

# ***TURKS AND CAICOS ISLANDS***

***BEAUTIFUL BY NATURE***

---

## ***FINANCIAL SERVICES COMMISSION***

***ANNUAL REPORT 2010***

*Reporting Period April 1, 2009 to March 31, 2010*

---

*Turks and Caicos Islands*

*Financial Services Commission: [Annual Report 2010](#)*

---

***DIRECTORS OF THE FINANCIAL SERVICES COMMISSION***



***Left to Right: Kevin Higgins (Managing); Gordon Kerr; Stanley Sanford Lightbourne (Chairman); Oswald Simons; Earle Malcolm; Munro Sutherland and Delton Jones (PS Finance, missing from photo)***

---

**Turks and Caicos Islands**

**Financial Services Commission: *Annual Report 2010***

---

***Directors and Senior Management***

**BOARD OF DIRECTORS**

*Stanley Sanford Lightbourne – Chairman*

*Delton Jones – Permanent Secretary, Ministry of Finance*

*Gordon Kerr – Director*

*Oswald Simons – Director*

*Earle Malcolm – Director*

*Munro Sutherland – Director*

*J. Kevin Higgins – Managing Director*

**SENIOR MANAGEMENT**

*Kenisha Bacchus – Head, Mutual Funds, Investment Dealers & Company Managers*

*Derek St. Rose – Head, Insurance*

*John James – Registrar of Companies, Patents, Trademarks & Business Names*

*Marlon Joseph – Head, Banks and Trusts*

*Desmond Morrison – Head, Finance & Administration*

*Cathrice James – Head, Information Technology*

*Deborah Ashton – Deputy Registrar of Companies*

*Nadene Harvey – Office Manager*

---

**CONTENTS**

	<b>Page</b>
<b>SECTION A</b>	
<b>Report of the Commission</b>	
<i>Profile of the Directors</i>	1 - 1
<i>Chairman's Report</i>	2 - 4
<i>Managing Director's Report</i>	5 - 13
<i>Finance Report</i>	14 - 21
<i>Departmental Report:</i>	
<i>Banks, Trusts and Money Transmitters</i>	22 - 26
<i>Insurance</i>	27 - 28
<i>Companies Registry, Trademarks Registry and Patents Registry</i>	29 - 31
<i>Mutual Funds, Investment Dealers and Company Managers</i>	32 - 33
<i>Operations Support and Administration</i>	34 - 36
<b>SECTION B</b>	
<b>Audited Financial Statements</b>	
<i>Auditors' Report</i>	1-1
<i>Consolidated Balance Sheet</i>	2-2
<i>Consolidated Statement of Revenue and Expenditure</i>	3-3
<i>Consolidated Statement of Changes in Sources of Funding</i>	4-4
<i>Consolidated Statement of Cash Flow</i>	5-5
<i>Notes to the consolidated Financial Statements</i>	6-19
<b>SECTION C</b>	
<b>Statements of Policies</b>	
	<b>Appendix</b>
<i>Directors' Code of Conduct</i>	I
<i>Code on Conflicts of Interest</i>	II

---

*Turks and Caicos Islands*

*Financial Services Commission: [Annual Report 2010](#)*

---

## ***SECTION A***

### ***REPORT OF THE COMMISSION***

---

*Profile of the Directors*

**Stanley Sanford Lightbourne**

*Mr. Lightbourne is a banker by profession, having worked for almost thirty (30) years with various local and international banks. Mr. Lightbourne, who has since retired as an active banker, is the chairman of the Financial Services Commission and he sits on the Investment Committee of the National Insurance Board.*

**Delton Jones**

*Mr. Jones is an economist by profession and is the Permanent Secretary in the Ministry of Finance.*

**Oswald Simons**

*Mr. Simons is a retired banker whose career has spanned over thirty (30) years with various banking groups. Mr. Simons is the current chairman of the Turks and Caicos Investments Agency.*

**Earle Malcolm**

*Mr. Malcolm is the chairman of the Human Resources Committee of the Board of the*

*Commission and he is also a director of various other government entities.*

**Gordon Kerr**

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

**Munro Sutherland**

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

**J. Kevin Higgins**

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

***Chairman's Report***

***The Big Picture***

*The Financial Services Commission continued to do its job against the backdrop of a deepening recession and international financial crisis. The period also saw financial strains and sharply lower levels of economic activity in the local economy resulting in difficult trading conditions for many businesses.*



**Chairman of the FSC Stanley Sanford Lightbourne**

*In consequence, the Commission took various steps to increase the level and*

*intensity of its financial oversight and other monitoring supervision of many licensed institutions.*

*In one case, that of TCI Bank Limited, the economic slowdown combined with the effects of some longer term weaknesses within the bank itself resulted in the Commission taking some far reaching measures to try and save the bank from collapse. However, these measures were not enough and this led, shortly after the end of the financial year, to the appointment of provisional liquidators. The Commission had been working closely with the bank's Board and management in seeking to find a solution but in the end had no alternative but to have recourse to the Courts, in the face of mounting losses and severe liquidity problems faced by the bank.*

*Among other things, this sad outcome underlined deficiencies in the current Banking Ordinance which served to limit the effectiveness of the Commission's supervisory and intervention actions. These matters are currently under careful review in order to ensure that any lessons are indeed learned. Consultation with the industry is also underway, including on the*

***Chairman's Report***

*wider aspects of the institutional framework in place in the Turks and Caicos Islands. One such aspect is deposit protection and insurance. The authorities are committed to putting in place a framework for banking supervision that is appropriate to this jurisdiction, while also being in compliance with the relevant international standards.*

*The Commission continued to devote considerable time and effort to helping to ensure that the Turks and Caicos Islands is able to respond effectively to a number of international initiatives, including the pressure from the G20 to extend the availability of Tax Information Exchange Agreements (TIEAs). In addition there was the push to correct the previously identified weaknesses in aspects of the jurisdiction's AML/CFT requirements.*

*The Board had a generally busy year, given in particular the problem cases that it had to consider. These included matters in relation to British American Insurance Company (BAICO) and CLICO (BAICO had been put under judicial management in the previous reporting period). In addition, the continuing issues in relation to OLINT and*

*TCI FX Traders which have been proving challenging, were also addressed, the board calling for these companies to be put into compulsory liquidation.*

*Notwithstanding the problems, significant strides were made throughout the period to strengthen the Commission's capacity to deal with events such as those arising out of the TCI Bank scenario and the financial strains occasioned by the international financial crisis. It was against this backdrop that the Board approved the commissioning of the Organizational Review which was recommended previously by the Human Resources Committee of the Board. The consultants carried out the assignment over a six (6) month period and we have acted upon most of the recommendations made in their report.*

*In addition, the board was strengthened with the addition of an overseas based director who comes to us with vast experience in regulation and governance of the financial services sector. The board will be seeking to focus on the emerging issues of corporate governance and risk management as they relate to the FSC as*



***Chairman's Report***

well as to the broader financial services sector over which it sits. Towards this objective, a ***Directors' Code of Conduct*** and a ***Code on Conflicts of Interest*** were prepared.

***The Way Forward***

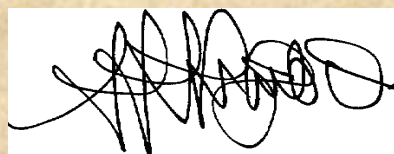
The Commission has started on the journey to bringing its regulatory capacity up to where it should be. To this end the staff complement will be further increased to deal with this. The Board determined that to enhance effectiveness it made sense for a major part of the Commission's activities to be relocated to Providenciales to be alongside the financial services industry. This project is now proceeding to plan and all attempts are being made to ensure that the acquisition of the new offices is completed by the second quarter in the next financial year. However, it should be noted that the Commission will seek to maintain a strong presence in Grand Turk as its Companies Registry will continue to be located there. This is critical so as not to

totally disrupt the economy of that island.

Going forward, the Board will seek to focus its attention on the following areas:

1. Corporate governance;
2. Banking and insurance legislation;
3. The wider banking regime and
4. The ongoing AML/CFT issues.

In closing I, along with my fellow directors, thank the management and staff of the FSC for continuing to push forward in helping to strengthen the regulatory capacity of the Commission. They are a dedicated team and we pledge our support to them for the task and challenges which lie ahead.



.....  
Sanford Lightbourne  
Chairman, Board of Directors

***Managing Director's Report***

*While the past year proved extremely challenging, the FSC was nonetheless able to continue to make progress in strengthening its supervision and oversight of the financial sector. Particular challenges arose in the areas of compliance and enforcement. On the other hand, much*



**Managing Director of the FSC J. Kevin Higgins**

*was achieved by way of enhancing further the regulatory framework and we saw the Commission asserting itself more as a*

*strong, effective and independent regulator.*

*As had been promised in the previous period, the organizational review was addressed as it was fundamental to the Commission's operations going forward. The Board had decided that external consultants should review the Commission's operational structure to ensure that it was best placed to meet the growing number of critical objectives set for it. On May 4, 2009 bids were invited for consultants to apply to conduct the review. The successful bidder was required to abide by the following terms of reference:*

- 1. Determine the adequacy and or appropriateness of the current structure and any shortcomings it has;***
- 2. Examine the job specifications and their relevance to each staff's role and***
- 3. Examine salaries levels for adequacy in compensating staff for work performed and set ranges for each post.***

**Managing Director's Report**

Focal Point Consultants submitted the winning bid and they were duly contracted to carry out the assignment. The work was done over a six (6) months period. The final report of the consultants was accepted by the board of directors in January 2010. Among the recommendations of the report is that the Commission's staffing levels need to be further expanded, with a number of additional posts to be added. The costs of these additional resources were reflected in the budget for the year 2010/2011 submitted to the Governor, who gave approval for the requisite resources to be recruited.

The review included recommendations for some upgrading and adjustments in salary scales, based on comparisons with employees in similar jobs, and these changes were endorsed and implemented as from April 2010. In addition, it was recommended that the Finance and Administration Departments be merged.

I am happy to report that the long promised Employee Pension Plan was implemented with effect from April 1, 2009. As provided for in the Employment Manual, a defined contribution plan was established which provides that an employee will be fully vested with the Commission's contributions

after ten (10) years and seventy five (75) percent vested after five (5) years. Benefits are provided to be made at the normal retirement age of 60.

**Compliance and Enforcement**

Significant efforts were made during the period to increase oversight and routine supervision, having regard (in particular) to the economic slowdown and the perceived risk of problems for regulated financial institutions. To this end greater resources were applied to conducting onsite reviews. In addition, the decision was taken to increase the reporting arrangements for various types of licensees, namely the introduction of quarterly reporting for the following entities:

1. Insurance entities such as
  - a) Domestic Insurers
  - b) Agents and Subagents
  - c) Brokers;
2. Licensed Trustees and
3. Money Transmitters.

These returns will include information regarding assets, liabilities, revenues and expenses (and for insurance entities the reserves position (if applicable)).

*Managing Director's Report*

There was a change in the decision taking processes for licensing whereby most applications are no longer required to be considered directly by the Board. This is part of the streamlining process, intended to make the Commission more efficient in its operations while also managing its risks properly. This matter is now being dealt with at the management level and the new License Committee is composed as follows:

- i. Managing Director;*
- ii. Heads of regulatory departments;*
- iii. Head of Finance and Administration.*

Meetings are being held twice per month.

Also, as part of the enhancement of the compliance function, a **License Database Management System** was commissioned to provide the following features:

- i. Type of license held by licensee;*
- ii. Date of issue of the license;*
- iii. Group to which the licensee belongs;*
- iv. Date of last compliance examination and*
- v. Details in respect of restricted deposits required*

***to be held by the licensee.***

Substantial supervisory resources had to be devoted to TCI Bank Limited during the year, and in particular, the second half of the year as the scale of its developing problems became more acute. In view of its grave concerns, the Commission conducted special examinations of the bank and subsequently took enforcement action under Section 37 of the Financial Services Commission Ordinance in an attempt to stabilize the position. The Commission also worked closely with the bank's incoming Board and senior management throughout the early part of 2010 in ongoing efforts to introduce fresh funding to restore the bank to profitability. Sadly, however, these efforts were unavailing and, shortly after the end of the period under review, it became necessary to ask the Courts to appoint provisional liquidators.

The Commission continued to address issues in relation to Olint, TCI FX Traders, BAICO and CLICO. We are happy to report that BAICO was successfully dealt with, the local branch being sold to another locally registered entity, which partnered with a Bahamian firm, to acquire the portfolio.

In regard to Olint and TCI FX Traders, the

## **Turks and Caicos Islands**

### **Financial Services Commission: *Annual Report 2010***

---

#### ***Managing Director's Report***

*Commission has been made a defendant in a lawsuit filed in Florida arising out of the issues surrounding the collapse of both entities. The suit is being vigorously defended with the AG's chambers acting on behalf of the FSC. The companies are, however, in official liquidation.*

*It was determined that credit unions were operating outside of the regulatory framework and it was considered prudent that they be brought into the regulatory ambit of the Commission. As a result the Commission is looking to the international community for guidance in dealing with these entities. It is hoped that within the next fiscal period legislation will be introduced to parliament to provide for regulation of credit unions.*

#### ***Measures to Protect the Industry***

*As Managing Director, I participated in a review of the Overseas Territories by the Foot Review Team. The Foot Report made a number of recommendations addressed to the different Overseas Territories, with particular focus on making regulation more effective and on financial sector crisis management and resolution. Some of the recommendations related to the continuing development of governance processes within the FSC and to the need to continue*

*to broaden and deepen its regulatory expertise. These are matters that the Commission has very much in its sights and which are part of its ongoing action plans. In the area of crisis management, too, the report offered some cogent recommendations, notably with regard to such matters as the completeness of legal powers to deal with problem institutions, particularly where they are seen as systemically important. Here, too, the Commission is looking carefully at the recommendations and what can be learnt from the recent experience of other regulators in dealing with market dislocations and other crisis situations. As part of this, too, the Foot Report encouraged consideration of schemes for the protection of retail depositors as well as ombudsman schemes. A deposit insurance scheme had previously been identified as something that could add value in TCI in helping to reduce the risks of a sudden loss of confidence affecting one bank, with the potential risk of contagion spreading to other banks and financial institutions; and the FSC had previously invited the banking industry to give consideration to how such a scheme might best be introduced. With the emergence of serious difficulties in TCI Bank, Government also saw clear merits in pursuing such a scheme and instructed the Com-*

***Managing Director's Report***

mission to give priority to drafting relevant legislation. After the end of the period under review, this was the subject of consultations with the banking industry. Discussions remain ongoing.

***Amendments to Laws and Regulations***

The primary focus of our legislative initiatives during the year was to correct the weaknesses identified by CFATF in its last assessment as regards the non-enforcement of existing financial legislation and or deficiencies therein. The primary piece of legislation to be amended in this regard was the Proceeds of Crime Ordinance (POCO). It was argued by CFATF that the AML Code did not have the appropriate force of law. It was therefore decided to entrench the provisions of the Code into the Ordinance in satisfaction of this criticism.

The said Ordinance was further amended to provide for the Commission being the oversight agency for the Designated Non-Financial Businesses and Professions (DNFBPs). This decision was made after considering all the choices between the FSC, MLRA, FCU and the Gaming Authority. It was determined that the Commission has the best manpower and regulatory framework to undertake this task, at least

during the immediate short-term. This additional work will require special funding and as such the Government will be approached to provide the necessary support. A special unit will be established within the Commission to carry out this task. As at this year end the groundwork to establish the unit had not commenced.

It is proposed that a further amendment to the Proceeds of Crime Ordinance will be required to bring charitable organizations within the framework of AML regime.

Other legislative changes during the year were in respect of amendments to the various financial regulations for fee increases in respect of:

- 1. Companies;***
- 2. Insurance entities***
- 3. Banks***
- 4. Company Managers and***
- 5. Trustees***

***Participation & International Co-operation***

The Commission continued to have interactions with the international regulatory bodies and agencies. Meetings and discussions were held with the Overseas

***Managing Director's Report***

*Territories Regulatory Group and the International Organization of Securities Commissions (IOSCO). As usual regular contact continued to be made with CFATF.*

*Memorandums of Understanding (MOUs) are being encouraged as part of the regulatory framework and as such these are being pursued with other jurisdictions in the region.*

*CARTAC has provided invaluable guidance through its regular training opportunities and we use this medium to place on record our grateful thanks to them and their staff.*

*The Head of Mutual Funds, Investment Dealers and Company Managers participated in the jurisdiction's successful negotiation of several Tax Information Exchange Agreements (TIEAs) with various European Countries. We thank her for her hard work in this area.*

***Governance***

*As part of the attempts to improve its governance framework, the board of directors has requested that each head of department address the board at twice yearly intervals on his or her activities and plans in respect of the department for which*

*he or she is in charge. In addition, provision has been made for the board to conduct reviews of the organization by way of financial or operational audits, as it sees fit.*

***Relocation***

*The Commission is actively pursuing its plans to have a stronger presence in Providenciales and has contracted to buy additional premises there. This will enable it to relocate its banking and insurance departments during 2010, as a matter of priority. The phased relocation of the Commission will enhance the operational efficiency of the regulator, allowing the regulatory staff to be closer to the industries which they supervise. The Commission will however continue to have its important Companies Registry located in Grand Turk.*

***Training***

*Focus continues to be placed on training of staff to better equip them for a more demanding and effective function. A multi-pronged approach is being taken in this regard with internal, local and international means being adopted to ensure that staff are re-engineering themselves to fit into the framework of the new Financial Services Commission. Details of the training undertaken are given elsewhere in this*

***Managing Director's Report***

report.

*The Commission has also taken the view that its mandate includes ensuring that the industry has a cadre of professionals who are cognizant of the events and/or regulations which currently impact their operations. To this end it has begun to institute a training programme in this regard. A seminar is therefore planned for May 21, 2010 to encompass the international best practice in anti-money laundering and counter terrorist financing. The seminar will also include updating the industry on legislative developments.*

***Departmental Review***

*The overall banking sector remains strong with strong liquidity ratios and risk assets to total capital ratios being well above the required minimums as set out in either the Banking Ordinance or Banking (Capital) Regulations. Apart from the situation with TCI Bank, we are generally satisfied with the condition of the sector as a whole but will still continue to keep a close watch on it, applying all the modern supervisory tools to include the use of sensitivity analysis, stress testing and forecasting. There were no new banking licenses issued during the review period.*

*The insurance department was significantly upgraded and its regulatory supervision enhanced. Additional staff was brought in to provide data analysis support. The filing system was re-organized and relevant data regarding licensees were uploaded to the new database. Enhanced oversight has been put in place for the insurance sector with the requirements for insurance companies to file quarterly returns with effect from September 2009.*

*Producer Owned Reinsurance Companies (PORCs) continue to provide the bulk of activity in the insurance sector with 311 of 322 new licenses granted to that group. The portfolio of British American Insurance Company (BAICO) was successfully transferred to a domestically licensed entity toward the end of the financial year. Continued focus will be placed on the insurance sector in the coming periods.*

*There has been a marked increase in the monitoring of the trusts and trustees licensed in the jurisdiction, with significant support being obtained from overseas consultants in this regard. The Trustee Licensing Regulations were amended in September of 2009 to set out clearly in law the requirement of trustees to have a*



## Turks and Caicos Islands

### Financial Services Commission: *Annual Report 2010*

#### *Managing Director's Report*

minimum capital base of \$250,000. In addition, supervision of this sector was transferred to the banking department during the latter part of the year.

The Companies Registry department continues to be where the bulk of the activity takes place at the Commission. Major focus of activities in this area during

**Table 1** below gives a summary of the significant regulatory activities which took place during the review period.

The finances of the Commission remain relatively strong with reserves standing at approximately \$3.8M at the year end. The auditors have determined that the Commission has another year (to March 31,

Type of Activity	Banks	Insurance Companies	Trusts	Company Managers	Money Transmitters	Mutual Funds	Invest. Dealers	Total
------------------	-------	---------------------	--------	------------------	--------------------	--------------	-----------------	-------

New Licenses	-	322		3	1	-	1	327
Inspections	5	-	3	-	-	-	-	8
Revocation/ Surrender	-	-	1	6	-	-	-	7
Other Regulatory Action	2	3	-	-	-	-	-	5

**Table 1**

#### **Activities (Regulatory) by Type**

the period was to ensure that the Registry database is complete and accurate and to this end there was a cross-matching of data with the companies' management department. In addition policies were put in place to ensure that the individuals and entities requiring a business name to do business are appropriately registered.

2011) in which to bring its reserves up the required 100% under the provisional arrangements of the Financial Services Commission Ordinance 2007.

#### **Looking Ahead**

The FSC will be continuing to push ahead with the enhancement of its regulatory

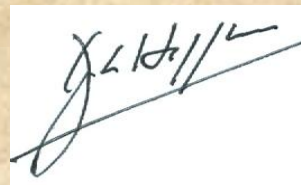
***Managing Director's Report***

*framework, consistent with the key recommendations of the Foot Report and action plans on which we are engaged. To this effect it is planned to increase the staff complement to a minimum of forty two (42) from the present thirty (30). The KRegistry System should get underway sometime in the new financial year as Phase 1 has already been completed.*

*Amendments will be sought to relevant laws to (1) provide for penalties and interest for non-compliance (2) provide for the FSC to have a floating reserve in line with its operational budget and (3) introduce the regulations as are required by the FSC Ordinance. In addition, a complete redrafting of the banking and insurance*

*legislations will be undertaken to bring them in line with current trends.*

*I take this opportunity to thank the board of directors for their continued confidence in my leadership. I also wish to thank the staff of the Commission for providing the necessary support and together we commit to the jurisdiction a strong, efficient and effective regulatory body.*



.....  
*J. Kevin Higgins*  
*Managing Director*

***Departmental Report - Finance***

*The major thrust of activities in the Department for the fiscal year under review was geared towards the adoption of the “Accrual Basis” of accounting for revenues. Under this basis all revenues in relation to licensing activities were, with effect from April 1, 2009, accounted for by the issuing of an invoice to licensees. This was applied to the following entities:*

- 1. Banks**
- 2. Trust Companies**
- 3. Money Transmitters**
- 4. Company Managers**
- 5. Mutual Funds and Mutual Funds Administrators**
- 6. Investment Dealers and Advisors and**
- 7. Specified insurance entities.**

*Fees in relation to the Companies, Patents and Trademarks Registries and Business Names will continue to be accounted for on a cash-received basis.*

*The new policy was first applied to the Money Transmitters in December, as those annual fees are due by the end of that month. All licensees complied with the payment request and the full amount receivable under this category was collected. For the remainder of entities the*

*payment deadline was March 31, 2010. However, not all those entities were compliant resulting in a receivables amount at the fiscal year end. As suggested in the previous Report, instructions were given to the AG’s Chambers to amend the ordinances to provide for penalties to be imposed for the non-payment or late payment of license fees. Those provisions have not yet been enacted.*

*During the latter part of the third quarter of the fiscal year the FSC commissioned the development of software that will be used for two functions:*

- 1. Track legal compliance on certain matters by the licensee such as the submission of audited financial statement; solvency and compliance statements and matters in relation to restricted deposits and**
- 2. Assist the Finance Department in tracking annual fee payments.**

*The database was completed before the year-end but not all the data were up-loaded. It is hoped that the database will be fully functional by the end of the first quarter of the next financial year.*

**Turks and Caicos Islands**

**Financial Services Commission: Annual Report 2010**

**Departmental Report - Finance**

The financial results for the year showed the Commission collecting core revenues amounting to \$6,465,969 compared to the budgeted amount of \$4,821,093. The resulting variance of \$1,644,876 was 34% above the original budgeted amount. On a comparative basis, the outcome for fiscal year 2009/2010 was 44% higher than the outturn for the previous fiscal year 2008/2009.

<b>Income by Category<sup>1</sup></b>	<b>2009/2010</b>	<b>2008/2009</b>	<b>% Increase 09/10 v 08/09</b>
Insurance	653,964	264,385	147
Banking	397,000	194,875	104
Trusts	78,000	52,500	49
Company Managers	163,000	62,366	161
Money Services	28,000	44,000	-36
Registries	4,587,005	3,724,522	23
Funds & Dealers	88,000	6,500	1,254
Share Transfer/ Stamp Duty	471,000	136,649	245
Total Core Revenues	6,465,969	4,485,797	44
Other Revenues	90,985	126,413	-28
<b>Total Revenues</b>	<b>\$6,556,954</b>	<b>\$4,612,210</b>	<b>42</b>

**Table 2**  
**Comparative Revenues by Category**

**Table 2** (above) gives a breakdown of the revenue by category for this and the previous period.

<sup>1</sup> Application Fees (where applicable) and Annual Fees Combined

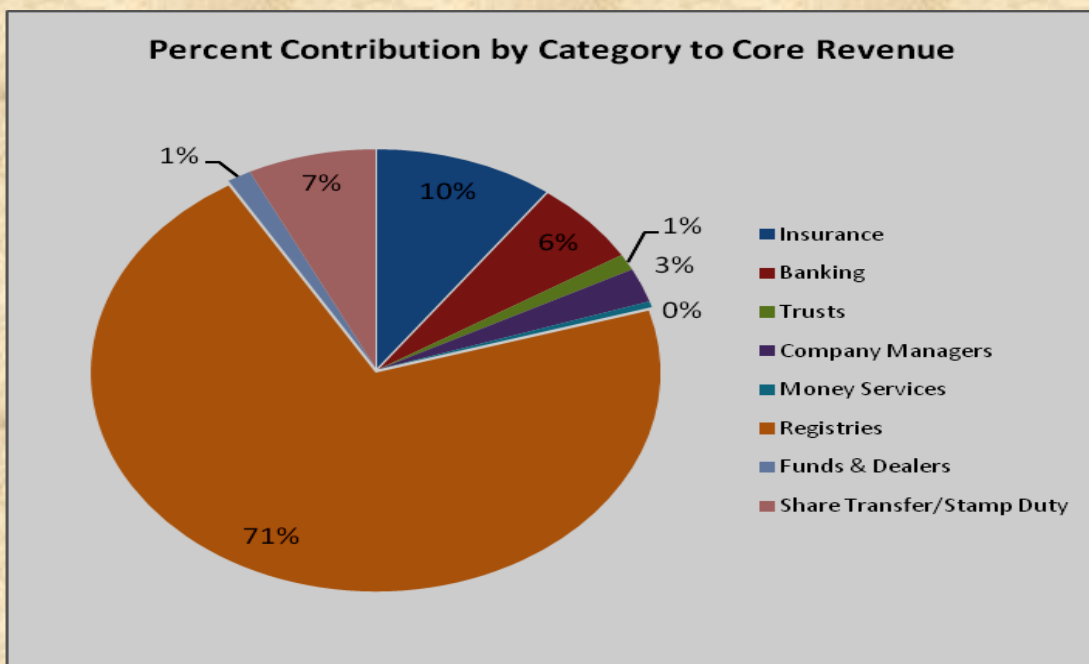
---

*Departmental Report - Finance*

The strong performance of 2009/2010 compared to that of 2008/2009 can be attributed to two (2) factors:

- 1. The increase in fees which took effect in September 2009 and**
- 2. The issuing of invoices meant that most revenues were booked.**

From a pictorial perspective, one can gauge the percentage contribution of each income category to total core revenues by reference to the under-mentioned chart.



**Chart 1**  
**Percentage Contribution by Income Category**

All fees received in respect of each category have been taken into consideration. Registries, as used in the legend, refer to the Companies Registry, Trademarks Registry and Patents Registry. The term also includes Business Names. These Registries combined accounted for 71% of the total revenues earned. The insurance sector follows accounting for 10% of the revenues. In the

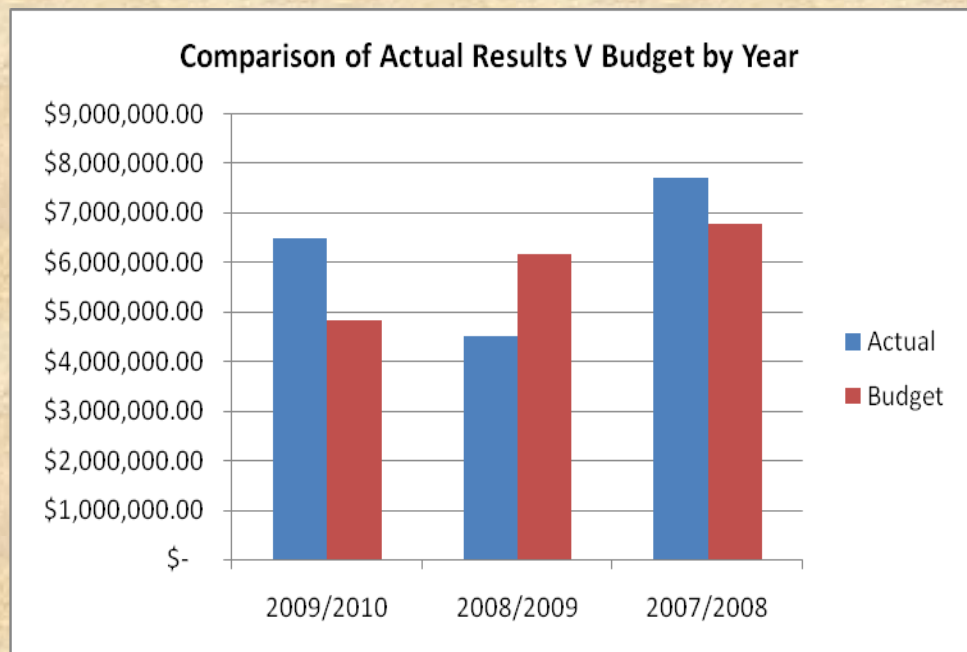
**Turks and Caicos Islands**

**Financial Services Commission: Annual Report 2010**

**Departmental Report - Finance**

corresponding period 2008/2009, the Registries accounted for 83% of total core revenues and the insurance department 6%. Based on the data the increase in the percentage contribution of the insurance department is due to the fee increases which took effect in the third (3<sup>rd</sup>) quarter of the fiscal year. The percentage contributions of the banking and company management sectors all increased over the previous year for the same reasons. These increased fees have allowed for a greater recovery of incurred operational and supervisory costs of the Commission on a sector by sector basis.

**Chart 2** gives a comparison of the actual and budgeted results for the periods 2007/2008 to 2009/2010. It shows that for all the periods except 2008/2009 the actual results were above the budgeted amount.



For 2007/2008 the actual results included a Government Subvention of \$1,050,000. This was the last amount received from the Central Government. It should also be noted that the amounts received from Land Share

**Chart 2 Actual Revenues compared to Budgeted Revenues for the periods 2007/2008 to 2009/2010**

Transfer Duty in the period 2007/2008 represented 30% of total core revenues for that period while for the period 2008/2009 it represented a mere 3% and in the current period only 7%.

Despite the increase in incorporation fees the amount returned for incorporations was below that of the previous year by 26%. When analyzed from a unit perspective, the fall in the number

*Departmental Report - Finance*

of companies incorporated was 36%, moving from 1,584 in the previous period to 1,011 in the current period.

For the period September 2009 to March 2010 an amount of \$4,850 was added to revenues for sundry fees charged to insurance entities. These are new fees and relate to amendment of business plans, changes in directors and officers and changes in shareholders. Provision is made in the insurance regulations for a charge to be levied for due diligence [in relation to change of directors, officers and shareholders] carried out by the Commission but this was not imposed.

One significant change which came into effect during the latter part of the period was that in relation to Business Names. The Treasury announced that, effective immediately, all applicants for a Business License will have to submit a Business Name Registration Certificate, obtainable from the Companies Registry. This resulted in a significant jump in activity in this area, albeit small in terms of dollar value. Four Hundred and Sixty Four (464) Business Names were registered compared to just Seven (7) in the previous period.

The current fee charged is just \$13.50 for each Business Name. It is proposed to make amendments to this ordinance in the following manner:

- 1. Increase fees to \$50 for each business name and**
- 2. Shorten the renewal period from three (3) years to one (1).**

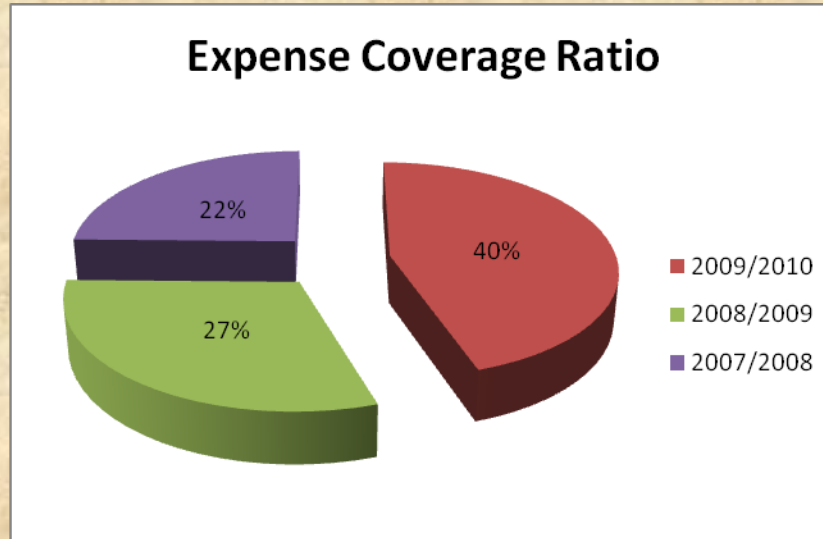
These changes, if implemented, will therefore increase the revenues from this category well in excess of the \$6,264 earned in the current period.

Total expenses as a percentage of adjusted revenues (total revenues less Government subvention, if any), termed "**Expense Coverage Ratio**", are summarized in **Chart 3** (turn to page 19 overleaf to see chart). The observed trend in the ratio is in keeping with expectations. As the workload of the Commission increases more employees are engaged and this results in a higher overhead expense ratio.

---

*Departmental Report - Finance*

The observed increasing trend in the 'expense coverage' ratio in **Chart 3** is in keeping with expectations. As the workload of



the Commission becomes heavier more employees are engaged and this results in a higher overhead expense ratio.

**Chart 3**  
**Total expenses to Revenues**

Key expenses and their ratios (in percentages) are reproduced in **Table 3** below:

Key Expenditure (By Class)	Percentage of Total by Period		
	2009/10	2008/09	2007/08
Staff and Directors Costs	66	65	64
Travel & Subsistence	4	7	8
Depreciation	3	4	4
Subscription/Contributions	2	4	2
Professional Fees	8	2	2
Training	1	0	1
Other	17	17	19
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

**Table 3**  
**Key Expense as Percentage of Total Expense**



## **Turks and Caicos Islands**

### **Financial Services Commission: *Annual Report 2010***

---

#### *Departmental Report - Finance*

*The table shows that staff and directors costs accounted for about two-thirds of all overhead expenses, moving from 64% in 2007/2008 to 66% in 2009/2010. Professional fees have shown the greatest increase over the period and this can be explained by the increased focus being placed on obtaining expert third party consultations and advice, including assistance in conducting specialized examination of licensees.*

*For the coming year 2010/2011, the Commission is expected to see an expansion in its expenditure base, as outlined in the approved budget, and in keeping with its drive to upgrade its regulatory capabilities.*

*Core Revenues are projected to increase marginally by just about 4% to \$6.7M in the next financial year.*

*Total assets stood at \$6M as at the financial year end with cash and cash equivalents standing at \$5.3M or just about 88% of total assets.*

*Total liabilities stood at \$1.9M, of which \$1.7M or just about 89% was due to the Government for its share of the surplus for the year end.*

#### **Reserves**

*The Auditors have determined that under the FSC Ordinance 20007 the reserves fund under the provisional arrangements should stand at \$2.8M as at March 31, 2010. This figure represents 66% of the required amount to be in the fund as at that date. They have further provided that by March 2011 the figure will then move up to 100% of the amount that will be required to cover a full year's expenditure as a form of cushion. Total reserves (reserve fund under the 2007 Ordinance and prior years retained surplus) now stand at \$3.8M.*

#### **Departmental Training**

*In the beginning of the financial year 2008/2009 an accounting training manual was developed for the Finance Department's staff. Both the theoretical and practical aspects of the accounting system, and its use by the Department, were examined. In the year under review a draft manual was started for the said department which would deal with the revenue side of the Commission's activities. Staff will be provided with information in an easy to understand format on the legal framework in which each department operates*

***Departmental Report - Finance***

and the associated fees, penalties and interest, if any, which are applicable arising out of its work. The thrust of this exercise will therefore be twofold:

- 1. Codify all the revenues of the Commission into one reference document and***
- 2. Act as a training guide for the departmental staff to fully appreciate the work that the Commission undertakes.***

It is hoped that this exercise will be completed in the second quarter of the next financial year.

As part of the development of staff working in the department, the Financial Controller participated in an onsite examination in relation to a banking entity and one relating to a trust company. Practical experience was gained in the conduct of such activities and the related report writing. It is hoped that he will in turn give staff in that department an insight into this regulatory aspect of the Commission's work. The focus, therefore, is to have a technically well trained, efficient and productive staff

dealing with the financial affairs of the Commission.

***The Way Forward***

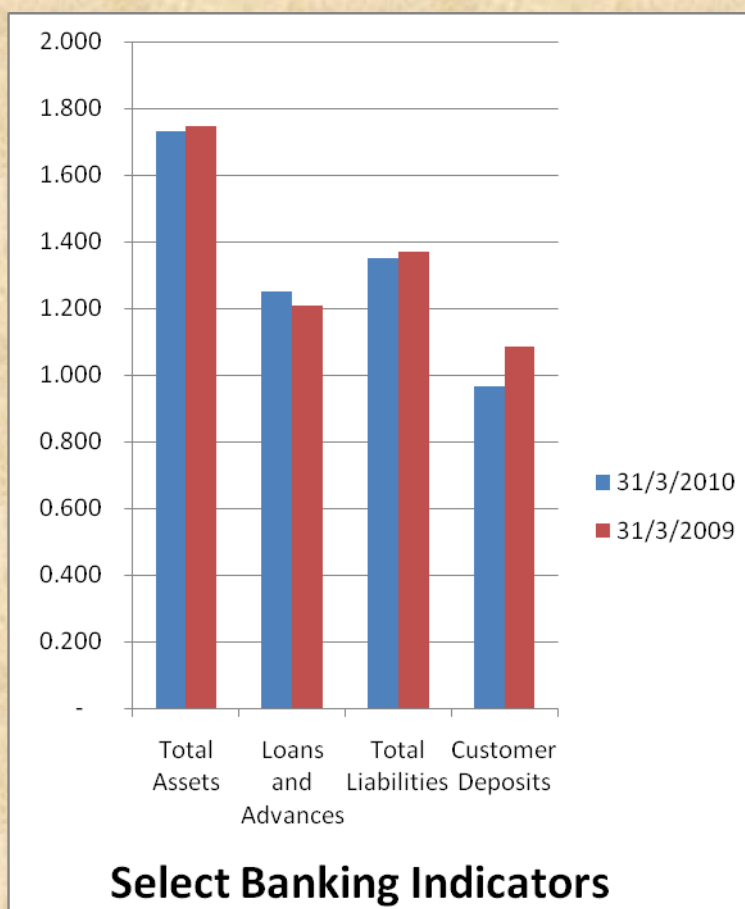
With the changes arising out of the Review of the Organizational Structure, during the last quarter of the financial year the department was expanded to include office administration and human resources. This move should result in greater organizational efficiency and improve accountability as the reporting lines have been reduced.

Special focus will be placed on risk management as it relates to the revenue base of the Commission. This will involve the use of systems to manage and control the revenues. This will be greatly aided by the commissioning of the KRegistry for management of companies incorporations and annual filings and the use of the licenses database for licensed entities (such as banks, insurance companies, trust companies, etc.).

As the Commission expands to meet the challenges of its mandate the department will continue to play its role in meeting common targets and acting as a support for the Commission's various stakeholders.

***Departmental Report - Banks, Trusts & Money Transmitters***

*The total assets of the banking sector stood at \$1.73B at the end of March 2010 compared to \$1.74B at the end of March 2009, a decline of 1% over the corresponding period.*



**Chart 4**

***Select Comparative Banking Data (In US\$B)***

*The asset structure remained relatively stable except for a shift in the Loans and Advances sector increasing from 69% of total assets as at March 2009 to 72% as at the end of the current period. Balances due from financial institutions represented 21% of the total at March 2010, decreasing from a high of 25% in the previous year.*

## **Turks and Caicos Islands**

### **Financial Services Commission: *Annual Report 2010***

---

#### **Departmental Report - Banks, Trusts & Money Transmitters**

Loans and advances were \$1.249B at March 31, 2010 compared to \$1.207B in the prior period. Lending to the Resident population increased some 7% over the previous period while advances to Non-Residents showed a decline of 16% in the said period. The loan book continues to be dominated by real estate exposure which accounted for some 65% of total advances. Of this amount 35% was to the Building Construction Industry while 30% was to individuals for Owner Occupied Residences. **Chart 4** (page 22) provides a representation of these data.

The total non-capital liabilities of the banking sector were \$1.35B at the end of the reporting period compared to \$1.37B for the corresponding period. Customer deposits accounted for 72% of total liabilities for this period compared to 79% in 2009. In absolute terms the customer deposit figures were \$967M and \$1.084B respectively. Other significant non-capital liabilities were Balances Due to Financial Institutions outside of the Turks and Caicos, which was some 26% of such liabilities in the current period and 19% in the prior.

Aggregate capital decreased by 2% to \$345M from \$351M at the end of the previous year. The reduction in capital was

due to increased provisions for loan losses which had to be booked by the banking sector as a whole up to the period March 2010. The figures, when disaggregated, showed that Statutory Reserves increased by some 55% during the period but there was a fall in reported profitability.

The minimum liquid assets to deposits ratio and capital to risk assets ratio (capital adequacy ratio) set by the Ordinance is 12% and 11% respectively. These ratios were comfortably exceeded by the banking sector with the latter ratio coming out at 27%. The capital adequacy ratio has remained stable over the last three (3) years but reflected a marginal decline over 2009. This decline is explainable by the fall in the capital base of 2% referred to above and the increase in the loan portfolio as a percentage of total assets, which carries a higher risk weighting.

The return on average assets (ROA), which is internationally recognized as a measure of a bank's efficiency and profitability, was 2%. There was a reduction from 80% to 78% in interest income as a percentage of total income for the review period. Other Income increased from 19% to 21%. Net Interest Margins (interest on loans and investments

## **Turks and Caicos Islands**

### **Financial Services Commission: *Annual Report 2010***

---

#### ***Departmental Report - Banks, Trusts & Money Transmitters***

*less interest paid) declined over the period. A higher charge for loan loss provision during the period, in addition to a reduced net interest margin, resulted in the sector showing reduced profitability.*

*Recognizing the growing pressure on asset quality and earnings within the banking sector, the Commission stepped up its supervision, in particular, conducting sharply increased levels of inspection. In addition, the Commission sought to enhance the efficiency of the oversight function in relation to trust entities by transferring the supervision of trustees to the banking department. In so doing, greater analysis was conducted on submissions made by trusts and trustees. As part of this drive trustees were required to submit quarterly returns to the department indicating total assets under management and other relevant data.*

*Additional resources also had to be devoted to the supervision of TCI Bank Limited, where it became necessary to intervene to deal with serious weaknesses identified in its operations. Close contact was maintained with the management, board of directors and shareholders of the bank with a view to correcting these weaknesses.*

*A total of five (5) inspections were carried out on the banking sector while three (3) trust companies were examined. The areas to which keen attention was paid during these reviews were:*

- *Group Structure*
- *Capital Adequacy*
- *Corporate Governance*
- *Credit Portfolio*
- *Investments and*
- *Anti-Money Laundering/Know Your Customer Compliance.*

*There were no banking licenses issued during the year. One (1) trust company had its license revoked while a license was issued to a money transmitter. **Chart 5** (overleaf) gives a breakdown of the number of licenses which were in effect as at March 31, 2010, in relation to the banking, trust and money transmitters divisions of the department.*

*Legislative changes which took effect during the year were:*

1. *Those to increase fees for the banks and trust companies and*
2. *Amendments to the Trustees*

**Turks and Caicos Islands**

**Financial Services Commission: *Annual Report 2010***

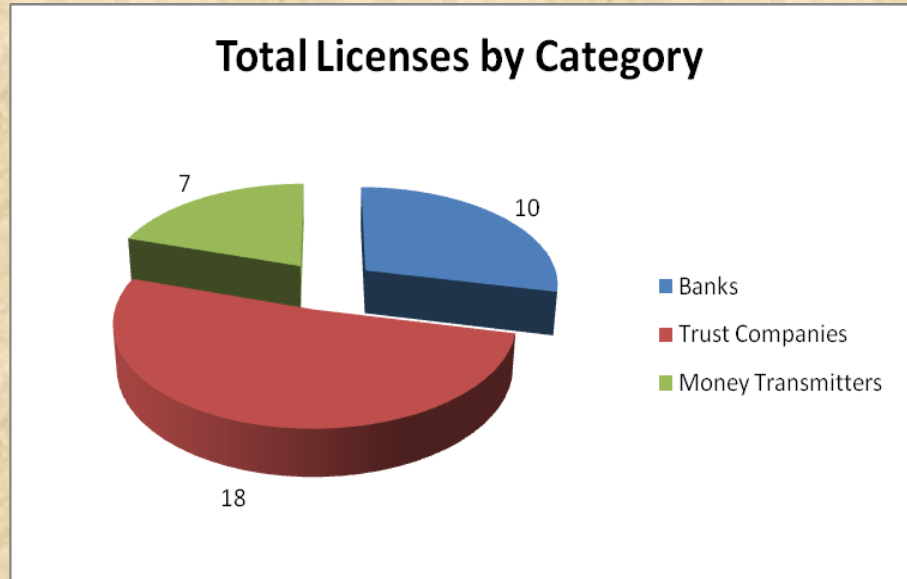
***Departmental Report - Banks, Trusts & Money Transmitters***

*Licensing Regulations to make clear and specific provisions for a minimum capital of \$250,000 that licensed trustees are required to have.*

*Fit and Proper Guidelines were promulgated for the sector. The Fit and Proper Test guidelines issued in August 2009 were intended to establish minimum “fit and proper” criteria for individuals connected with an applicant for licensing and a license holder. Some of the key elements of the Commission’s “fit and proper” standards involve all relevant consideration relating to a person’s:*

- Competence and ability which includes inter alia work experience, track record, appropriate knowledge, qualifications and skills;*
- Character which includes key elements such as probity, honesty, integrity and reputation of the person concerned;*
- Past record of compliance with relevant laws, rules, regulations, codes or guidelines whether in the territory or overseas; and*
- Previous business connections and practices.*

*In addition, a Politically Exposed Persons Guideline was also published. The Politically Exposed Persons (PEPs) guidelines issued in August 2009 were intended to assist license holders and other relevant persons achieve compliance with the statutory requirements relating to PEPs as outlined as in the Proceeds of Crime Ordinance 2007, the Anti-Money Laundering and Prevention of Terrorist Financing Regulations 2009 (the “Regulations”) and the Anti-Money*



**Chart 5**  
*Number of Licenses in Effect by Division as at March 2010*

***Departmental Report - Banks, Trusts & Money Transmitters***

*Laundering and Prevention of Terrorist Financing Code 2009 (the “Code”). The guidelines detail a risk management system which includes identification of a customer or potential customer who is a PEP or an associate of a PEP and subsequent enhanced monitoring of their activity. Additional enhanced monitoring includes:*

- Approval of all new business relationship with PEPs at the board or senior management level;*
- Increased scrutiny in determining the source of wealth and of funds;*
- Establishing a rationale for the business relationship;*
- Frequent reviews of a PEPs business transactions and relationship commensurate with the nature and volume of business activity; and*
- Periodic re-verification of clients due diligence information with the objective of identifying new PEPs and new associates of PEPs.*

*These are important statements of the FSC’s approach in these areas and of its expectations of persons operating in the licensed sector. The Commission sees it as important for it to provide clarity to the industry with regard to requirements imposed under the Ordinance and it will be going further in developing such guidance, in consultation with the industry.*

*We foresee for the sector increased oversight to safeguard the interest of stakeholders. As a result the Commission is further enhancing its capacity in this regard by:*

- ❖ Seeking out the assistance of consultants in the area of trust regulation;*
- ❖ Hiring of more full time staff for the banking division who have a track record of performance in regulation and*
- ❖ Relocating its regulatory arm to be closer to the industry.*

*Departmental Report*

**Insurance**

The insurance industry in the Turks and Caicos Islands continues to be dominated by the reinsurance sector. **Table 4** below reproduces the data on participants in the industry as at the end of the review period

enforcement actions were taken. Cessation of New Business Orders were issued to these companies, two (2) being in respect of CLICO and BAICO, as a result of the events which transpired during the last reporting

<i>Total Licenses in Effect as at March 31, 2010 by Category</i>							
<b>Total</b>	<b>Reinsurers</b>	<b>Captives</b>	<b>Domestic</b>	<b>Brokers</b>	<b>Agents</b>	<b>Subagents</b>	<b>Managers</b>
<b>4,972</b>	<b>4,700</b>	<b>220</b>	<b>20</b>	<b>8</b>	<b>6</b>	<b>10</b>	<b>8</b>

<i>Licenses Issued by Category during the Period April 1, 2009 to March 31, 2010</i>							
<b>Reinsurers</b>	<b>Captives</b>	<b>Domestic</b>	<b>Brokers</b>	<b>Agents</b>	<b>Subagents</b>	<b>Managers</b>	
<b>322</b>	<b>311</b>	<b>8</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>0</b>

**Table 4**  
**New and Outstanding Insurance Licenses**

as well as new licenses issued during the year. It shows that about 95% of total licenses at the end of the year were issued to reinsurers in the Producer Owned Reinsurance Company (PORC) category.

During the review period a total of three (3)

period. As had been pointed out previously, CLICO was placed under provisional liquidation in the Bahamas. British American (BAICO) was itself placed under judicial management. The local arm of the latter entity (BAICO) was successfully sold to another insurance entity which was



*Departmental Report - Insurance*

*incorporated and licensed for that purpose. That entity is a joint venture between interests in the Turks and Caicos Islands and the Bahamas. With the sale of BAICO, the enforcement order was lifted.*

*One enforcement order was in respect of an insurance broker which had failed to comply with the provisions of the Insurance Ordinance as it relates to submission of required documents. This order was subsequently lifted once the requirements were met.*

*While the Commission has been working for some time on the development of a new insurance ordinance to replace the current legislation, a number of recent developments in best practice internationally have caused it to revise its strategy. Instead of a single new ordinance, it is proposed to introduce separate legislation for the domestic industry, alongside a new regime for the offshore industry. Initial priority is being given in that regard to the legislation for the domestic industry. At the same time, a new enhanced reporting regime for the domestic sector has also been developed and was introduced in September 2009, involving new quarterly reporting. This allows the*

*Commission to apply enhanced monitoring of the financial condition of domestic insurers, and hopefully to provide early warning of any emerging problems or strains.*

*The varied jurisdictions of the Caribbean are pushing to find more innovative and robust means of dealing with the supervision of cross-border institutions and complex structures such as what obtained with the CL Group (which had a significant fallout). The various regional regulators are therefore tasked with the efforts to develop means for addressing such issues and foster co-operation. To this end Memorandum of Understandings (MOUs) are being aggressively pursued by these bodies with each other.*

*The department has seen the challenges which face the jurisdiction and as such steps have been taken to increase its regulatory capacity. New staff have been contracted to help with the analysis of financial data relating to insurance entities. Increased training will also be addressed in the upcoming financial year. The department is positioning itself to provide the supervision and guidance required to safeguard and develop the industry.*

**Departmental Report**

**Companies Registry, Patents and Trademarks**

**Companies Registry**

The weak international economic climate has continued to impact the jurisdiction in relation to companies incorporated here. The year saw a thirty six percent (36%) fall in the number of incorporations, as compared with the previous financial year. This is even higher than the twenty seven

It also shows the percent reduction in one period compared to the previous. The Companies Registry staff embarked on an exercise to update the filing system in order to accommodate the KRegistry which is scheduled to be implemented sometime during the latter part of 2010. In this regard

Company Type	2009/2010	2008/2009	2007/2008
Exempt	704	1,032	1,369
Ordinary	286	483	755
Foreign	14	57	14
Limited Partnerships	5	10	18
Limited Life Companies	2	2	0
<b>Total No.</b>	<b>1,011</b>	<b>1,584</b>	<b>2,156</b>
<b>Percent Reduction</b>	<b>36%</b>	<b>27%</b>	<b>N/A</b>

**Table 5**  
**Incorporations by Company Type**

(27%) decline in the 2008/2009 period when compared to the period for 2007/2008. **Table 5** above gives a summary of the number of incorporations by company type over the three (3) periods highlighted.

a representative of the software developers was in the islands to conduct training for the staff. The Deputy Registrar visited the jurisdiction of Bermuda in order to gain first-hand experience with how their

## **Turks and Caicos Islands**

### **Financial Services Commission: *Annual Report 2010***

---

#### ***Departmental Report – Companies Registry, Patens & Trade Marks***

*Registry was able to launch and utilize the features of this system.*

*The Registrar attended a two (2) day workshop in Trinidad in relation to database management. This will be helpful in relation to the database aspects of the KRegistry once it is implemented. Arising out of this workshop the Registrar was able to make certain recommendations to the Commission in upgrading its database management systems. Amongst the recommendations was that a database system be implemented for the input of all files stored at the archive. This will capture the following;*

- ❖ Date of filing of the record;*
- ❖ The retention time from the initial storage date;*
- ❖ Date of return of file to the Registry on reinstatement;*
- ❖ Date for destruction of the file after expiry of the retention date and*
- ❖ Shelf/location number of the file.*

*It was recommended that the legislation be changed to reduce the retention time of files from ten (10) years to five (5). This will aid in file management as there are currently over 38,000 inactive files at the archive.*

*Going forward the Registry will seek to have two (2) of its staff members attached to other registries within the region to get cross jurisdiction training and exposure. This will ensure that the Registry can benefit from experience elsewhere in order to enhance its efficiency in servicing the local community.*

#### ***Trademarks***

*There was a 34% reduction in the number of trademarks registered over the previous period. Two Hundred and Ninety Marks (290) were registered this period compared to Four Hundred and Thirty Nine (439) in the prior period.*

*New Regulations providing for a \$100 annual fee for registered trademarks are not yet in force, but should be introduced during the current year.*

*In addition the trademarks rules to accompany the 2007 Trademarks Ordinance are being prepared by the Registrar for submission to the Attorney General's chambers for drafting and implementation in the next review period. The old rules are still being used.*

***Departmental Report – Companies Registry, Patens & Trade Marks***

**Patents**

*Activity in this area remains at a very low level. This is due primarily to the fact that all patents must first be registered in the UK or the European Union before it can be accepted for registration in the Turks and Caicos Islands. The Turks and Caicos patent law only extends those rights which are allowed in the UK.*

**Business Names**

*The law dealing with the registration of business names was not being enforced in the islands. A recommendation was made by the Registrar and, in consultation with the Business Licensing Authority, a procedure was put in place that all business*

*operators must be in possession of a valid business name certificate before a business license is granted or renewed. As a result of this change there was an increase in activity in this area with the registration of four hundred and ninety (490) names compared to only nine (9) in the previous period.*

*It has been tentatively agreed to make an amendment to the fees charged in the next financial year. The proposed fee will be \$50, up from the current \$14. In addition, it is proposed that the renewal period for a business name certificate be reduced from three (3) years to one year (1).*

**Departmental Report**

**Mutual Funds, Investment Dealers & Company Managers**

The major thrust of regulatory activity for the department was the initiative to ensure that all company managers submit the required lists of all companies for whom they act and that such lists are in accordance with information held by the Companies Registry. Checks were made to ensure that companies on the lists were in

also shows the number of licensed entities which the department supervises at the beginning and end of the reporting period.

Some licensees fell short of the standard required of them in terms of compliance by failing to either:

*License by Type under this Department*

Activity	Company Management	Mutual Funds	Mutual Funds Administrator	Investment Dealers	Total
At 31/3/2009	41	6	4	8	59
New Licenses	3	0	0	1	4
Revoked	-4	-1	-1	0	-6
Surrendered	-2	0	0	-1	-3
At 31/3/2010	38	5	3	8	54

**Table 6**

**Departmental Regulatory Activities**

compliance with the relevant ordinances and the defunct companies were removed.

1. Pay the Annual Fees on time or
2. Submit Compliance Certificate or
3. Provide proof of possession of

**Table 6** gives a synopsis of activities which were undertaken in relation to licensees and

***Departmental Report – Mutual Funds, Investment Dealers & Company Managers***

*valid Professional Indemnity insurance.*

*Provision is being made in the draft regulations under the FSC Ordinance to include penalties under these circumstances.*

*The Head of the Department continues to assist with the work of the Money Laundering and Reporting Authority (MLRA) and compliance with the Financial Action Task Force standards on the detection and deterrence of money laundering and terrorist financing activities. In addition, assistance continues to be provided by this department with the Commission's attempts to deal with the criticisms of the last CFATF assessment. Plenaries that were held in Trinidad in May 2009 and Curacao in November 2009 were attended. In relation to the jurisdiction's*

*drive to enter into a number of Tax Information Exchange Agreements, the Head also assisted the government in that regard. A number of such agreements were negotiated and signed with the assistance of the Commission.*

*Training is considered critical in the drive to increase efficiency and the standard of supervision. In this regard the Department Head attended an in-house legal counsel training seminar in Trinidad in September 2009. Other training events are planned early in the next financial year.*

*Additional staff was taken on during the period and this has greatly assisted the work of the department. This will aid as it is proposed that for the next review period a target of 15-20 percent of licensees will be examined for compliance with the laws, regulations, codes and guidelines.*

## **Departmental Report**

### **Operations Support and Administration**

#### **Information Technology**

*The information Technology Department continues to provide vital support for the frontline staff by helping the Commission access data internally and connect with the rest of the world. In addition it keeps the Commission at the forefront of technology.*

*During the year the department oversaw the development and implementation of an Oracle based database management system for all licensed entities. The information captured in this database allows the regulators in each department to easily access information and analyze reports as it relates to their sector as well as the other regulated sectors.*

*The department, in conjunction with the Companies Registry, implemented the first phase of the KRegistry System. This system will be used to enhance the delivery of services by the Registry. The first phase involves the back-capturing, via scanning, of all paper documents held in the Registry. The second phase is expected to be implemented early in the next financial year. This phase will allow the professional service providers to do a company search on*

*names and make reservations. The other aspect of the system, KReview, is also expected to be completed and implemented for use by the regulators in the next financial year.*

*The Head of the department attended a seminar in Guyana in relation to IT Skills Examination. The contents of the seminar will allow the department to better evaluate the effectiveness of the systems environment, including data security.*

*Going forward, the department will focus on the following areas:*

- 1. Assist the Registry in developing and implementing an Archive System, which will capture all files that have been placed in the Archive;*
- 2. Redevelop the FSC website to make it more user friendly, more informative and more appealing;*
- 3. Develop and expand the Business*

**Departmental Report**

*Continuity plan and the Disaster Recovery plan and*

4. *Adopt the internationally accepted Control Objectives for Information and related Technology (COBIT). The Information Technology Department personnel plan to receive training and certification in COBIT which will ensure the alignment between its information technology and business goals.*

**Administration**

*The Commission saw an increase of 20% in its staff complement with the addition of two (2) full staff members and three (3) temporary members. This brought the complement from twenty five (25) at the end of the previous period to thirty (30) at the end of the current one. **Table 7** gives a breakdown of the complement by department.*

	<b>2009/2010</b>	<b>2008/2009</b>
<b>Department</b>	<b>No. of Employees</b>	<b>No. of Employees</b>
<i>Managing Director's</i>	2	2
<i>Mutual Funds, Investment Dealers, Company Management</i>	2	1
<i>Insurance</i>	4	3
<i>Banking, Trusts and Money Transmitters</i>	3	3
<i>Companies Registry, Patents Registry and Trademarks Registry</i>	10	8
<i>Finance and Administration</i>	6	7
<i>Information Technology</i>	3	1
<b>Total</b>	<b>30</b>	<b>25</b>

**Table 7**  
**No. Employees by Department**



**Departmental Report**

*The Insurance department hired an analyst to deal with the analysis of financial statements as well as assist with other compliance issues. The Mutual Funds, Investment Dealers and Company Management department added a compliance officer. Additional external support was provided by the use of two (2) consultants throughout the year to assist with the conduct of onsite bank and trusts reviews.*

*Training continues to be an important focus*

*of the Commission and to this end various internal and external training exercises were carried out. The areas in which training was focused included: in-house legal; database management; bank and trust examinations; information systems and KRegistry. It is also proposed to conduct training for the industry within the next few months of the new financial year in relation to AML and Know Your Customer (KYC) requirements as part of the Proceeds of Crime monitoring and reporting regime.*

*Turks and Caicos Islands*

*Financial Services Commission: [Annual Report 2010](#)*

---

## ***SECTION B***

### ***AUDITED FINANCIAL STATEMENTS***

---

# **FINANCIAL SERVICES COMMISSION**

**Consolidated Financial Statements  
For the Year Ended March 31, 2010**

**AUDITORS' REPORT**

**To the Board of Directors of the Financial Services Commission**

We have audited the accompanying consolidated financial statements of the Financial Services Commission and its subsidiary (the Group), which comprise the balance sheet as at March 31, 2010 and the statements of revenue and expenditure, changes in sources of funding and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes.

***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

***Opinion***

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Group as at March 31, 2010 and the results of its operations and the cash flow for the year then ended in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers* Ltd.

Chartered Accountants  
Providenciales

Date: *OCTOBER 21, 2010*

**Financial Services Commission**  
**Consolidated Financial Statements**  
**For the Year Ended March 31, 2010**

---

**C O N T E N T S**

	Page
Auditors' Report	1
Consolidated Balance Sheet	2
Consolidated Statement of Revenue and Expenditure	3
Consolidated Statement of Changes in Sources of Funding	4
Consolidated Statement of Cash Flow	5
Notes to Consolidated Financial Statements	6-19

# Financial Services Commission

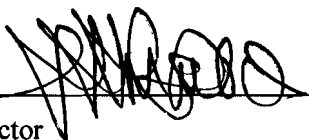
## Consolidated Balance Sheet

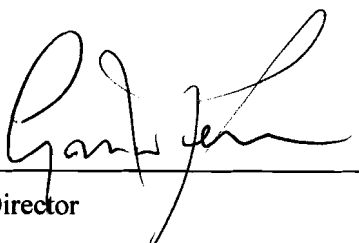
As at March 31, 2010

(Expressed in United States Dollars)

	2010 \$	2009 \$
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	5,292,624	3,929,285
Trade Receivables	66,622	-
Prepayments (Note 5)	282,361	343,076
Staff advances (Note 6)	66,087	97,106
	<u>5,707,694</u>	<u>4,369,467</u>
Fixed Assets (Note 7)	291,986	293,180
<b>Total Assets</b>	<u><u>5,999,680</u></u>	<u><u>4,662,647</u></u>
<b>LIABILITIES AND SOURCES OF FUNDING</b>		
<b>Current Liabilities</b>		
Accounts payable (Note 9)	1,716,308	2,274,352
Accruals	147,248	174,098
Deferred income (Note 10)	9,691	20,699
Advances for due diligence (Note 11)	-	1,400
	<u>1,873,247</u>	<u>2,470,549</u>
Deferred Income (Note 10)	285,940	295,631
<b>Total Liabilities</b>	<u><u>2,159,187</u></u>	<u><u>2,766,180</u></u>
<b>Sources of Funding</b>		
Reserve fund	2,884,487	940,461
Retained surplus	956,006	956,006
	<u>3,840,493</u>	<u>1,896,467</u>
<b>Total Liabilities and Sources of Funding</b>	<u><u>5,999,680</u></u>	<u><u>4,662,647</u></u>

Approved for issuance on behalf of the Board of Directors of the Financial Services Commission on October 21, 2010. The Board of Directors does not have the power to amend the financial statements after issue.

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

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

**Financial Services Commission**  
**Consolidated Statement of Revenue and Expenditure**  
**For the Year Ended March 31, 2010**  
**(Expressed in United States Dollars)**

	2010 \$	2009 \$
<b>Income</b>		
Gross revenue	6,465,968	4,485,797
Transfer to TCI Government	(2,216,308)	(1,849,416)
Share of revenue retained	4,249,660	2,636,381
Release of government grants	20,698	25,517
Interest and other income	70,287	100,896
<b>Total Income</b>	<b>4,340,645</b>	<b>2,762,794</b>
<b>Expenditure</b>		
Staff costs (Note 12)	1,476,610	1,180,690
Professional and consultancy fees	195,796	21,074
Rental of buildings	104,736	88,730
Travel and subsistence (Note 13)	101,758	133,578
Depreciation	70,303	66,203
Office expense (Note 14)	67,225	40,512
Repairs and maintenance expense (Note 15)	62,142	39,655
Provision for bad debts	53,500	-
Utility charges (Note 16)	45,217	36,984
Communication expense (Note 17)	43,251	37,737
Insurance (Note 18)	38,600	29,131
Subscriptions and contributions (Note 19)	37,826	66,036
Audit and accounting	30,524	19,470
Training	13,610	7,040
Security expense	5,031	3,390
Other operating and administrative expenses (Note 20)	50,490	52,103
<b>Total Expenditure</b>	<b>2,396,619</b>	<b>1,822,333</b>
<b>NET SURPLUS</b>	<b>1,944,026</b>	<b>940,461</b>

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

# Financial Services Commission

## Consolidated Statement of Changes in Sources of Funding

For the Year Ended March 31, 2010

(Expressed in United States Dollars)

	Reserve fund \$	Retained surplus \$	Total \$
As at April 1, 2008	-	956,006	956,006
Comprehensive income:			
Net surplus	-	940,461	940,461
Transfer to reserve fund	940,461	(940,461)	-
<b>As at March 31, 2009</b>	<b>940,461</b>	<b>956,006</b>	<b>1,896,467</b>
Comprehensive income:			
Net surplus	-	1,944,026	1,944,026
Transfer to reserve fund	1,944,026	(1,944,026)	-
<b>As at March 31, 2010</b>	<b>2,884,487</b>	<b>956,006</b>	<b>3,840,493</b>

Under the terms of the amended Financial Services Commission Ordinance and the transitional provisions thereto, the Financial Services Commission (FSC) is entitled to create a reserve fund to cover expected recurrent expenditure as follows:

	Percentage of expected recurrent expenditure
Year ended March 31, 2008	0%
Year ended March 31, 2009	33%
Year ended March 31, 2010	66%
Year ended March 31, 2011 and onwards	100%

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



# Financial Services Commission

## Consolidated Statement of Cash Flow

For the Year Ended March 31, 2010

(Expressed in United States Dollars)

	2010	2009
	\$	\$
<b>Operating Activities</b>		
Net surplus	1,944,026	940,461
Depreciation	70,303	66,203
Gain on disposal of fixed assets	-	(14,973)
	<u>2,014,329</u>	<u>991,691</u>
<b>Changes in working capital other than cash and cash equivalents</b>		
Trade Receivables	(66,622)	-
Staff advances	31,019	(68,624)
Prepayments	60,715	(52,940)
Accounts payable	(558,044)	(851,668)
Accruals	(26,850)	130,382
Deferred income	(20,699)	(25,517)
Advances for due diligence	(1,400)	(675)
<b>Net Cash from Operating Activities</b>	<u>1,432,448</u>	<u>122,649</u>
<b>Investing Activities</b>		
Proceeds on disposal of fixed assets	-	26,754
Computer equipment	(29,313)	(9,626)
Office furniture	(29,046)	(883)
Office equipment	(10,750)	(17,525)
<b>Net Cash used in Investing Activities</b>	<u>(69,109)</u>	<u>(1,280)</u>
<b>Net Increase in Cash and Cash Equivalents</b>	1,363,339	121,369
<b>Cash and Cash Equivalents at Beginning of Year</b>	3,929,285	3,807,916
<b>Cash and Cash Equivalents at End of Year</b>	<u>5,292,624</u>	<u>3,929,285</u>

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

# Financial Services Commission

## Notes to Consolidated Financial Statements

For the Year Ended March 31, 2010

---

### 1. General Information

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

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

On March 23, 2010 FSC established a 100% owned subsidiary "FSC Property Holdings Co. Ltd." for the purpose of holding real estate assets. As at March 31, 2010 only cash was held within the subsidiary.

The FSC operates primarily out of the Harry E. Francis Building, P.O. Box 173, Pond Street, Grand Turk, Turks and Caicos Islands, British West Indies.

### 2. Summary of Significant Accounting Policies

#### *Basis of Preparation*

The consolidated financial statements of the FSC have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards (IFRS). The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates, and requires management to exercise its judgement in the process of applying the accounting policies. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimations are significant to the consolidated financial statements are disclosed in note 4.

*Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the FSC*

The FSC has elected to not early adopt any standards, amendments and interpretations to existing standards as these are not relevant or will not have a material impact on the consolidated financial statements.

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

#### **(a) Cash and Cash Equivalents**

Cash and cash equivalents consist of cash in hand, cash held on account with the Company's lawyer, balances with banks and other financial institutions with original maturities of three months or less and fixed deposits held with banks and other financial institutions with original maturities of twelve months or less. Fixed deposits can be readily converted into cash with the loss of interest at any time.

# Financial Services Commission

## Notes to Consolidated Financial Statements

For the Year Ended March 31, 2010

---

### 2. Summary of Significant Accounting Policies (continued)

#### (b) Fixed Assets

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

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

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

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

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of revenue and expenditure.

#### (c) Revenue Recognition

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

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

##### (i) *Financial Services Income*

Income is recognised when the right to receive payment is established. Fees collected are shown as gross revenue within the statement of revenue and expenditure and are pro-rated between the FSC and Government of the Turks and Caicos Islands in accordance with the FSC Ordinance.

##### (ii) *Interest Income*

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

# Financial Services Commission

## Notes to Consolidated Financial Statements

For the Year Ended March 31, 2010

---

### 2. Summary of Significant Accounting Policies (continued)

#### (d) Government Grants

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

#### (e) Financial Assets

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

##### *Loans and receivables*

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

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

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

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

#### (f) Accounts Receivable

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of accounts receivable is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated statement of revenue and expenditure within expenses. When an accounts receivable is uncollectible, it is written off against the allowance account for accounts receivable. Subsequent recoveries of amounts previously written off are credited against expenses in the consolidated statement of revenue and expenditure.

# Financial Services Commission

## Notes to Consolidated Financial Statements

For the Year Ended March 31, 2010

---

### 3. Financial Risk Management

#### 3.1 *Financial risk factors*

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

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

##### (a) *Cash flow and fair value interest rate risks*

The FSC's interest rate risk arises from fixed deposits with fixed interest rates, which expose it to fair value interest rate risk. Fixed deposits have maturities of 12 months or less, thereby reducing fair value interest rate risk.

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

##### (b) *Credit risk*

Credit risk arises from cash and cash equivalents as well as credit exposures on outstanding receivables. Cash and cash equivalents credit risk is mitigated by only depositing with regionally recognised banks and financial institutions.

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

##### (c) *Liquidity risk*

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

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

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

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

#### 3.2 *Reserve risk management*

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

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

# Financial Services Commission

## Notes to Consolidated Financial Statements

For the Year Ended March 31, 2010

---

### 3. Financial Risk Management (continued)

#### 3.3 Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The FSC uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Techniques, such as estimated discounted cash flows, are used to determine the fair value all financial instruments.

### 4. Key sources of estimation uncertainty

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

#### (a) Annual Budget

FSC's management requires significant accounting estimates and judgements in completing the annual budget which has an impact on the allowable reserve, and revenue transferred to the TCI Government. A change in future years budgeted net income of 5% would affect the current period's allowable reserve and the revenue transferred to the TCI Government by \$144,224 (2009: \$47,023).

#### (b) TCI Bank account provision

A provision of \$13,752 was taken by management in the current period against the Company's TCI Bank account that had an account balance of \$39,292 as of March 31, 2010 (Note 20). A change in the provision of 10% would result in an impact of \$3,929. There was no provision required as of March 31, 2009.

#### (c) Accounts receivable

An allowance for doubtful accounts of \$53,500 was taken by management against accounts receivable as at March 31, 2010. A change in the allowance for doubtful accounts of 10% would result in an impact of \$12,012. There was no accounts receivable balance as of March 31, 2009.

### 5. Prepayments

This amount includes \$266,000 (2009: \$266,000) of payments to KPMG and REFLEXIS Systems Inc. for the supply of the KRegistry and KReview Application Software, in accordance with the contracts dated January 25, 2006 and February 1, 2006. As at the year-end, whilst work is ongoing in this regard, the software and databases are not yet functional.

### 6. Staff Advances

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

# Financial Services Commission

## Notes to Consolidated Financial Statements

For the Year Ended March 31, 2010

---

### 7. Fixed Assets – Current Year Analysis

	Building and improvements \$	Office furniture \$	Office equipment \$	Computer equipment \$	Motor vehicles \$	Total \$
<b>Cost</b>						
Balance as at April 1, 2009	124,550	119,009	61,393	130,620	63,554	499,126
Acquisitions	-	29,046	10,750	29,313	-	69,109
Balance as at March 31, 2010	124,550	148,055	72,143	159,933	63,554	568,235
<b>Accumulated Depreciation</b>						
Balance as at April 1, 2009	7,405	55,304	26,535	91,280	25,422	205,946
Depreciation	3,114	14,686	7,105	32,688	12,710	70,303
Balance as at March 31, 2010	10,519	69,990	33,640	123,968	38,132	276,249
<b>Net Book Value</b>						
As at March 31, 2010	114,031	78,065	38,503	35,965	25,422	291,986

# Financial Services Commission

## Notes to Consolidated Financial Statements

For the Year Ended March 31, 2010

### 7. Fixed Assets – Prior Year Analysis

	Building and improvements \$	Office furniture \$	Office equipment \$	Computer equipment \$	Motor vehicles \$	Total \$
<b>Cost</b>						
Balance as at April 1, 2008	124,550	124,796	55,085	133,251	63,554	501,236
Acquisitions	-	883	17,525	9,626	-	28,034
Disposals	-	(6,670)	(11,217)	(12,257)	-	(30,144)
Balance as at March 31, 2009	124,550	119,009	61,393	130,620	63,554	499,126
<b>Accumulated Depreciation</b>						
Balance as at April 1, 2008	4,292	45,903	24,696	70,504	12,711	158,106
Depreciation	3,113	12,157	5,189	33,033	12,711	66,203
Released on disposal	-	(2,756)	(3,350)	(12,257)	-	(18,363)
Balance as at March 31, 2009	7,405	55,304	26,535	91,280	25,422	205,946
<b>Net Book Value</b>						
As at March 31, 2009	117,145	63,705	34,858	39,340	38,132	293,180



# Financial Services Commission

## Notes to Consolidated Financial Statements For the Year Ended March 31, 2010

### 8. Comparison of Results with Budget

	Actual \$	Budget \$	Variance \$
<b>Revenue</b>			
Gross revenue	6,465,968	4,821,093	1,644,875
Transfer to TCI Government	(2,216,308)	(662,380)	(1,553,928)
Share of revenue retained	4,249,660	4,158,713	90,947
Release of government grants	20,698	-	20,698
Interest and other income	70,287	36,000	34,287
	<u>4,340,645</u>	<u>4,194,713</u>	<u>145,932</u>
<b>Expenditure</b>			
Staff costs	1,476,610	1,431,230	45,380
Professional and consultancy fees	195,796	160,000	35,796
Rental of buildings	104,736	104,606	130
Travel and subsistence	101,758	335,258	(233,500)
Depreciation	70,303	-	70,303
Office expense	67,225	39,307	27,918
Repairs and maintenance expense	62,142	261,235	(199,093)
Provision for bad debts	53,500	-	53,500
Utility charges	45,217	54,537	(9,320)
Communication expense	43,251	46,711	(3,460)
Insurance	38,600	63,575	(24,975)
Subscriptions and contributions	37,826	59,448	(21,622)
Audit and accounting	30,524	23,000	7,524
Training	13,610	195,360	(181,750)
Security expense	5,031	3,024	2,007
Other operating and administrative expenses	50,490	72,590	(22,100)
	<u>2,396,619</u>	<u>2,849,881</u>	<u>(453,262)</u>
<b>Net Surplus</b>	<u>1,944,026</u>	<u>1,344,832</u>	<u>599,194</u>

# Financial Services Commission

## Notes to Consolidated Financial Statements

For the Year Ended March 31, 2010

---

### 9. Accounts Payable

Under the terms of the Ordinance, the Government's share of revenues and any surplus in excess of recurrent expenditure is to be settled to the Government for payment into the consolidated fund. At the year-end, \$1,716,308 (2009: \$2,274,352) was due to the Government in this regard.

### 10. Deferred Income

<u>Projects</u>	Initial Capital Warrant Amounts \$	Accumulated Amortisation \$	Balance Remaining 2010 \$	Balance Remaining 2009 \$
No. 2061	72,143	59,204	12,939	18,119
No. 1905	22,833	16,554	6,279	8,561
No. 1902	7,147	5,298	1,849	2,563
No. 2714	24,693	16,129	8,564	10,078
No. 2878	308,746	42,746	266,000	277,009
<b>Total</b>	<b>435,562</b>	<b>139,931</b>	<b>295,631</b>	<b>316,330</b>

Deferred income to be released over the next 12 months will be \$9,691 (2009: \$20,699). Amounts to be released in over 12 months will be \$285,940 (2009: \$295,631).

#### a) Project No. 2061

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

#### b) Project No. 1905

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

#### c) Project No. 1902

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

# Financial Services Commission

## Notes to Consolidated Financial Statements

For the Year Ended March 31, 2010

---

### 10. Deferred Income (continued)

#### d) Project No. 2714

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

#### e) Project No. 2878

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

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

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

As at the year-end, work is still being carried out with a view to having the databases and software set up and functional as soon as feasibly possible.

### 11. Advances for Due Diligence

This amount represents amounts received from applicants to cover the costs of due diligence to be carried out relating to license applications.

### 12. Staff Costs

This can be analysed as follows:

	2010	2009
	\$	\$
Salaries and wages	1,184,003	937,344
National and National Health insurance	33,758	28,500
Allowances	41,783	38,932
Gratuities	80,906	105,036
Pension Contribution	37,108	-
Directors' fees and expenses	99,052	70,878
	<u>1,476,610</u>	<u>1,180,690</u>

See Auditors' Report - page 1

# Financial Services Commission

## Notes to Consolidated Financial Statements

For the Year Ended March 31, 2010

---

### 13. Travel and Subsistence

This can be analysed as follows:

	2010 \$	2009 \$
Accommodation and subsistence - local travel	34,582	40,510
Airfares - international travel	28,690	38,859
Accommodation and subsistence - international travel	18,742	23,134
Transport - air and sea fares	10,661	18,024
Transport - other	8,532	10,374
Other cost on international travel	551	2,677
	<u>101,758</u>	<u>133,578</u>

### 14. Office Expense

This can be analysed as follows:

	2010 \$	2009 \$
Office supplies	67,105	40,512
Cleaning	120	-
	<u>67,225</u>	<u>40,512</u>

### 15. Repairs and maintenance

This can be analysed as follows:

	2010 \$	2009 \$
General property maintenance	38,960	24,744
Maintenance - fixed assets/air conditioning	7,455	5,900
Maintenance of hardware	5,973	650
Maintenance of property	5,212	5,677
Maintenance of software	3,424	2,184
Repairs to office equipment	1,118	500
	<u>62,142</u>	<u>39,655</u>

See Auditors' Report - page 1

**Financial Services Commission**  
**Notes to Consolidated Financial Statements**  
**For the Year Ended March 31, 2010**

---

**16. Utility charges**

This can be analysed as follows:

	2010 \$	2009 \$
Electricity charges	35,212	35,805
Water charges	10,005	1,179
	<u>45,217</u>	<u>36,984</u>

**17. Communication expense**

This can be analysed as follows:

	2010 \$	2009 \$
Telephone - local cost	17,180	15,434
Line rental	11,801	12,196
Telephone - international cost	6,387	2,619
Internet charges	5,320	5,696
Postage and courier	2,236	1,181
Facsimile - local cost	236	436
Facsimile - international cost	91	175
	<u>43,251</u>	<u>37,737</u>

**18. Insurance**

This can be analysed as follows:

	2010 \$	2009 \$
Employee medical	22,898	12,382
Peril insurance	12,770	13,820
Motor vehicle insurance	2,932	2,929
	<u>38,600</u>	<u>29,131</u>

# Financial Services Commission

## Notes to Consolidated Financial Statements

For the Year Ended March 31, 2010

---

### 19. Subscriptions and Contributions

This can be analysed as follows:

	2010 \$	2009 \$
Contributions to regional institutions	23,339	39,246
Subscriptions	13,487	6,039
Contributions to international institutions	1,000	20,751
	<u>37,826</u>	<u>66,036</u>

### 20. Other Operating and Administrative Expenses

This can be analysed as follows:

	2010 \$	2009 \$
Impairment provision	13,752	-
Local hosting and entertainment	20,546	43,016
Advertising	6,613	3,950
Bank charges	4,484	3,587
Meetings and Conferences	-	1,550
Other operating expenses	5,095	-
	<u>50,490</u>	<u>52,103</u>

FSC held a cash balance of \$39,292 with TCI Bank as of March 31, 2010. TCI Bank was under provisional liquidation as of April 9, 2010, and management set up a provision of 35% of the balance based on their estimate of the recoverability thereof.

### 21. Employee Numbers

The average number of people, both temporary and permanent, employed by the FSC during the year was 30 (2009: 27).

### 22. Related Party Transactions

Included with staff costs is \$524,839 (2009: \$454,711) relating to salary and allowances for directors and key management employees.

See Auditors' Report - page 1

# Financial Services Commission

## Notes to Consolidated Financial Statements

For the Year Ended March 31, 2010

---

### 23. Commitments and Contingencies

Commitments as at March 31, 2010 consist of Application software as follows:

	Falling due within one year \$	Total \$
KPMG	50,000	50,000
REFLEXIS Systems Inc.	250,000	250,000
	<u>300,000</u>	<u>300,000</u>

*Turks and Caicos Islands*

*Financial Services Commission: [Annual Report 2010](#)*

---

## ***SECTION C***

### ***STATEMENTS OF POLICIES***

---



## **Turks & Caicos Islands Financial Services Commission**

### **Board of Directors: Code of Conduct**

1 This Code of Conduct has been adopted by the Board of Directors in order to provide guidance on a number of ethical issues that may arise for Board members in dealing with the business of the Financial Services Commission ('the Commission'). While not previously formally codified in this way, the standards in this Code are not new and follow the approach applied by Board members hitherto.

2 The principal functions of the Board, as prescribed by section 6 of the Financial Services Commission Ordinance 2007 ('the FSC Ordinance'), include in particular establishing the policy of the Commission and monitoring and overseeing both policy implementation and the management of the Commission by the Managing Director. In fulfilling its statutory responsibilities, the Board is committed to the principles of independence, integrity, accountability and transparency, and requires that its members maintain high standards of ethical behaviour. They are also expected to maintain their personal financial affairs in good order at all times.

3 When conducting the business of the Commission, Board members must seek to ensure full compliance with applicable statutory and regulatory provisions as prescribed by the relevant laws of the Turks & Caicos Islands. They should also ensure their familiarity with the agreed policies, codes and other procedures that govern their conduct and actions while they are acting on behalf of the Commission.

4 Board members must attend Board and relevant sub-committee meetings on a regular and punctual basis. They must review and devote sufficient time to all relevant material to enable them to make informed decisions on matters under consideration. Once issues have been duly considered and decisions have been properly made by the Board, members must adhere to the principle of collective responsibility.

5 Where members, in the execution of their duties, conclude that they have need of specialist professional advice, guidance or other resources, they should ensure that appropriate access is made available to them.

6 Section 10 of the FSC Ordinance provides for disclosure by directors having a direct or indirect personal, professional, business or pecuniary interest in matters coming before them. As part of their effort to mitigate real or perceived conflicts of interest, Board members will disclose details of ongoing prior business or other interests in accordance both with the provisions of the

FSC Ordinance and of the Conflict of Interest Code that has been additionally adopted by the Board.

7 Members of the Board are subject to the extremely tight legal restrictions on the disclosure of ‘protected information’ set out in section 48 of the FSC Ordinance. Members will, from time to time, have access to such protected information in the course of their duties for the Commission; they must ensure that protected information is never discussed with or released to outside parties. Generally, members should refrain from discussing the dealings of the Commission with outside parties; where they see a need to do so, they should first seek approval from the Chairman. Where a member of the Board receives a query from the press, radio or television relating to the Commission, they should refer the enquirer to the Chairman or the Managing Director, as appropriate.

8 Where, arising out of responsibilities on behalf of the Commission, a member becomes aware of material non-public information relating to an entity, he or she must not acquire or dispose of any holdings in the entity, act on the information in any way or cause others to act on it. Information is to be considered material if it would be likely to influence a reasonable investor in a decision to buy, sell or continue to hold relevant securities. Information is to be considered non-public if it has not been widely and publicly available for a sufficient period to be reflected in the price of relevant securities.

9 Board members should consider carefully and exercise good judgment with regard to offers of hospitality, entertainment and gifts from entities or persons that have an interest in the Commission’s decisions.

10 Board members should, wherever possible, respect normal reporting lines in their communications or dealings with the staff of the Commission on routine matters. However, where they become aware of exceptional issues or serious concerns on the part of members of staff, Board members should ensure that matters can be reviewed at a high level, normally by involving the Chairman.

11 Where a Board member is uncertain as to how to deal with a particular issue within the ambit of this Code, he should approach the Chairman for guidance, or else bring the matter to the attention of the wider Board.

April 2010

## **Turks & Caicos Islands Financial Services Commission**

### **Board of Directors: Code on Conflicts of Interest**

- 1 This Code has been adopted by the Board of Directors in order to provide guidance on handling conflicts of interest that may arise when Board members are carrying out their functions as Directors of the Financial Services Commission ('the Commission'). While not previously formally codified in this way, the standards in this Code are not new and follow the approach applied by Board members hitherto.
- 2 The Financial Services Commission Ordinance 2007 ('the FSC Ordinance') includes specific provisions intended to mitigate the risk that Board decisions may be influenced, or perceived to be influenced, by the personal, professional, business or pecuniary interests of individual members of the Board. These provisions recognize the inherent risk of conflicts that may impact upon the activities of the Commission.
- 3 The present Code seeks to build on the existing legal provisions in order to mitigate to the extent possible the risks arising from residual conflicts of interest that may arise at Board level.
- 4 The Board views the identification of potential conflicts as a collaborative effort involving the Commission and individual Board members making best endeavours to identify possible sources of conflicts. At the same time, members recognize that the identification and management of potential conflicts can give rise to difficulties and to the need for fine judgment to be applied. Where a member is uncertain how to proceed in a particular case, he or she should seek the guidance of the Chairman, or else bring the matter to the attention of the wider Board. Where there is doubt or uncertainty over the management or resolution of any conflict, members take the view that conflicts must be resolved in favour of the Commission.
- 5 While proper transparency is critical for the effective operation of this Code, the Board and the Commission nonetheless see it as important for reasonable confidentiality of personal circumstances to be maintained as far as is practicable. In addition, all interests disclosed by members will be kept strictly confidential by the Commission.
- 6 When conducting the business of the Commission, Board members must seek to ensure full compliance with applicable statutory and regulatory provisions, as prescribed by the relevant laws of the Turks & Caicos Islands. They should also ensure their familiarity with all the agreed policies, codes and other procedures that govern their conduct while acting on behalf of the Commission. In particular, members will comply with such procedures as the Board may establish from time to time with regard to the identification, reporting and monitoring of members' conflicts of interest that may impact on the discussions or decisions of the Board.

7 For the purposes of this Code, a member is held to have a reportable conflict of interest when a matter in which he or she has an interest in a private capacity may be considered to create a material risk of improperly influencing the performance of his or her duties or responsibilities to the Commission. A conflict of interest may be real or perceived. Interest in a private capacity includes any direct and indirect monetary interests, family, employment, business, professional, charitable and other advisory relationships. Moreover, a reportable conflict of a member is to be interpreted as including any conflict that involves the spouse of a member or any dependent children.

8 In disclosing conflicts, members must ensure that they consider fully whether any of the circumstances in paragraph 7 above may apply. Members of the Board will also be expected to sign a declaration on an annual basis confirming their familiarity with this Code and agreeing to comply with it.

9 Where a member (or spouse or dependent children) has a contractual or ongoing reportable relationship with an entity or person that holds a license issued by the Commission, a formal declaration confirming the relationship must be provided to the Chairman and to the Secretary of the Board; this declaration should be reviewed and updated on an annual basis. Where there is a reportable relationship with other persons or entities that become relevant to the Board's discussions or decisions during the year, members must report the specific conflict prior to the Board discussing a relevant matter. In all cases, the procedures set out in section 10 of the FSC Ordinance apply with regard to any Board discussions.

10 Where, arising out of responsibilities on behalf of the Commission, a member becomes aware of material non-public information relating to an entity, he or she must not acquire or dispose of any holdings in the entity, act on the information in any way or cause others to act on it. Information is to be considered material if it would be likely to influence a reasonable investor in a decision to buy, sell or continue to hold relevant securities. Information is to be considered non-public if it has not been widely and publicly available for a sufficient period to be reflected in the price of relevant securities.

April 2010