales and five were on the island of Grand Turk.

9.4 Training

The IT Department attended the following training sessions:

i) Active Directory Services with Windows Server

ii) Regional Data Security Conference

iii) Cyber Risk Management

iv) Office 365 Administration

10.0 HUMAN RESOURCES AND ADMINISTRATION DEPARTMENT REPORT

10.1 Overview

The Human Resources and Administration Department (HRAD), though relatively new, continued to put measures in place to develop and enhance the management and work experience of staff.

The focus of the department was on effective and efficient recruitment, and development and management of staff, with the objectives of greater staff satisfaction, retention and productivity. During the review period, the department successfully recruited key personnel for various departments at the Commission.

10.2 HR Initiatives and Streamlining

The department continued to develop and implement the following initiatives:

i) An automated leave system to monitor leave across both the Commission's locations - this was already in its first phase of implementation

ii) An Employee Recognition Program

iii) A self-appraisal system to allow staff to more effectively contribute to the overall appraisal process

iv) A re-design of the Commission's appraisal forms

v) A reclassification of staff into regulatory and administrative streams to better align with Turks and Caicos Islands Government human resources structure

vi) A re-structuring and regularising of the Commission's salary scales in line with Turks and Caicos Islands Government and comparable regional regulators

10.3 Training

Throughout the year, the Commission continued to offer all employees a wide range of training opportunities to build on professional competencies, increase knowledge and improve on skillset to better contribute to the work of the Commission. Some of the development areas are set out in Table 8 below:

Description of Training	Departments Receiving Training
Workshop on Prudential and IFRS 9 Perspectives	Bank and Trust
CGBS Plenary	Bank and Trust
Anti-Money Laundering Training	AML Supervision and Company Management
Supervisory Training for Senior and Middle Management	All departments
FATF Standards Training Seminar	Bank and Trust, AML Supervision, and Company Management
Beneficial Ownership Platform and the new Ordinance	Registry and Legal
Caribbean Association of Insurance Regulators (CAIR) Workshop and Conference	Insurance
Bank Analysis and Examination Seminar	Bank and Trust
Examination by Control Assessment	Company Management and Insurance
Regional Data Security Conference	IT
Caribbean Regional Compliance Association Conference	Company Management
Risk and Control Training	Insurance, AML Supervision, Bank and Trust, and Business Names
Risk Based Supervision Training	All regulatory departments
Performance Appraisal Training for Supervisors and Managers	All departments
Leadership Training	All departments
Orientation Training	All departments
Risk Based Supervision	All regulatory departments
Active Directory Services with Windows Server	IT
Regional Data Security Conference	IT
Cyber Risk Management	IT
Office 365 Administration	All departments
AML Examination by Control Assessment	Bank and Trust
Effective Implementation of FATF recommendation of Terrorist Financing	AML Supervision
GIIC/IAIS Training on Insurance Supervision	Insurance
International Financial Reporting Standards Training	Bank and Trust
Workshop on Macroprudential Regulation of Systemically Important Financial Institutions	Bank and Trust
KPMG IFRS Update Training	Finance

Table 8: Training received by FSC staff

In addition to external training, departments held in-house training designed to address specific areas requiring attention and closer examination. Some of these trainings included: Networking, Hyper V, FSI-Connect, FSI-IAIS and other Regulatory and Supervisory online programmes.

The department also held Orientation and Leadership training: the former was for new hires whilst the latter focused on managers and supervisors.

10.3.1 Training and Development

The department assisted with the coordination of training aimed at building employee capacity to deliver services and meet strategic needs aligned with the Commission's mission and values.

The Commission has a documented succession plan. The plan analyses the gaps in key successor positions, and strategically uses development plans and learning opportunities to build competencies for future positions in the Commission. This tool was used to identify succession requirements in selected departments, determine industry-standard training and qualification needs of successors.

10.3.2 Education Assistance Programme

On confirmation of their position, all Commission staff may apply for Staff Education Assistance to further their professional development through formal education. During the review period, the Commission was pleased to provide such assistance to seven members of staff in various departments, namely IT, AML Supervision, Companies Registry, and Bank and Trust.

10.4 Memberships

As part of its capacity building and outreach, the Commission maintained membership in various organizations during the review period, including: International Association of Insurance Supervisors (IAIS), International Organization of Securities Commissioners (IOSCO), Group of International Financial Centre Supervisors, Caribbean Association of Insurance Regulators (CAIR), Centro de Estudios Monetarios Latin-American (CEMLA), Caribbean Association of Pension Supervisors (CAPS), Group of International Insurance Supervisors (GIICs), Association of Supervisors of Banks of the Americas (ASBA), Financial Stability Institute (FSI) Connect, International Financial Reporting Standards (IFRS), and Justis Law for Law Library.

The Commission also sponsored the membership of several staff in professional organisations including, ISACA, ACAMS and STEP.

10.5 Staffing

The Commission's staff complement included regulatory and administrative staff, with permanent and temporary staff in the administrative stream. As at 31 March 2019, the Commission had 71 members of staff made up of 64 permanent and seven temporary employees.

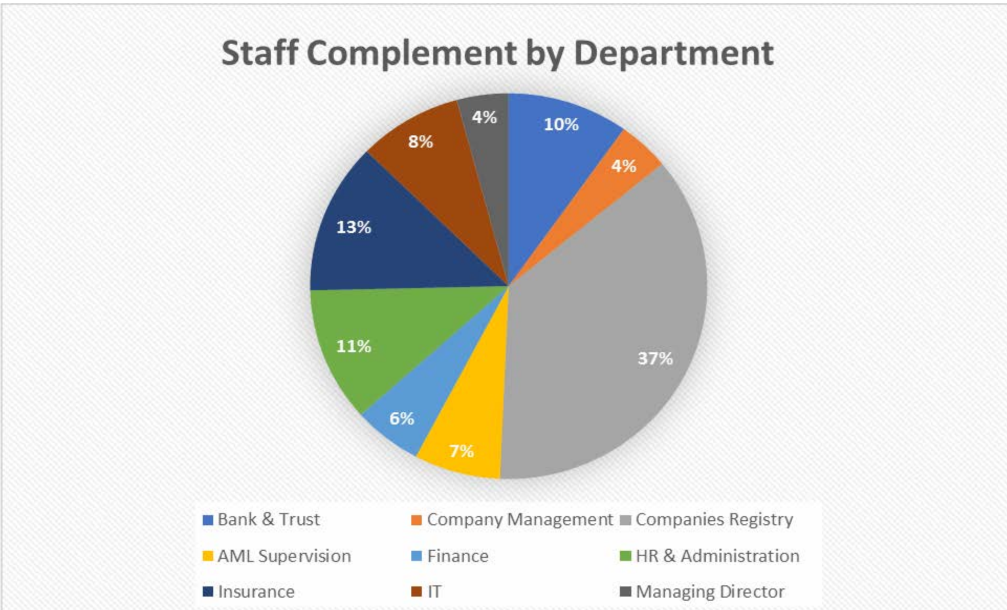


Chart 12: Staff Complement by Department

The Companies Registry had a slight decrease in the number of employees compared to last fiscal year. However, to put in context, it is the largest department with 37% of the staff complement, followed by Insurance with 13%, HRA with 11%, and all other departments accounting for the remaining 39% (Chart 12).

Table 9 provides a tabular representation of staff in different classifications of regulatory, administrative and executive management at the Commission.

Classification	**Number of Employees**
Regulatory	25
Administrative	44
Executive Level (MD and DMD)	2

Table 9: Staff Classification – Regulatory, Administrative and Managerial

Chart 13 shows the FSC staff classification as a percentage of staff in each category: regulatory departments represent 35% of staff; administrative departments 62% and executive management 3%.

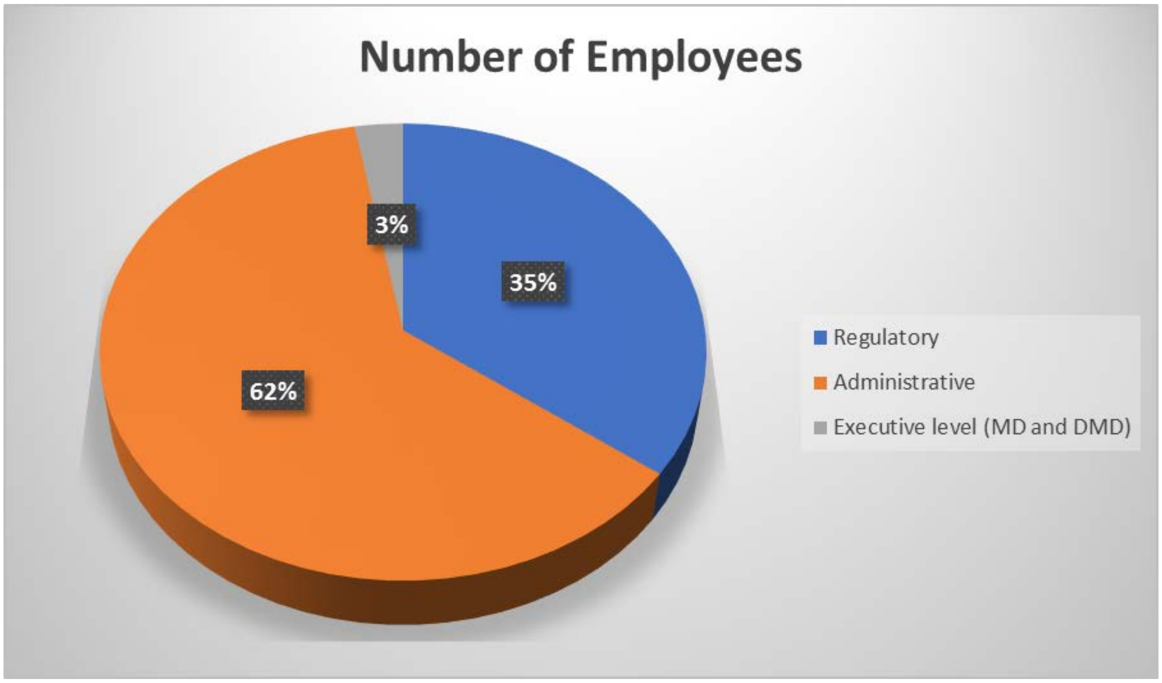


Chart 13: Staff Classifications

10.5.1 Number of New Hires

While there were several new hires during the review period, this was offset by staff departures. This resulted in a net reduction of three employees, when compared to the staff complement of 74 at the end the last financial year.

10.5.2 Awards and Recognitions

Each year the Commission recognises staff who have contributed to the organisation through a Long Service Award program. Three employees received the award in recognition of their commitment and dedication to the Commission for over ten years.

The Employee of the Year program recognises employees from amongst both management and staff, across the Commission's two locations, who exemplify excellence in job performance and who have made significant contributions to their department and the Commission as a whole. Four employees were recognised under this program.

The Commission also introduced a Spirit of the Year Award, provided to the individual who best represents the spirit of the Commission. The award was won by a member staff from the Registry.

An Employee Recognition Program was introduced towards the end of the financial year. While no one was recognised under this program during the year, the objective remains to recognise two members of staff, semi-annually for their outstanding performance, based on established criteria.

10.5.3 Internship Programme

As part of its community outreach and its contribution to building local capacity, the Commission introduced an Internship Programme. The program is geared towards hosting two interns, during a financial year, to work with the Commission for periods of up to two months. Whilst the Commission's efforts to attract interns for its Legal and IT Departments were not successful, it anticipates greater success during the next financial year. The Commission will continue to advertise these internship opportunities through the local media, the Ministry of Education, and on its website.

10.5.4 Performance Appraisal

The performance appraisal process is designed to evaluate an employee's performance during a calendar year. The HRAD facilitated refresher training on the performance appraisal system just before the commencement of the appraisal process. This training targeted supervisors and managers, and focused on the importance of continuous evaluation of employees throughout the year to recognise employees' accomplishments, evaluate job satisfaction, and to agree on a plan for improved performance.

10.6 Community Outreach

The department continued to participate in the Turks and Caicos Islands Government Annual Job Readiness Programme which focused on prospective graduates at the HJ Robinson High School. The Commission also made presentations at the Turks and Caicos Islands Community College.

The Commission participated in the Turks and Caicos Islands Community College Business Expo, geared towards addressing key areas affecting students and the Turks and Caicos Islands community. In addition to establishing a booth, representatives from the Commission made a presentation on the role of the Commission in the Turks and Caicos Islands.

The Commission also provided financial support to a number of youth, education, sporting, health, civic and religious causes during the year.

10.7 Administration

10.7.1 Uniforms

The department coordinated arrangements for new uniforms for Commission staff. Whilst not mandatory, 90% of staff participated in the program.

10.7.2 Department Structure

During the financial year, the department congratulated the then director on her promotion to Deputy Managing Director of the Commission and welcomed one of its own members to lead the department as Deputy Head of HR and Administration.

11.0 FINANCE DEPARTMENT REPORT

11.1 Financial and Risk Management Systems Reviews

Over the last several years, steps have been taken to strengthen the Commission's risk management system and its effectiveness. As internal control forms part of the Commission's risk management system, the measures necessarily included improving the control environment itself.

Amongst the measures taken was the formalisation of a statement on the essential elements of the Commission's control environment, and how it would seek to manage same. This was set out in the Commission's *Statement on Internal Control.* In the year just concluded, gaps in the control environment (and consequently, the risk management system), were assessed with the use of Risk Control Self-Assessments (RCSA). Identified gaps were reported to management for consideration and remedial actions.

Several new accounting standards came into effect, namely IFRS 9, *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*. These standards were adopted by the Commission as from 1 April 2018. The primary effect of IFRS 9 is that expected credit losses are now required to be calculated by reference to specified financial assets using a forward- looking approach. This is different from the incurred-loss model which was applied under IAS 39. The expected credit loss model was applied primarily to the Commission's trade receivables, using the simplified option of a 'provision matrix'. The essence of this standard is that losses on financial instruments were recognised at an earlier stage.

With respect to IFRS 15, the Commission was required to adopt a 5-step approach to satisfying the core principle of the standard, which requires that revenue reflects the consideration to which an entity is entitled, in return for satisfying the stated performance obligations under the contract. The five steps are: (a) identifying the contract, (b) identifying the performance obligations under the contract, (c) determining the transaction price, (d) allocating the transaction price to performance obligations and, (e) recognizing the revenue.

In identifying the performance obligation, the Commission assessed whether there are material rights which may lead to additional performance obligations to which a transaction price must be allocated. The transaction price for the Commission's services was largely fixed, with variable considerations only arising with respect to penalties. The analysis revealed that the standard did not result in any major changes in revenue recognition for the Commission. As new revenue streams are added, assessments will be done applying the five-step approach to ensure compliance.

IFRS 16, *Leases*, will come into effect for the Commission on 1 April 2019. As the Commission is engaged in leasing operations, consideration is being given to how (or, if at all) that standard will affect the Commission's financial reporting.

11.2 Financial Performance Review

11.2.1 Revenue

The Commission recorded total revenue[12] of $12.6M for the 2018/2019 financial year, compared to $9.4M for 2017/2018, $8.5M for 2016/2017 and $8.4M for 2015/2016. Chart 14 shows the revenue trend over the last four financial years.

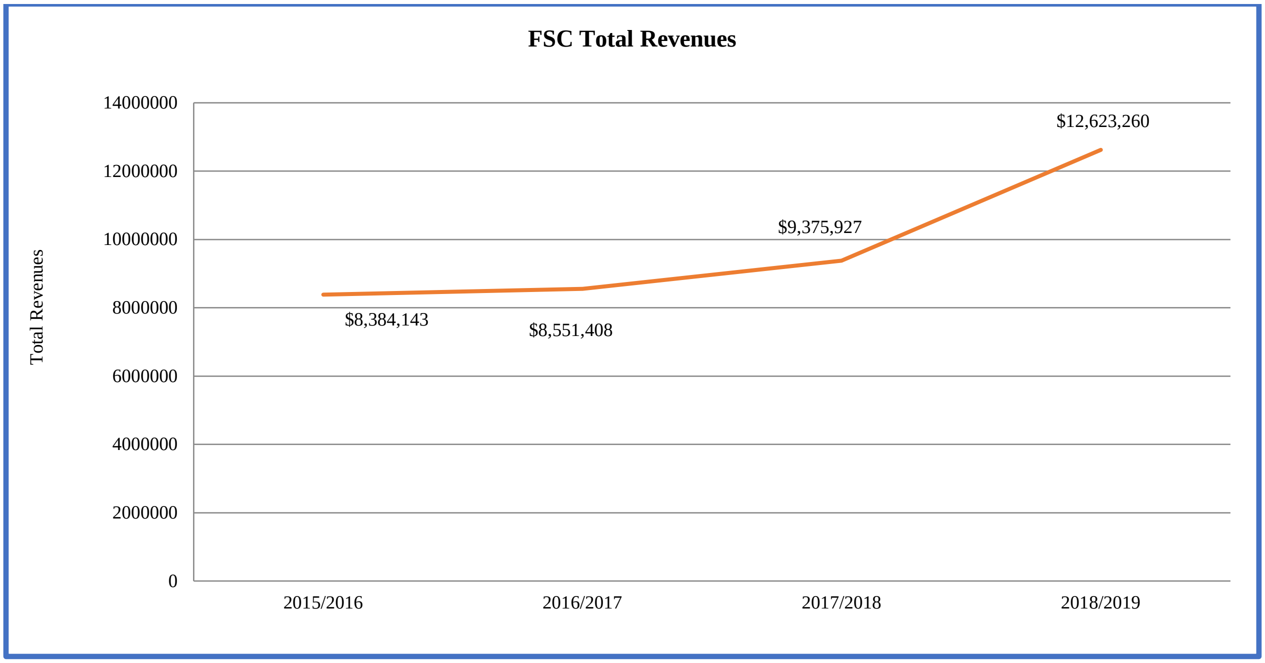


Chart 14: Total Revenues for the last four years

Over the four-year period (2015-2019), total revenue grew by 51%; by 35% during the period under review, and by 10% when 2017/2018 is compared to 2016/2017. In the last period (2018-2019), revenue increased by 35% compared to revenue growth of 10% between the period 2016-2017 and 2017-2018. The 51% growth in the revenue over the four-year period is attributable to a 355% growth in revenue from land share transfer duty, and a 20% growth in revenue from filing of returns. The increase in revenue from returns is partly attributable to increased compliance efforts and changes in the company law requirements. It should be noted that land share transfer duty is a fluctuating and unpredictable revenue source for the Commission.

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

When the revenue trend is analysed over a shorter time period (2018/2019 compared to 2017/2018), the growth was at a slower pace of 35%, as indicated previously. Again, this growth can be attributable to higher performance in the annual return fees category and land share transfer duty.

Given efforts to re-register companies as required by the 2017 Companies Ordinance, and the discontinuation of filing annual returns, there was an increase in the compliance rate. The explanation for the increase in land share transfer duty is not clear; it could be in part as a result of changes brought on by the new Companies Ordinance requirements.

The Registries[13] continued to account for the bulk of the revenue generated by the Commission, accounting for 80% of the current year's revenue and 76% for the previous year's revenue. The Registries accounted for just about $10M of the revenue for the reporting period, compared to $7.2M in 2017/18 and $6.5M in 2016/17. Chart 15 provides a summary of revenue by department.

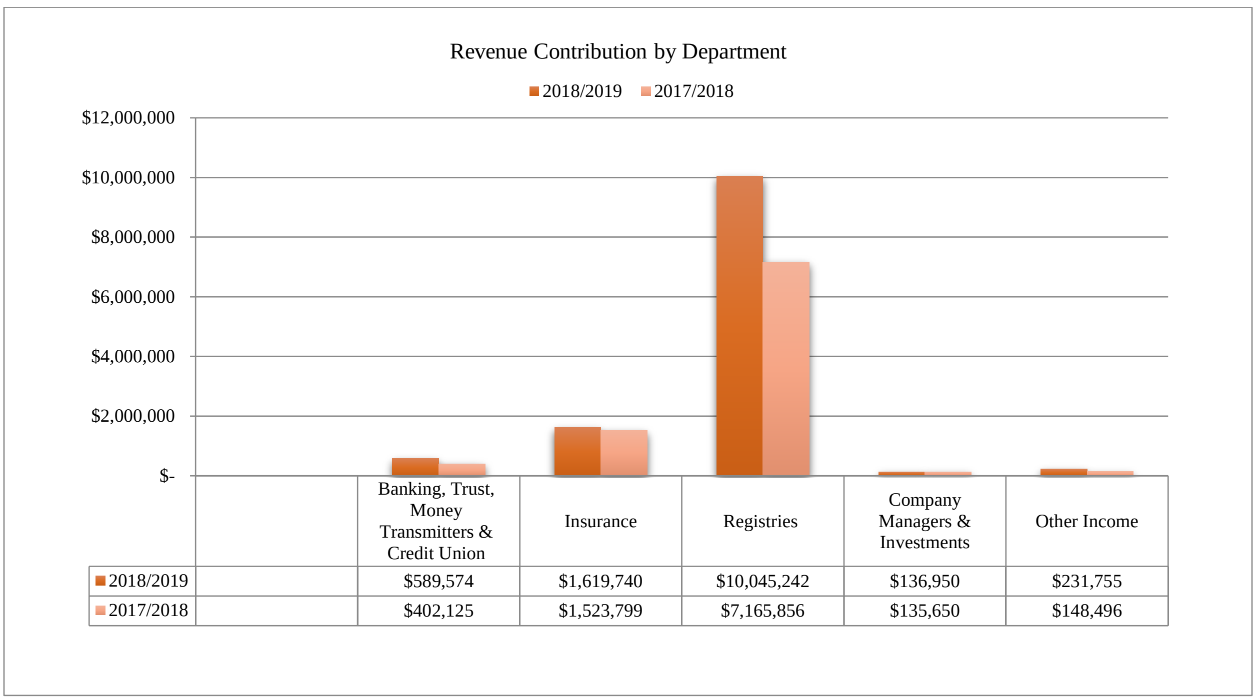


Chart 15: Revenue by Department

Insurance continued to be the second leading contributor to the Commission's revenues, contributing 13% in 2018/19, down from 16% in 2017/18. The Bank and Trust Department's contribution inched up by 1 percentage point to 5%. While representing 80% of total revenues, the Registry's income base expanded by 40% over the prior period. This growth rate outpaced the

[13] Companies; Trademarks; Patents and Business Names

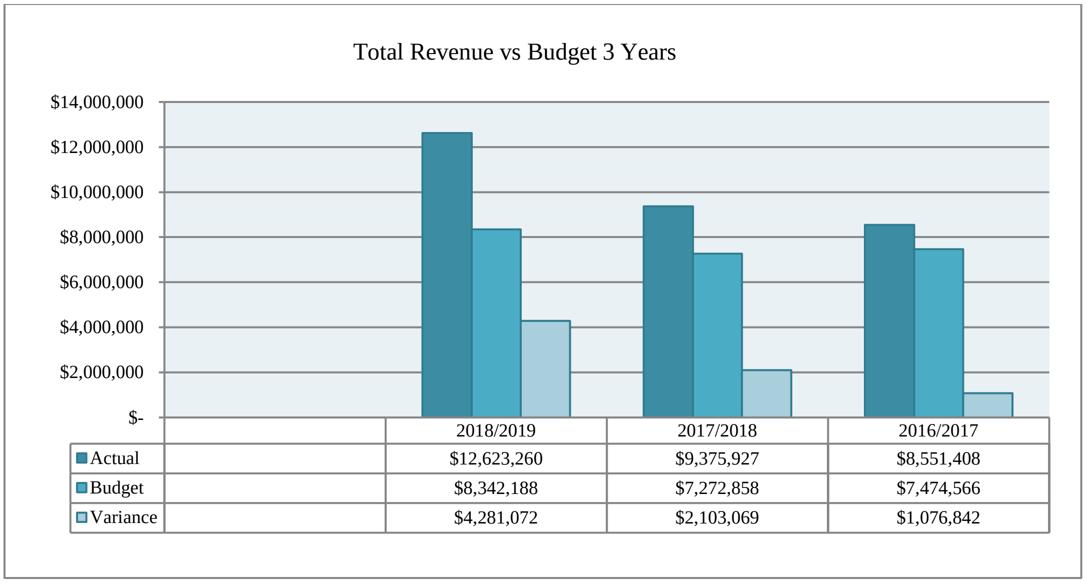
overall revenue growth for the Commission of 35% when compared to the 2017/2018 reporting period. Revenue from banks, trusts, money transmitters and credit unions increased by 47% due to increase in banking sector assets (banks licence fee includes a levy of 0.0005% on total assets).

Revenue from Insurance increased by 6% due to a combination of factors including growth in licensing for the period, which in turn affected the total annual fee collections. Table 10 provides a summary of revenue generated by department, as well as growth rate, year on year.

Revenue by Department	2018/2019	2017/2018	Growth Yr. Over Yr.	% Share Total Rev. 2018/2019	% Share Total Rev. 2017/2018
Banking, Trust, Money Transmitters & Credit Union	$ 589,574	$ 402,125	47%	5%	4%
Insurance	$ 1,619,740	$ 1,523,799	6%	13%	16%
Registries	$ 10,045,242	$ 7,165,856	40%	80%	76%
Company Managers & Investments	$ 136,950	$ 135,650	1%	1%	1%
Other Income	$ 231,755	$ 148,496	56%	2%	2%
	$ 12,623,260	$ 9,375,927	35%	100%	100%

Table 10: Revenue Contribution by Department and Growth Rates 2017/2018 to 2018/2019

As shown in Chart 16, the Commission has outperformed its budget targets over the last three years. The positive variances relative to the budgets for the periods 2018/19, 2017/18 and 2016/17 were 51%, 29% and 14% respectively. With the exception for 2016/17, the variances were largely attributable to the over-performance from land share transfer duties. For 2016/2017, the variance was attributable largely to over-performance in several categories including trademarks, business names and sundry fee collections (as sub-categories of revenue in the Registries).



		2018/2019	2017/2018	2016/2017
Actual		$12,623,260	$9,375,927	$8,551,408
Budget		$8,342,188	$7,272,858	$7,474,566
Variance		$4,281,072	$2,103,069	$1,076,842

Chart 16: Total Revenue vs Budget spanning periods 2016/2017 to 2018/2019

11.2.2 Expenditure

Total expenditure increased by 4% for the financial year; moving from $5.5M in 2017/18 to $5.7M in the current financial year. This was primarily due to employee costs increasing by around 3%. The increase in employee costs resulted from a re-alignment of salaries to conform with the pay grades and salary structure of the Turks and Caicos Islands Government, which the Commission was mandated to adopt for administrative grade staff. There continued to be some vacancies in key posts which the Commission continues to try to fill.

Staff shortages, continued restrictive public procurement requirements, and streamlining of the Commission's Education Assistance Program influenced the positive variance against the Commission's expenditure target of $6,841,236. 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 a 20% co-payment for education assistance above $5,000, also continued to contribute to cost containment in staff-initiated training expense (though the Commission continues to pay the full costs for training which it initiates).

Table 11 provides a snapshot of key expenditure outcomes for the 2018/19 and 2017/18 financial years.

Expenditure Category	2018/2019	2017/2018
Staff Costs	$ 3,472,631	$ 3,381,372
Professional & Consultancy Fees	$ 57,453	$ 195,351
Travel Costs	$ 151,306	$ 106,783
Communication	$ 113,116	$ 106,253
Subscriptions and Contributions	$ 89,067	$ 75,100
Training Costs	$ 26,875	$ 44,629

Table 11: Select expenditure outcome over two years

11.2.3 Assets and Liabilities, and Reserve Funds

Total assets, excluding fixed and intangible assets, increased by 9% during the review period, from $12.4M in 2017/18 to $13.5M as at reporting date. This was reflected largely in an increase in cash and cash equivalents, arising from the operating surplus generated for the financial year.

Cash, cash equivalents, and other interest-bearing assets accounted for 95% of the total specified assets[14], up from the 94% 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 12% of the investment portfolio, down from 13% in the prior period. 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 (excluding fixed assets), the other major asset of the Commission was trade receivables. During the year under review, there was a 25% reduction in receivables, attributed to the net-off of expected credit losses on receivables past due, as well as to an improvement in the billing and collections cycle. Efforts continue to be made in improvements to receivables management.

Liabilities of the Commission were largely in respect of amounts owed to the Turks and Caicos Islands Government and accrued expenses (primarily owed to suppliers, accrued employment benefits, and statutory deductions). The Commission had an operating surplus of $6.9M, of which $3,5M was transferrable to the Turks and Caicos Islands Government. At the end of the financial year, most of this amount was settled, except for an amount of $430K.

[14] Total assets excluding fixed and intangible assets.

The Commission's Reserve Fund, established by Section 17(3) of the FSC Ordinance, stood at \$10.2M at the end of the reporting period. There were other reserves amounts, especially those established to address capital expenditure projects.

11.3 Looking Ahead

In the coming period, the department will continue to review and improve the necessary systems to enhance the control environment.

SECTION B

STATEMENT ON INTERNAL CONTROL AND CONSOLIDATED FINANCIAL STATEMENTS

FOR YEAR ENDED 31MARCH 2019

STATEMENT ON INTERNAL CONTROL 2018/2019

[Issued Pursuant to Regulation 145(5) of the Public Finance Management Regulations 2012]

Scope and Responsibility

The Board of Commissioners 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 internal control environment, risk management framework (systems and controls), compliance with statutory financial obligations and relevant board-approved policies, the annual financial statements and annual report, and review of 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 risks are minimised and that the Commission's assets are protected. 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. To that end, procedures are established to identify, measure, monitor, report and manage risks, with the main objective to minimise or avoid losses and/or to maximise opportunities.

Risk and Control Framework

The Commission has in place a Risk Management Framework. The risk framework has the following features:

i) identification of stakeholders in the risk management process

ii) indications as to how risks may be identified

iii) setting out of procedures for assessing, ranking and ownership of those risks

iv) establishment and use of risk registers

v) identification of taxonomy of risks

vi) risk reporting

The '*three lines of defence*' model for managing operational risks is set out under the Commission's risk management framework. Furthermore, the framework is reinforced by other control mechanism including an *Internal Control Statement* which addresses issues of segregation of duties, limits on control, custody of assets, mandatory leave policy and training. Finally, there exists a *Fraud Risk Policy*.

In addition, departments are required to document their business processes and the related procedures. Board-approved documents set out the Commission's strategies for managing risk (including stipulating a generally low risk appetite), as well as the expectations for staff with respect to confidentiality and ethical standards.

Capacity to Handle Risk

The Commission's capacity to manage risk continues to improve. Work undertaken during the year pointed to the need for development of key risk indicators (KRIs), as appropriate, to help in the identification of new risks within certain operational units. These KRIs may also help with assessing the direction in which current risks may be heading. These are expected to be utilized in the next financial year. Continued roll out of the risk-based supervisory framework has helped to ensure that regulatory departments become more adept at the risk management process. The Board has the capacity and expertise to understand, develop policies around, and manage the Commission's risks. The internal audit function provides an independent assessment of the risk and controls, and reports to the Board on risk management. There are processes to safeguard and manage the Commission's capital (reserve) fund. There were no operational losses during the year that affected the reserve fund. Financial risks (credit and market) were not deemed to be high, based on the values and counter parties involved.

Review of Effectiveness

The effectiveness of the risk and control framework is assessed based on its success in reducing/mitigating existing risks, and in identifying new risks in a timely manner so that corrective action can be taken.

The internal auditor conducted reviews during the period and the issues identified were or are being addressed by the relevant departments. An IT vulnerability assessment was done to identify potential IT risks and the findings were escalated for appropriate resolution. With the use of a Risk Control Self Assessments (RCSA), steps were taken to identify gaps in operational areas. The second annual risk management report was prepared and submitted to Management and the Board for consideration.

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

Board of Commissioners
Financial Services Commission

6 September 2019

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Turks and Caicos Islands, BWI
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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, 2019, 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, 2019, 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, 2019 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 31 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

October 17, 2019

Consolidated Financial Statements of

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Year ended March 31, 2019

TURKS AND CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION

Consolidated Financial Statements

Year ended March 31, 2019

TURKS AND CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION

Consolidated Statement of Financial Position

At March 31, 2019
with comparative figures at March 31, 2018

		2019	2018
Assets			
Current assets:			
Cash and cash equivalents (note 5)	US$	11,076,890	9,846,287
Term deposit (note 6)		316,329	312,826
Accounts receivable (note 7)		410,124	548,862
Due from employees (note 8)		111,239	132,560
Current portion of held-to-maturity investments (note 9)		999,631	599,580
Prepayments and other receivables (note 10)		145,697	108,424
		13,059,910	11,548,539
Non-current assets:			
Held-to-maturity investments (note 9)		501,983	899,418
Intangible assets (note 11)		267,845	316,830
Property and equipment (note 12)		1,659,697	1,855,365
		2,429,525	3,071,613
	US$	15,489,435	14,620,152
Liabilities and Reserves			
Current liabilities:			
Accounts payable and accrued expenses (note 13)	US$	593,057	540,063
Due to TCIG (note 14)		430,879	3,221,858
Current portion of deferred income (note 15)		1,714,791	1,562,607
		2,738,727	5,324,528
Non-current liability:			
Non-current portion of deferred income (note 15)		226,077	189,970
		2,964,804	5,514,498
Reserves:			
Reserve fund (note 29)		10,222,936	6,841,236
Capital reserve fund (note 14)		1,345,689	1,308,412
Retained surplus (note 16)		956,006	956,006
		12,524,631	9,105,654
	US$	15,489,435	14,620,152

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

These consolidated financial statements were approved on behalf of the Board of Directors on October 17, 2019 by the following:

Errol Allen Commissioner   Niguel Streete Managing Director

TURKS AND CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION

Consolidated Statement of Revenue, Expenditures and Other Comprehensive Income

Year ended March 31, 2019
with comparative figures for year ended March 31, 2018

		2019	2018
Revenue:			
Fees and charges (note 17)	US$	12,405,865	9,236,530
Interest income		82,622	52,652
Government grants		45,143	45,143
Other income		89,630	41,602
		12,623,260	9,375,927
Expenditures:			
Staff costs (note 18)		(3,472,631)	(3,381,372)
Rental of buildings (note 19)		(247,625)	(246,000)
Depreciation (note 12)		(240,137)	(247,739)
Travel and subsistence (note 23)		(151,306)	(106,783)
Office expenses (note 21)		(148,718)	(139,734)
Impairment loss on accounts receivable (note 7)		(143,766)	(85,520)
Directors fees and expenses (note 22)		(133,643)	(125,179)
Repairs and maintenance		(127,061)	(105,573)
Amortisation of intangible assets (note 11)		(119,821)	(112,991)
Communication (note 24)		(113,116)	(106,253)
Local hosting and entertainment		(108,443)	(90,134)
Audit and accounting		(101,875)	(84,657)
Utilities		(100,397)	(86,802)
Insurance		(90,291)	(84,868)
Subscriptions and contributions		(89,067)	(75,100)
Other operating expenses (note 25)		(65,015)	(46,221)
Advertising		(61,084)	(51,622)
Professional and consultancy fees (note 20)		(57,453)	(195,351)
Kregistry license annual fee		(54,000)	–
Security		(51,959)	(49,098)
Training (note 26)		(26,875)	(44,629)
		(5,704,283)	(5,465,626)
Surplus before other comprehensive income		6,918,977	3,910,301
Other comprehensive income		–	–
Net surplus for year	US$	6,918,977	3,910,301
Net surplus for year transferred to:			
Reserve fund	US$	3,381,700	(218,851)
Capital reserve fund		37,277	–
TCIG (note 14)		3,500,000	4,129,152
	US$	6,918,977	3,910,301

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, 2019
with comparative figures for year ended March 31, 2018

	Reserve fund	Capital reserve fund	Retained surplus	Total
	US$	US$	US$	US$
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
Balance at April 1, 2018	6,841,236	1,308,412	956,006	9,105,654
Net surplus for year	6,918,977	–	–	6,918,977
Reserve fund transferred to amount due to TCIG (note 14)	(3,500,000)	–	–	(3,500,000)
Capital reserve fund (note 14)	(37,277)	37,277	–	–
Balance at March 31, 2019	10,222,936	1,345,689	956,006	12,524,631

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, 2019
with comparative figures for year ended March 31, 2018

		2019	2018
Cash flows from operating activities:			
Net surplus for year	US$	6,918,977	3,910,301
Adjustments for:			
Depreciation		240,137	247,739
Amortisation of intangible assets		119,821	112,991
Impairment loss on accounts receivable		143,766	85,520
Interest income		(82,622)	(52,652)
		7,340,079	4,303,899
Changes in operating assets:			
Change in accounts receivable, gross of impairment loss		(5,028)	(11,151)
Change in due from employees		21,321	43,005
Change in prepayments and other receivables		(37,273)	(17,212)
Changes in operating liabilities:			
Change in accounts payable and accrued expenses		52,994	(50,742)
Change in deferred income		188,291	569,569
Net cash from operating activities		7,560,384	4,837,368
Cash flows (used in)/from investing activities:			
Change in term deposit		(3,503)	295,705
Proceeds from disposal of held-to-maturity investments		600,000	450,219
Acquisition of held-to-maturity investments		(602,616)	(448,412)
Additions to intangible assets		(70,836)	(33,950)
Additions to property and equipment		(44,469)	(36,786)
Interest income received		82,622	54,208
Net cash (used in)/from investing activities		(38,802)	280,984
Cash flows used in financing activity:			
Cash transferred to TCIG (note 14)		(6,290,979)	(2,517,290)
Net cash used in financing activity		(6,290,979)	(2,517,290)
Net increase in cash and cash equivalents		1,230,603	2,601,062
Cash and cash equivalents at beginning of year		9,846,287	7,245,225
Cash and cash equivalents at end of year	US$	11,076,890	9,846,287

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.

This is the first set of the FSC's annual consolidated financial statements in which IFRS 9, *Financial Instruments*, and IFRS 15, *Revenue from Contracts with Customers*, have been applied. Changes to significant accounting policies are described at note 2(d).

(b) *Functional and presentation currency*

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

2. Basis of preparation, continued

(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.

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 note 7, Accounts receivable.

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.

(d) Changes in significant accounting policies

Except for the changes below, the FSC has consistently applied the accounting policies to all years presented in these consolidated financial statements.

For the year ended March 31, 2019, the FSC has adopted IFRS 9 and IFRS 15, new standards issued and effective for financial years beginning on, or after January 1, 2018.

The nature and effects of the key changes in FSC's accounting policies resulting from its adoption of IFRS 9 and IFRS 15 are summarised below:

2. Basis of preparation, continued

(d) Changes in significant accounting policies, continued

(i) IFRS 9, Financial Instruments

i. Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI). The classification of a financial asset under IFRS 9 is generally based on the business model of the FSC within which the financial asset is managed and is also based on the contractual cash flow characteristics of the financial asset. IFRS 9 eliminates the previous IAS 39, *Financial Instruments: Recognition and Measurement*, categories of held-to-maturity investments, loans and receivables, and available-for-sale financial assets. Under IFRS 9, derivatives embedded in contracts are never separated where the host is a financial asset within the scope of the standard. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities.

IFRS 9 has not had a significant effect on FSC's accounting policies for financial liabilities.

For an explanation of how the FSC classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, see note 3(b).

ii. Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity securities. Under IFRS 9, impairment losses are recognised earlier than under IAS 39, see note 3(j).

iii. Hedge accounting

The new general hedge accounting model in IFRS 9 requires the FSC to ensure that hedging relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

The new general hedge accounting model in IFRS 9 had no impact on the FSC's consolidated financial statements and/or accounting policies.

2. Basis of preparation, continued

(d) Changes in significant accounting policies, continued

(i) IFRS 9, Financial Instruments, continued

iv. Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, except as described below:

- The FSC has used an exemption not to restate comparative information for prior periods with respect to classification and measurements (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 under this exemption would be recognised in the reserve fund as at April 1, 2018, where material. Accordingly, the information presented for 2018 does not generally reflect the requirements of IFRS 9, but rather those of IAS 39.

- The determination of the business model within which a financial asset is held has been made on the basis of the facts and circumstances that existed at the date of initial application.

- If a debtor had low credit risk at the date of initial application of IFRS 9, then the FSC has assumed that the credit risk on the asset had not increased significantly since initial recognition.

The adoption of IFRS 9 had no material impact on the FSC's consolidated financial statements as at March 31, 2019 and March 31, 2018 and for the years then ended and therefore no adjustment to the beginning balance of retained earnings at April 1, 2018 was required.

(ii) IFRS 15, Revenue from Contracts with Customers

i. Revenue recognition

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*.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

2. Basis of preparation, continued

(d) Changes in significant accounting policies, continued

(iii) IFRS 15, Revenue from Contracts with Customers

i. Revenue recognition, continued

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer.

ii. Transition

The FSC adopted IFRS 15 on April 1, 2018 using a cumulative effect method (without practical expedients), one of the permissible transition options available under IFRS 15. Under the cumulative effect approach an entity applies the new standard as at the date of initial application, with no restatement of comparative period amounts. An entity recognises the cumulative effect of initially applying the new standard as an adjustment to the opening balance of retained earnings of the annual reporting period that includes the date of initial application. Accordingly, the information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 18. Additionally the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

The adoption of IFRS 15 using a cumulative effect method did not impact the timing or amount of revenue from contracts with customers and the related assets and liabilities recognised by the FSC. This revenue recognition principle continued to be appropriate under IFRS 15 and therefore had no significant impact on the FSC’s consolidated financial statements as at March 31, 2019 and March 31, 2018 and for the years then ended and therefore no adjustment to the beginning balance of retained earnings at April 1, 2018 was required.

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, except where mentioned otherwise (see notes 2(d), 3(b) and 3(j)).

(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, 2019 and 2018 and its consolidated financial performance and its consolidated cash flows for the years then ended.

3. Significant accounting policies, continued

(a) Basis of consolidation, continued

(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 (NCI) 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.

(iii) Loss of control

When the Commission loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI 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) Financial assets and financial liabilities

(i) Recognition and initial measurement

The FSC initially recognises accounts receivable on the date when they are originated. All other financial assets and financial liabilities (including regular-way purchases and sales of financial assets) are initially recognised on the trade date when the FSC becomes a party to the contractual provisions of the instrument.

3. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(i) Recognition and initial measurement, continued

A financial asset (unless it is an accounts receivable without a significant financing component) or financial liability is initially measured at fair value plus, for a financial asset or financial liability not measured at FVTPL, transaction costs that are directly attributable to its acquisition or issue. An account receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets – Policy applicable from April 1, 2018

On initial recognition, a financial asset is classified as measured at amortised cost, FVOCI or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition, unless the FSC changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortised cost or FVOCI, as described above, are measured at FVTPL. In addition, on initial recognition the FSC may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

3. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(ii) Classification and subsequent measurement, continued

Financial assets – Policy applicable from April 1, 2018, continued

The FSC has the following financial assets measured at amortised cost: cash and cash equivalents, term deposit, accounts receivable, due from employees and other receivables.

Financial assets – Business model assessment: Policy applicable from April 1, 2018

The FSC makes an assessment of the objective of the business model in which a financial asset is held for each portfolio of financial assets because this best reflects the way that the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of assets;
- how the performance of the portfolio is evaluated and reported to FSC's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered as sales for this purpose, consistent with the FSC's continuing recognition of the assets.

Financial assets that are managed and whose performance is evaluated on a fair value basis, which include underlying items of participating contracts, and financial assets that are held for trading, are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

3. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(ii) Classification and subsequent measurement, continued

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest: Policy applicable from April 1, 2018

For the purposes of this assessment, principal is defined as the fair value of the financial asset on initial recognition. However, the principal may change over time - e.g. if there are repayments of principal.

Interest is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the FSC considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the FSC considers:

- contingent events that would change the amount or timing of cash flows;
- prepayment and extension features;
- terms that limit the FSC's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money (e.g. periodic reset of interest rates).

A prepayment feature is consistent with the 'solely payments of principal and interest' criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract.

3. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(ii) Classification and subsequent measurement, continued

Financial assets – Subsequent measurement and gains and losses: Policy applicable from April 1, 2018

Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest rate method. The amortised cost is reduced by impairment losses. Interest income and impairment losses are recognised in the consolidated statement of revenue, expenditures and other comprehensive income. Any gain or loss on derecognition is also recognised in the consolidated statement of revenue, expenditures and other comprehensive income.

Financial liabilities – Classification, subsequent measurement and gains and losses

Financial liabilities are classified as measured at amortised cost. Financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Any interest expense is recognised in the consolidated statement of revenue, expenditures and other comprehensive income and any gain or loss on derecognition is also recognised in the consolidated statement of revenue, expenditures and other comprehensive income.

The FSC has the following financial liabilities measured at amortised cost: accounts payable and accrued expenses and due to TCIG.

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

(iii) Derecognition

Financial assets

The FSC derecognises a financial asset when the contractual rights to the cash flows from the financial 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 in which the FSC neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

3. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(iii) Derecognition, continued

The FSC enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The FSC generally derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The FSC also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in the consolidated statement of revenue, expenditures and other comprehensive income.

(iv) Offsetting

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 set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when it is required or permitted by a standard.

Non-derivative financial assets and financial liabilities – Policy applicable before April 1, 2018

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

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

3. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

Non-derivative financial assets and financial liabilities – Policy applicable before April 1, 2018, continued

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

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

The FSC derecognised a financial asset when the contractual rights to the cash flows from the asset expired, or it transferred 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 were transferred, or it neither transferred nor retained substantially all of the risks and rewards of ownership and did not retain control over the transferred asset. Any interest in such derecognised financial assets that was created or retained by the FSC was recognised as a separate asset or liability.

The FSC derecognised a financial liability when its contractual obligations were discharged or cancelled, or expired.

Financial assets and financial liabilities were offset and the net amount presented on the consolidated statement of financial position when, and only when, the FSC had a legally enforceable right to offset the amounts and intended 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 was written-off (either partially or in full) to the extent that there was no prospect of recovery. This was generally the case when the FSC determined that the debtor did 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 were 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.

3. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

Non-derivative financial assets and financial liabilities – Policy applicable before April 1, 2018, continued

(ii) Non-derivative financial assets – Measurement

Loans and receivables

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

The effective interest rate method was a method that was 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 was the rate that exactly discounted 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 comprised: cash and cash equivalents, term deposit, accounts receivable, due from employees and other receivables.

Cash and cash equivalents comprised certificates of deposit, current accounts, savings accounts and cash on hand.

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

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

3. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

Non-derivative financial assets and financial liabilities – Policy applicable before April 1, 2018, continued

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

Held-to-maturity investments

Held-to-maturity investments were non-derivative financial assets with fixed or determinable payments that the FSC intended, and was able, to hold to maturity, and which did not meet the definition of loans and receivables and which were not designated as assets at fair value through profit or loss or as available for sale on initial recognition. Held-to-maturity investments were initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they were measured at amortised cost using the effective interest rate method. If the FSC sold 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 were required to 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 were initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities were measured at amortised cost using the effective interest rate method.

Non-derivative financial liabilities comprised accounts payable and accrued expenses and amounts due to TCIG.

(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;

3. Significant accounting policies, continued

(c) Intangible assets, continued

(i) Recognition and measurement, continued

- 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 is probable that the future economic benefits associated with the expenditure will flow to the FSC. 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.

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

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

3. Significant accounting policies, continued

(d) Property and equipment, continued

(i) Recognition and measurement, continued

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.

Any gain or loss on disposal of an item of property and equipment, calculated as the difference between the net proceeds from disposal and the carrying amount of the item, is recognised 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.

(iii) Depreciation

Items of property and equipment are depreciated from the date they are available for use. Depreciation is calculated to write off the cost of items of property and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Depreciation is recognised in the consolidated statement of revenue, expenditures and other comprehensive income. The 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

3. Significant accounting policies, continued

(d) Property and equipment, continued

(iii) Depreciation, continued

Depreciation methods, useful lives and residual values are reassessed at the reporting date. Land is not depreciated.

(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 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.

(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.

3. Significant accounting policies, continued

(g) Reserves, continued

(i) Reserve fund, continued

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

(ii) Capital reserve fund

The FSC established a capital reserve fund for the purpose of financing its infrastructure 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 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, 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.

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.

3. Significant accounting policies, continued

(h) Revenue recognition, continued

(ii) Interest income

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

(i) Employee benefits

(i) Short-term employee benefits

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

(ii) Post-employment benefits

The FSC operates a defined contribution pension plan for certain employees. A defined contribution plan, a post-employment benefit, is a pension plan under which the FSC 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.

(j) Impairment

(i) Non-derivative financial assets

Policy applicable from April 1, 2018

The FSC recognises loss allowances for ECLs on financial assets measured at amortised cost.

The FSC measures loss allowances at an amount equal to lifetime ECLs.

Loss allowances for accounts receivable are always measured at an amount equal to lifetime ECLs.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

The maximum period considered when estimating ECLs is the maximum contractual period over which the FSC is exposed to credit risk.

3. Significant accounting policies, continued

(j) Impairment, continued

(i) Non-derivative financial assets, continued

Policy applicable from April 1, 2018, continued

Measurement of ECL

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the FSC expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the FSC assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past-due event;
- the restructuring of an amount due to the FSC on terms that the FSC would not otherwise consider;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the FSC determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the 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 recovery of amounts due.

3. Significant accounting policies, continued

(j) Impairment, continued

(i) Non-derivative financial assets, continued

Policy applicable before April 1, 2018

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

Objective evidence that financial assets were impaired included:

- 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 would 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 was a measurable decrease in the expected cash flows from a group of financial assets.

Financial assets measured at amortised cost

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

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

3. Significant accounting policies, continued

(j) Impairment, continued

(i) Non-derivative financial assets, continued

Policy applicable before April 1, 2018, continued

Financial assets measured at amortised cost, contined

An impairment loss was 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 were recognised in the consolidated statement of revenue, expenditures and other comprehensive income and reflected in an allowance account. When the FSC considered that there were no realistic prospects of recovery of the asset, the relevant amounts were written off. If the amount of impairment loss subsequently decreased and the decrease could be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss was reversed through profit or loss.

(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 that generates 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 consolidated 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 are new standards, amendments and interpretations to published standards, issued but not effective for the financial year beginning April 1, 2018 and not early adopted by the FSC:

- 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 consolidated 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 consolidated financial statements to assess the effect that insurance contracts have on the entity's consolidated financial position, financial performance and cash flows.

  IFRS 17 is initially effective for annual reporting periods beginning on or after January 1, 2022, with early adoption permitted only for entities that also apply both IFRS 9 and 15.

3. Significant accounting policies, continued

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

The FSC is currently assessing the potential future impact on its consolidated financial statements resulting from the application of IFRS 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.

4. Determination of fair values, continued

The FSC regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the FSC assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified. Significant valuation issues are reported to the Board.

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.

4. Determination of fair values, continued

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

		2019	2018
Certificates of deposit	US$	5,550,335	5,168,670
Current accounts		4,388,992	3,524,626
Savings accounts		1,136,713	1,152,141
Cash on hand		850	850
	US$	11,076,890	9,846,287

The US$5,550,335 certificates of deposit held at March 31, 2019 (2018: US$5,168,670) comprised the following:

	2019			
	Principal amount	Maturity value	Interest rate per annum	Maturity Date
	US$	US$		
CIBC FirstCaribbean International Bank (CIBC)	1,827,565	1,829,291	1.15%	April 3, 2019
CIBC	1,430,850	1,436,009	1.46%	April 16, 2019
CIBC	605,284	607,209	1.28%	April 23, 2019
RBC Royal Bank (RBC)	800,000	800,102	0.15%	April 29, 2019
CIBC	403,263	403,549	0.85%	April 15, 2019
Turks & Caicos Banking Company Limited (TCBC)	440,000	440,229	0.63%	April 30, 2019
RBC	43,373	43,384	0.10%	April 22, 2019
	5,550,335	5,559,773		

	2018			
	Principal amount	Maturity value	Interest rate per annum	Maturity Date
	US$	US$		
CIBC FirstCaribbean 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		

5. Cash and cash equivalents, continued

During the year, the savings accounts earned interest at a rate of 0.40% per annum (2018: 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, 2019	316,329	317,368	1.64%	June 11, 2019
March 31, 2018	312,826	314,011	0.77%	June 12, 2018

7. Accounts receivable

		2019	2018
Company managers	US$	294,342	520,242
Banks		62,359	–
Trust companies		20,313	10,000
Insurance providers and intermediaries		16,620	12,605
Insurance managers		16,485	–
Others		5	6,015
	US$	410,124	548,862

Movement in loss allowance can be analysed as follows:

		2019	2018
Balance at April 1	US$	82,886	–
Impairment loss recognised		143,766	85,520
Write off		(84,699)	(2,634)
	US$	141,953	82,886

During the year ended March 31, 2019, an impairment loss of US$143,766 (2018: US$85,520) 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

		2019	2018
Christmas advances	US$	65,554	74,912
Regular salary advances		45,685	57,648
	US$	111,239	132,560

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, 2019 represented investments in various US debt securities with original maturity periods ranging from one to seven years (2018: one to seven years) and nominal interest rates of 0.88% to 2.75% (2018: 0.88% to 2.88%).

		2019	2018
Face value	US$	1,500,000	1,500,000
Net premium/(discount)		1,614	(1,002)
	US$	1,501,614	1,498,998
Carrying value	US$	1,501,614	1,498,998
Less current portion		(999,631)	(599,580)
	US$	501,983	899,418

During the year the FSC earned US$22,054 (2018: US$23,821) of interest on held-to-maturity investments which was included in interest income in the consolidated statement of revenue, expenditures and other comprehensive income.

10. Prepayments and other receivables

		2019	2018
Prepayments to suppliers	US$	88,581	93,483
Other receivables		57,116	14,941
	US$	145,697	108,424

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

11. Intangible assets

		2019	2018
Software development cost:			
At beginning of year	US$	816,400	782,450
Additions		70,836	33,950
At end of year	US$	887,236	816,400
Accumulated amortisation:			
At beginning of year	US$	499,570	386,579
Amortisation for year		119,821	112,991
At end of year	US$	619,391	499,570
Carrying value	US$	267,845	316,830

The FSC has been engaged in developing an online Companies Registry (Registry) since 2006. At March 31, 2019 the associated software development costs had a carrying value of US$267,845 (2018: US$316,830). 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, 2020. 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	Office furniture	Office equipment	Computer equipment	Motor vehicles	Total
	US$	US$	US$	US$	US$	US$
Cost:						
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
April 1, 2018	2,126,450	283,209	165,969	465,496	110,048	3,151,172
Additions	–	16,904	17,102	10,463	–	44,469
Disposals	–	(2,491)	(150)	(10,184)	–	(12,825)
March 31, 2019	2,126,450	297,622	182,921	465,775	110,048	3,182,816
Accumulated depreciation:						
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
April 1, 2018	609,498	175,711	57,214	371,601	81,783	1,295,807
Depreciation	152,183	23,190	17,125	31,429	16,210	240,137
Disposals	–	(2,492)	(150)	(10,183)	–	(12,825)
March 31, 2019	761,681	196,409	74,189	392,847	97,993	1,523,119
Carrying value:						
March 31, 2018	1,516,952	107,498	108,755	93,895	28,265	1,855,365
March 31, 2019	1,364,769	101,213	108,732	72,928	12,055	1,659,697

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 building improvements located at Caribbean Place, Providenciales and its office leasehold improvements in Grand Turk comprised the following:

12. Property and equipment, continued

	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

	March 31, 2019				
	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	(130,864)	268,701
Units C11 & C12	259,650	169,775	429,425	(150,466)	278,959
Units D7 & D8	269,690	145,527	415,217	(180,934)	234,283
Units K11 & K12	327,448	339,277	666,725	(131,601)	535,124
Leasehold	–	215,518	215,518	(167,816)	47,702
	1,093,519	1,032,931	2,126,450	(761,681)	1,364,769

13. Accounts payable and accrued expenses

		2019	2018
Accounts payable	US$	259,859	200,036
Accrued employee benefits		204,084	209,669
Accrued legal fees and expenses		97,015	99,275
Statutory contributions payable		32,099	31,083
	US$	593,057	540,063

The US$204,084 accrued employee benefits at March 31, 2019 (2018: US$209,669) pertained primarily to US$155,832 (2018: US$183,491) gratuities 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.

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 that financial year, the FSC is mandated by the Ordinance to pay a sum equal to the excess to TCIG, within thirty days (fourteen days prior to March 31, 2019) 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 expected recurrent expenditure in accordance with the above requirement is the FSC budgeted expenditure for that financial year submitted to the Governor of TCI. The budgeted expenditure for the year ended March 31, 2019 was US$6,841,236.

On February 22, 2019, the Cabinet granted approval for the FSC to also retain any net surplus for the year ended March 31 2019 greater than US$3,500,000 (note 29).

During the years ended March 31, 2019 and 2018 quarterly assessments of amounts due to TCIG were conducted however payments to TCIG were not made in full within the time specified in the Ordinance. The excess payable to TCIG as at quarter ended June 30, 2018 and March 31, 2018 had not been settled in full within fourteen days as specified in the Ordinance.

On September 17, 2018 the Governor of TCI approved the establishment of a capital reserve fund of US$1,345,689. Of this amount US$1,308,412 was recognized effective March 31, 2018 and funded out of an allocation of amounts due to TCIG at that date. The balance of US$37,277 was recognised effective August 31, 2018. This amount was directly transferred to the capital reserve fund from the surplus for the period from April 1, 2018 to August 31, 2018. It is intended that 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, 2019.

During the year ended March 31, 2019 US$6,290,979 (2018: US$2,517,290) was transferred to TCIG.

		2019	2018
Due to TCIG at beginning of year	US$	3,221,858	2,918,408
Payments during the year:			
April 17, 2018		(2,500,000)	–
May 30, 2018		(474,867)	–
July 12, 2018		(2,000,000)	–
October 17, 2018		(407,652)	–
January 14, 2019		(908,460)	–
		(6,290,979)	–

14. Due to TCIG, continued

		2019	2018
Payments during 2018:			
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)
Net surplus required to be transferred to TCIG:			
April - June	US$	–	220,162
July - September		–	464,721
October - December		–	–
January - March		–	3,444,269
Per Cabinet approval on February 22, 2019		3,500,000	–
	US$	3,500,000	4,129,152
Transfer to capital reserve fund	US$	–	(1,308,412)
Amount due to TCIG at end of year	US$	430,879	3,221,858

15. Deferred income

		2019	2018
Annual licence fees	US$	989,595	998,631
Annual renewal fees		450,750	454,990
Annual maintenance fees		290,251	253,813
Land share transfer duty		130,742	–
Business name renewal fees		66,200	–
Incorporation fees		13,330	–
Government grants		–	45,143
	US$	1,940,868	1,752,577
Current portion:			
Annual licence fees	US$	989,595	998,631
Annual renewal fees		450,750	454,990
Land share transfer duty		130,742	–
Annual maintenance fees		78,424	63,843
Business name renewal fees		51,950	–
Incorporation fees		13,330	–
Government grants		–	45,143
	US$	1,714,791	1,562,607
Non-current portion	US$	226,077	189,970

15. Deferred income, continued

(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:

		2019	2018
Banks	US$	470,047	480,871
Insurance providers and intermediaries		256,775	251,000
Company managers		109,145	113,510
Trust companies		90,000	90,000
Insurance managers		24,500	24,500
Investment dealers		18,000	18,000
Money transmitters		13,128	12,750
Mutual funds and mutual funds managers		8,000	8,000
	US$	989,595	998,631

(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.

(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 2020 to 2029 (2018: 2019 to 2026).

(d) Government grants

		2019	2018
Capital Warrants Project No. 2878	US$	358,746	358,746
Accumulated amortisation: Project No. 2878	US$	358,746	313,603
	US$	–	45,143

15. Deferred income, continued

(d) Government grants, continued

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

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

As at March 31, 2019, the warrants were fully amortised.

16. Retained surplus

The retained surplus of US$956,006 at March 31, 2019 (2018: 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

		2019	2018
Annual company renewal fees	US$	4,877,890	3,420,650
Land share transfer duty		3,305,876	2,234,441
Annual licence fees		2,119,207	1,892,669
Application fees		1,043,901	930,413
Penalties and other fees		833,999	568,197
Business names registration fees		224,992	190,160
	US$	12,405,865	9,236,530

18. Staff costs

		2019	2018
Salaries and wages	US$	3,009,885	2,911,701
Insurance and health benefits		198,689	204,899
Gratuities		138,242	144,554
Contribution to defined contribution pension plan		55,484	63,937
Transportation allowances		70,331	56,281
	US$	3,472,631	3,381,372

19. Rental of buildings

		2019	2018
FSC office - Grand Turk	US$	216,000	216,000
Accommodation for Managing Director		31,625	30,000
	US$	247,625	246,000

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

		2019	2018
Legal fees and expenses	US$	15,450	141,698
Consultancy and other fees		42,003	53,653
	US$	57,453	195,351

In the ordinary course of the FSC's activities, the FSC is a party to several legal actions.

21. Office expenses

		2019	2018
Office supplies	US$	111,124	105,314
Cleaning services		32,427	31,224
Printing and binding		5,167	3,196
	US$	148,718	139,734

22. Directors fees and expenses

		2019	2018
Directors fees	US$	93,000	90,000
Directors expenses		40,643	35,179
	US$	133,643	125,179

23. Travel and subsistence

		2019	2018
International:			
Accommodation and subsistence	US$	62,067	42,306
Airfares		24,809	22,412
Others		1,216	2,051
	US$	88,092	66,769
Local:			
Accommodation and subsistence	US$	45,023	25,221
Air and sea fares		17,534	13,989
Others		657	804
	US$	63,214	40,014
	US$	151,306	106,783

24. Communication

		2019	2018
Line rental	US$	54,401	56,539
Telephone - local costs		28,129	23,894
Internet charges		13,853	13,194
Telephone - international costs		10,195	6,671
Postage and courier		6,538	5,955
	US$	113,116	106,253

25. Other operating expenses

		2019	2018
Bank charges	US$	28,181	28,219
Work permit expenses		24,594	14,153
Others		12,240	3,849
	US$	65,015	46,221

26. Training

		2019	2018
Academic	US$	18,333	33,494
Local		5,552	10,940
Overseas		2,990	195
	US$	26,875	44,629

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:

		2019	2018
Transactions			
NHIB contributions	US$	90,524	91,459
NIB contributions	US$	108,165	113,440
Reserve fund required to be transferred to TCIG (note 14)	US$	3,500,000	4,129,152
Payments to TCIG (note 14)	US$	6,290,978	2,517,290
Amount due to TCIG transferred to capital reserve fund (note 14)	US$	–	1,308,412
Government grants	US$	45,143	45,143
Balances			
Statutory contributions payable (note 13)	US$	32,099	31,083
Amount due to TCIG (note 14)	US$	430,879	3,221,858
Key management personnel compensation			
Short-term benefits			
Salary and benefits of key management personnel	US$	1,032,411	979,516
Accommodation for Managing Director (note 19)	US$	31,625	30,000
Directors fees (note 22)	US$	93,000	90,000
Directors expenses (note 22)	US$	40,643	35,179
Post-employment benefit			
Contributions to pension fund	US$	11,572	11,155

27. Related party balances and transactions, continued

Loans to key management personnel

		2019	2018
Beginning balance	US$	11,875	27,325
Loans advanced during year		55,416	36,500
Loan repayments received during year		(42,579)	(51,950)
Ending balance	US$	24,712	11,875

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 FSC's 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.

28. Financial instruments, continued

Risk management framework, continued

- 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.

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 only allowed 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.

28. Financial instruments, continued

(a) Credit risk, continued

The maximum exposure to credit risk at March 31 was:

		Carrying Amount	
		2019	2018
Current assets:			
Cash and cash equivalents	US$	11,076,890	9,846,287
Term deposit		316,329	312,826
Accounts receivable		410,124	548,862
Due from employees		111,239	132,560
Other receivables (note 10)		57,116	14,941
Current portion of held-to-maturity investments		999,631	599,580
		12,971,329	11,455,056
Non-current assets:			
Held-to-maturity investments		501,983	899,418
	US$	13,473,312	12,354,474

At the reporting date, the FSC had a concentration of credit risk as seventy-eight percent (78%) (2018: fifty-seven percent (57%)) of the FSC's total cash and cash equivalents and term deposit in TCI were held with CIBC.

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

		Carrying Amount	
		2019	2018
Company managers	US$	294,342	520,242
Banks		62,359	–
Trust companies		20,313	10,000
Insurance providers and intermediaries		16,620	12,605
Insurance managers		16,485	–
Others		5	6,015
	US$	410,124	548,862

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

		Carrying Amount	
		2019	2018
Providenciales	US$	404,109	525,262
Grand Turk		6,015	23,600
	US$	410,124	548,862

28. Financial instruments, continued

(a) Credit risk, continued

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:

		2019		2018	
		Gross	Impairment	Gross	Impairment
Past due					
Not later than one month	US$	443,421	34,000	543,062	–
Later than one month but not later than three months		550	–	5,800	–
Later than three months		108,106	107,953	82,886	82,886
Outstanding but not past due		–	–	–	–
	US$	552,077	141,953	631,748	82,886

During the year ended March 31, 2019, an impairment loss of US$143,766 (2018: US$85,520) 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 other 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:

	2019	2018
US Treasury bonds	AA+; Aaa	AA+; Aaa

28. Financial instruments, continued

(a) Credit risk, continued

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:

		2019	2018
Turks and Caicos Islands			
Cash and cash equivalents	US$	11,076,890	9,846,287
Term deposit		316,329	312,826
		11,393,219	10,159,113
United States of America			
Held-to-maturity investments		1,501,614	1,498,998
	US$	12,894,833	11,658,111

(b) Liquidity risk

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

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

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.

28. Financial instruments, continued

(b) Liquidity risk, continued

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

	2019			
	Carrying amount	Contractual cash flows	Under 1 year	> 1 year
	US$	US$	US$	US$
Cash and cash equivalents	11,076,890	11,086,329	11,086,329	–
Term deposit	316,329	317,368	317,368	–
Accounts receivable	410,124	410,124	410,124	–
Due from employees	111,239	111,239	111,239	–
Other receivables	57,116	57,116	57,116	–
Held-to-maturity investments	1,501,614	1,528,055	1,011,475	516,580
Accounts payable and accrued expenses	(593,057)	(593,057)	(593,057)	–
Due to TCIG	(430,879)	(430,879)	(430,879)	–
	12,449,376	12,486,295	11,969,715	516,580

	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

(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.

28. Financial instruments, continued

(c) Market risk, continued

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:

		2019	2018
Fixed rate instruments:			
Financial assets			
Certificates of deposit	US$	5,550,335	5,168,670
Term deposit		316,329	312,826
Held-to-maturity investments		1,500,000	1,500,000
	US$	7,366,664	6,981,496

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$73,667/(US$73,667) (2018: US$69,815/(US$69,815)) assuming all other variables remained constant.

		2019	2018
Variable rate instruments:			
Financial assets			
Savings accounts	US$	1,136,713	1,152,141
	US$	1,136,713	1,152,141

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$11,367/(US$11,367) (2018: US$11,521/(US$11,521)) assuming all other variables remained constant.

28. Financial instruments, continued

(c) Market risk, continued

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.

	2019			
	Carrying Amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
	US$	US$	US$	US$
Cash and cash equivalents	11,076,890	–	–	–
Term deposit	316,329	–	–	–
Accounts receivable	410,124	–	–	–
Due from employees	111,239	–	–	–
Other receivables	57,116	–	–	–
Held-to-maturity investments	1,501,614	1,501,614	–	–
Accounts payable and accrued expenses	(593,057)	–	–	–
Due to TCIG	(430,879)	–	–	–

	2018			
	Carrying Amount	Fair Value Level 1	Fair Value Level 2	Fair Value 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)	–	–	–

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 thirty days (previously 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. The payment term was extended from fourteen days to thirty days from the last working day of the quarter effective March 31, 2019.

Management have determined that the most appropriate measure of expected recurrent expenditure in accordance with the above requirement is the FSC budgeted expenditure for that financial year submitted to the Governor of TCI. The budgeted expenditure for the year ended March 31, 2019 was US$6,841,236.

On February 22, 2019, the Cabinet granted approval for the FSC to also retain any net surplus for the year ended March 31 2019 greater than US$3,500,000 to facilitate the construction of a building to house the Commercial Registry in Grand Turk, TCI. The net surplus for year ended March 31, 2019 was US$6,918,977 and, as such, the amount of US$3,381,700 being the surplus greater than U$3,500,000, less the US$37,277 transferred to capital reserve fund, was retained in the reserve fund at March 31, 2019. Accordingly, the reserve fund of US$10,222,936 at March 31, 2019 represented the budgeted recurrent expenditure for the year ended March 31, 2019 of US$6,841,236 and the excess surplus above US$3,500,000 for the year ended March 31, 2019 of US$3,381,700.

		2019	2018
Reserve fund at April 1	US$	6,841,236	7,060,087
Net surplus for year transferred to reserve fund		3,381,700	(218,851)
Reserve fund at March 31	US$	10,222,936	6,841,236

Net surplus for year transferred to reserve fund:

		2019	2018
Net surplus for year transferred to reserve fund:			
Net surplus for year	US$	6,918,977	3,910,301
Transfer to TCIG		(3,500,000)	(4,129,152)
Transfer to capital reserve fund		(37,277)	–
	US$	3,381,700	(218,851)

30. 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.

31. 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. Recognising the difficulty of settling the accounts within fourteen days, the time period was increased to thirty days effective March 31, 2019.

During the years ended March 31, 2019 and 2018 such payments to TCIG were not always made in full within the time specified in the Ordinance.