TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

2020
2021

ANNUAL REPORT

COMMISSIONERS OF THE FINANCIAL SERVICES COMMISSION

Seated from left to right: Neville Grant, Sir Errol Allen (Former Chairman) and Oswald Simons (Deputy Chairman). Standing from left to right: Kevin Mann, Athenée Harvey-Basden (PS Finance), David Oakden (Chairman) and Niguel Streete (Managing Director).

ABOUT THE COMMISSION

The Commission is an independent statutory body established under the Financial Services Commission Ordinance 2001 and continued under the Financial Services Commission Ordinance 2007.

The Commission is an integrated regulator with responsibility for the regulation of all financial services businesses operating in or from the Turks and Caicos Islands (TCI), and the supervision of designated non-financial businesses and persons (DNFBPs) and not-for-profit entities operating in the TCI. The Commission, through the Commercial Registry, is also responsible for the administration of company formation, registration, patents, trademarks, and business names.

The Commission is led by a seven-member Board of Commissioners and reports to and takes directions from His Excellency, the Governor of the Turks and Caicos Islands.

Mission

The Mission of the Commission is to encourage and maintain public confidence in the financial services industry in the Turks and Caicos Islands.

Vision

The Vision of the Commission is to be a respected, fair, effective, and risk-focused integrated regulator which facilitates financial sector stability and economic development.

Values

In carrying out its mission the Commission will be guided by the following set of values:

- Integrity: being forthright, honest, ethical, and consistent in its dealings with stakeholders;
- Transparency: being open and accountable in its dealings and facilitating consultation with stakeholders;
- Independence: ensuring that regulatory and operational decisions are objective, balanced and free of undue influence from related parties; and
- Efficiency: managing resources effectively to deliver value for money.

COMMISSIONERS AND SENIOR MANAGEMENT

BOARD OF COMMISSIONERS

David Oakden	-	Chairman
Oswald Simons	-	Deputy Chairman
Neville Grant	-	Commissioner
Errol Allen[1]	-	Commissioner
Kevin Mann	-	Commissioner
Susan Francois	-	Commissioner
Lou-Ann Henry-Phillips	-	Commissioner
Athenée Harvey-Basden	-	Commissioner, Permanent Secretary - Ministry of Finance
Niguel Streete	-	Managing Director

SENIOR MANAGEMENT

Niguel Streete	-	Managing Director
Kenisha Bacchus	-	Deputy Managing Director
Claudia Coalbrooke	-	Advisor – Managing Director's Office
Desmond Morrison	-	Director, Finance
Prudence Edwards	-	Director (Ag), Bank and Trust
Katia Camps-Campins	-	Director, AML Supervision
Corine Bolton	-	Director, Insurance
Cathrice Williams	-	Director, Information Technology
Karlene Ferrier	-	Registrar of Companies

1. *¨ Sir Errol Allen and Kevin Mann rotated off the Board in December 2020 and were replaced by Susan Francois and Lou-Ann Henry-Phillip.*

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SECTION A

REPORT OF THE COMMISSION

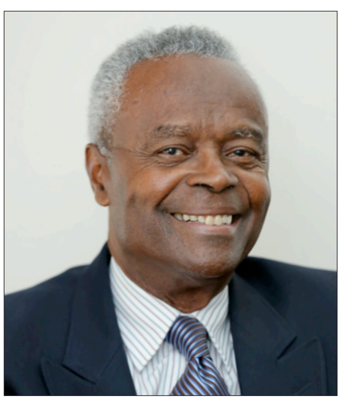
PROFILE OF THE COMMISSIONERS

David Oakden

Dr Oakden brings to the Commission considerable experience in the field of insurance and insurance supervision. He served as Managing Director of the Actuarial Division at the Office of the Superintendent of Financial Institutions (OSFI), Canada; on the Executive and Technical Committees of the International Association of Insurance Supervisors; President of the Canadian Institute of Actuaries; and as a consultant to the Federal Reserve Bank of New York and the Canada Mortgage and Housing Corporation. He is a Fellow of the Casualty Actuarial Society. Dr Oakden holds a PhD in Mathematics from the University of Toronto.

Oswald Simons

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



Neville Grant

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

Susan Francois

Ms Susan Francois is an Attorney-at-Law by profession with over 30 years' experience in Civil Law. As the former Head of the Financial Intelligence Unit of Trinidad and Tobago, Ms Francois has vast experience in financial supervision and regulation. She was a team leader in the country's preparations for successful FATF and CFATF AML/CFT evaluations. She has various certifications in AML/CFT and FCPA and holds a master's degree in Corporate Commercial law.

Lou-Ann Phillips-Henry

Mrs Lou-Ann Phillips-Henry has over 16 years' experience as an audit practitioner with various audit firms. She led the delivery of professional service engagements to several domestic, regional, and international clients in the Eastern Caribbean. Her professional experience encompasses the provision of accounting, audit, tax, assurance, financial advisory and compliance services to clients in several sectors, including banking, insurance, retail, statutory bodies, publication, power and energy and non-for-profit organisations. Mrs Lou-Ann Phillips-Henry is an FCCA and a member of the Association of Chartered Certified Accountants. She is also a practicing member of the Institute of Chartered Accountants of the Eastern Caribbean.

Athenée Harvey-Basden

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

Niguel Streete

Mr Streete has extensive training and over 26 years' experience in financial sector development, supervision, and regulation. He held several executive positions in financial regulation in the region, including Deputy Executive Director of the Grenada Authority for the Regulation of Financial Institutions, Executive Director of the Anguilla Financial Services Commission, Director of Bank Supervision and Advisor in the Governor's Office at the Eastern Caribbean Central Bank, and Secretary of the Eastern Caribbean Securities Regulatory Commission. He also served as Chairman of the Anguilla Money Laundering Reporting Authority and Deputy Chairman of the Anguilla CFATF Mutual Evaluation Steering Committee.

1.0 CHAIRMAN'S REPORT

"I am also pleased to report that the financial system in the TCI remained strong through this crisis."

The past financial year was defined by the COVID-19 pandemic. The Commission started the financial year in April 2020 with the Turks and Caicos Islands in lockdown and staff working from home. While staff were able to return to the office in May 2020, conditions were far from normal.

After ensuring staff safety and that staff had adequate resources and access to effectively work from home in providing uninterrupted essential services to clients, the Board focus shifted to the resilience of the financial system to the COVID-19 shock. The Board considered reports on individual licensees and sectors, and on the financial system. I would like to commend all employees who worked diligently under very trying circumstances to prepare these reports. I am also pleased to report that the financial system in the TCI remained strong through this crisis.

Despite the pandemic, which lead to several revisions of the Commission's financial projections, the Commission recorded an increase in revenue during the review period, and an increase in net surplus, which resulted in an increase in funds transferred to the Turks and Caicos Islands' Government (TCIG). This performance was influenced by changes to the deadline for the payment of fees, increased demand for business names, and judicious management of expenses which was reflected primarily in the containment of travel and consultancy cost and a positive variance on staff cost. The Commission ended the year with excellent financial results.

The pandemic is not just a health crisis; it has had a significant impact on financial systems in the TCI and worldwide. Tourism basically dropped to zero for a while and even now it is far below normal levels. The GDP for the Turks and Caicos Islands (TCI) dropped significantly in 2020 and most countries had a recession during the year. The extraordinary fiscal and monetary measures by major economies and central banks, including the US Federal Reserve and the Bank of England, helped to reduce the economic consequences and reverse stock market declines. However, these measures were so extreme that there will be consequences. Interest rates are at historical lows and will remain low for some time yet. North America and the Caribbean are experiencing an increase in inflation, and while most central bankers say this is temporary, I believe that we may see several years of higher-than-normal inflation. Loan defaults were low over the past year but once the fiscal and monetary measures are withdrawn defaults are expected to increase, putting pressure on banks' earnings and capital.

While the above consequences can be predicted, others may catch us by surprise. With a third of the population refusing vaccinations, it is likely that we may not get to herd immunity; and accordingly, COVID-19 may be with us for the foreseeable future. However, change also brings opportunities and we need to be prepared to benefit from them. The Commission will continue to monitor this situation in the TCI.

Another issue the Board is following is concentration in the domestic banking sector. The three Canadian banks have a 98 percent market share. While these banks are systemically important to the TCI, the TCI represents an insignificant portion of these banks' market; accordingly, decisions are often made based on factors that are not directly related to the TCI. The Commission is also monitoring trends in the region which suggest that some of these banks might be interested in exiting or reducing their presence in the region. The Commission will continue to work at ensuring that the TCI has adequate banking services.

To date, the insurance sector worldwide has generally fared well during the pandemic; however, business interruption claims could be a major problem. Most of these claims were initially denied but there is significant ongoing litigation which, based on the outcome, can cost insurers hundreds of billions of dollars. While domestic insurers do not appear to have material exposure to this risk, the TCI market is dependent on international reinsurers, who may have to pay the bulk of these potential claims. This will have implications for insurance rates in the TCI. The Commission will continue to monitor these developments.

I realise that my comments above paint a bleak picture, but the nature of financial regulation is to identify the risks and be prepared to address them if they arise. We certainly hope that many of the concerns discussed above will not materialise. However, be assured that the Commission is actively monitoring the situation and working diligently to protect the interests of the TCI.

This is my first year as Chairman and I would like to set out some of my top priorities for the Commission. First, we need to improve the relationship of our Board with the local financial community. There is always a tension between the regulator and those regulated but there are also many areas of mutual interest, and we can accomplish more by working cooperatively. Second, we should have more local representatives on our Board. Outsiders, like myself, bring a needed perspective but we need to balance that with local knowledge. Third, we need to be able to facilitate more staff upward mobility within the Commission. The situation has improved since I joined the Board, but we need to strengthen our training and focus on job specific skills and financial industry knowledge. Fourth, we need to work with the government and industry to build the financial sector in the TCI. Finally, I would like to ensure that the Board and Commission continue to function at the high level maintained by my predecessor.

I would like to thank the outgoing Chairman, Sir Errol Allen. Sir Errol guided the Commission for almost ten years, including some challenging years. He left the Commission and the financial sector in TCI in a strong position. He certainly deserves much credit for the strong results during the pandemic. I have enjoyed working with him over the last four years and I wish him every success in his "retirement". His comment in last year's report that "the financial system is strong and appears to be capable of withstanding reasonable shocks", now appears to have been prophetic.

I would also like to thank Kevin Mann who rotated off the Board shortly after I became Chairman. He was a strong contributor to Board discussions and was never afraid to express a contrary opinion. His participation will be missed.

His Excellency the Governor added two new members to the Board after a public and transparent recruitment process. Ms Susan François is a lawyer by training with extensive experience in Anti-Money Laundering and Combating the Financing of Terrorism; Corporate Registry; Securities and Capital Market Regulation; and Human Resources Management. Ms Lou-Ann Phillip-Henry is an accountant by training with extensive experience in Finance; Accounting; Audit (internal and external); Project Management; Risk Management; Business Advisory; and Compliance.

On behalf of my fellow Commissioners, I would like to thank the various policymakers and stakeholders for the support provided over the past difficult year; we look forward to your continued support in the future. In closing, I would like to thank the management and staff of the Commission for an extraordinary job over the past year.

Dr David Oakden
Chairman

2.0 MANAGING DIRECTOR'S REPORT

"The Commission's actions in response to COVID-19 were aimed at mitigating the depth of the economic downturn by ensuring the continuity and stability of financial services with a clear focus on maintaining public confidence in the financial system."

I am very pleased to report that, while buffeted by the impact of the Novel Coronavirus (COVID-19) pandemic, the financial system in the Turks and Caicos Islands (TCI) remained strong, resilient and stable.

As is to be expected, a significant portion of this report deals with the impact of and policy responses to the pandemic in the TCI.

Economic Impact

The pandemic brought with it a sudden freeze on economic activity as the TCI took containment measures by closing its borders and going into a lock-down on 27th March 2020. The dominance of the tourism sector made the TCI economy particularly vulnerable to this unprecedented shock. Scores of workers in the hospitality, entertainment and tourism sectors were immediately impacted by loss or reduction in income due to the sudden closure of these businesses and the resulting severe tightening of financial conditions.

The pandemic led to a sharp decline in economic activity resulting in an estimated 22.8 per cent decline in GDP in 2020. Trading activity declined, influencing a 144.8 per cent contraction in the external current account balance, and a 57.1 percentage points increase in unemployment[2]. The policy responses were multipronged to mitigate the immediate socioeconomic fallout of the pandemic. Fiscal support was provided to households and firms through various stimulus packages; other accommodative fiscal measures included deferred payments of Hotel, Restaurant and Tourism Taxes, as well as waivers of duties on certain imports[3].

Policy Responses

The Commission's actions in response to COVID-19 were aimed at mitigating the depth of the economic downturn by ensuring the continuity and stability of financial services with a clear focus on maintaining public confidence in the financial system. The Commission began its mobilisation in earnest in early March 2020 to understand the impact of the pandemic on financial institutions and their preparedness for what lay ahead. Regulated entities were mandated to update their business continuity plans to identify and protect critical functions, conduct effective prudential and operational risk assessment and management, and to consider alternative work arrangements in the event of widespread infection.

2 Projections based on calculations from TCI Statistics Department at the Ministry of Finance.
3 TCI Treasury Department third-quarter unaudited financial report October – December 2020.

As the virus moved closer to the TCI, the Commission implemented measures aimed at easing the operational burden of regulated entities to allow them to direct more resources towards their pandemic response and meeting the needs of customers. These included, inter alia:

- suspending direct interaction such as face-to-face meetings and on-site supervision;
- instituting a temporary waiver of paper-based submission of quarterly returns;
- supporting the enactment of the Emergency Power (COVID-19) (Financial Services) Regulations 2020, which gave time extensions for payment of annual licence renewal and registration fees; and
- exercising forbearance for late submission of regulatory reports.

Banks implemented various loan repayment moratoria aimed at mitigating the immediate liquidity shock to firms and households caused by the temporary closure of businesses and subsequent loss of employment. The Commission also issued guidance on the application of moratoria for customers affected by the pandemic and other disaster related customer relief programmes, and enhanced its monitoring processes by requesting periodic reports on the moratoria activities. Concurrently, the Commission implemented temporary weekly liquidity reporting requirements for banks to monitor cash flow and liquidity positions. Quarterly stress testing was also conducted for the banking sector to assess the resilience of their balance sheets to hypothetical credit and liquidity shocks.

On the insurance side, the Commission fast-tracked new surveys to collect data on the impact of COVID-19 on operations, capital and solvency, and liquidity. The Commission worked with relevant insurers to assess the risk of underwriting business interruption, nursing homes and other areas significantly impacted by the pandemic. Insurers were also required to provide the results of their periodic stress tests.

A key priority for the Commission during the review period was progressing the implementation of systemic risk analysis as part of its macroprudential policy initiatives. The impact of COVID-19 underscored the importance of understanding linkages between the economy and financial system stability. Accordingly, the Commission implemented a suite of quantitative tools aimed at assessing the build-up of systemic risk in the banking sector.

Financial Sector Performance

Notwithstanding the weakened macro-financial condition in the global and domestic markets, the financial sector remained buoyant over the review period. Stress testing results showed that the banking sector was generally resilient to a range of shocks to its credit and liquidity portfolios. Conventional indicators of financial soundness for the banking sector generally pointed to a healthy sector from the standpoint of capital adequacy and liquidity levels but weakened levels of asset quality and profitability. Household debt through personal loans remained the largest asset exposure of the banks.

As at 31 March 2021, the banking sector, despite being tested by the impact of COVID-19, remained well capitalised with sound liquidity and funding positions. Capital levels remained high with a composite capital adequacy ratio of 28.5 per cent, well in excess of the regulatory minimum requirement of 11.0 per cent. Liquidity and funding risks were low over the period. Non-performing loans (NPLs) as a percentage of total loans deteriorated slightly by 0.1 percentage point to 5.4 per cent, while provisioning amounted to 113.3 per cent of NPLs. As shocks to household and business income persists due to effects of the pandemic, the banking sector's exposure to credit risk is likely to increase.

Within the non-bank financial sector, the asset base for investment businesses and mutual fund operators expanded over the review period. However, prudential reporting remained inadequate to comprehensively assess the financial performance of the sector from the standpoint of asset quality, capital adequacy and liquidity. This deficiency will be addressed during the next reporting period.

Risks in the insurance sector remained within acceptable levels. Insurers demonstrated satisfactory levels of solvency and liquidity over the review period; early warning test results showed insurers exceeding the minimum requirement prescribed by the Commission.

Trust companies recorded an increase in on-balance sheet assets over the review period due mainly to difficulties in transferring clients' funds during the pandemic. However, income from services declined, resulting in lower profits for the sector over the period.

The Money Services Business sector recorded growth in assets but weakened profitability over the review period. The effect of the pandemic was evident in the funds remitted to and from the TCI. Total outflows declined 24 per cent over the period on account of reduced traffic and tightening economic conditions,[4] while total inflows increased by 52.9 per cent. Specifically, inflows from the United States nearly doubled over the period, which may have been driven by better-than-expected economic recovery in the USA and the fiscal support of the US government through stimulus cheques to households in that country.

Risk Outlook

The economic impact of COVID-19 poses significant challenges to financial stability in the TCI. As the pandemic progresses, risks to the sector remains high as there is much uncertainty around the evolution of the virus. While restrictions loosened towards the second half of the year as the country began to reopen, economic recovery is uncertain within the short to medium-term. Growth in the global economy and Latin American and Caribbean (LAC) is projected at 5.5 per cent[5] and 3.6 per cent[6] in 2021, respectively, but near-term recovery is not assured and could potentially be thwarted by new outbreaks of the virus resulting in paused re-openings and targeted shutdowns. The uptake in the vaccines is expected to improve the economic outlook in the global economy as more people become inoculated against the virus.

The outlook for the financial sector includes a potential build-up of risk given the destabilising effect of the pandemic on the domestic economy and mounting pressure on banks' financial positions. While short-term support measures in the form of loan moratoria, provided many borrowers with additional time to improve their financial situation, some debtors may require further forbearance to mitigate default risk. Against this backdrop, additional pressure on banks' financial position is likely to stem from weaker underlying profitability, due to increased provisioning for anticipated defaults and downward pressure on banks' interest margins.

Statutory Bodies Review

During the last quarter of 2017, His Excellency Governor Dr John Freeman commissioned a review of all statutory bodies and agencies, including the Commission, to ensure good governance amongst them and to assure the public that good governance practices are consistently being carried out as well to ensure adherence to policies and objectives."

The Chief Internal Auditor recently evaluated the assessed agencies' performance against this review. I am very pleased to report that the evaluation provided an extremely favourable rating of the Commission's governance structure, compliance and adherence to policies and objectives. The Commission is very pleased with the recognition of its work in these areas.

Looking Ahead

The Commission intends to further enhance its financial stability surveillance using additional monitoring toolkits such as credit to GDP gap analysis and contagion risk assessment. Furthermore, driven by the interconnected nature of the financial system, the Commission plans to enhance surveillance of the insurance sector through the utilisation of a stress testing framework to assess the resilience of this vital sector. The Commission also plans to develop a domestic residential property price index (RPPI) to monitor price changes in the real estate market, given the importance of this market to loan performance.

The Commission plans to conduct research, to inform policy, on the forms, features, possible use and regulation of digital currency and virtual assets. It is anticipated that this research will form the basis of a government, industry and Commission policy discussion on the future of digital currency and virtual assets in the TCI.

The Commission will continue to enhance its operational efficiency and resilience, and business

4 While most businesses were ordered closed during the period of the lock down, selected money service businesses were permitted to operate with reduced operating hours and fewer staff.
5 IMF World Economic Outlook January 2021.
6 IMF Regional Economic Outlook: Western Hemisphere October 2020.

continuity measures, through the use of technology and the establishment of transparent and comprehensive operational policies, supported by adequate staffing.

Towards the end of the financial year[7] the Commission purchased a building to house its Providenciales' operations. It is anticipated that the move to a single building will lead to greater economies of scale and scope, operational efficiencies, an improved customer experience and greater staff cohesiveness. The Commission anticipates moving to the refurbished new building during the next financial year.

Conclusion

The Commission remains very grateful for the continued strong support of its staff, the financial services sector, and relevant policymakers, especially His Excellency the Governor and the Hon Premier and Minister of Finance.

I also wish to recognise the strong and effective support that the Commission continues to receive from the Board of Commissioners. During the review period, the Commission welcomed the appointment of Chairman David Oakden and two new Commissioners with extensive relevant training and experience working in the Caribbean. The Commission remains committed to working with the restructured board.

The recent operational, regulatory, policy and governance changes place the Commission in an even stronger position to manage current and anticipated risk to financial sector stability. The Commission remains confident that with the support of all stakeholders it will continue to effectively manage challenges encountered.

Niguel Streete
Managing Director

7 On 31 March 2021

3.0 BANK AND TRUST DEPARTMENT REPORT

3.1 OVERVIEW

The department continued to be responsible for the licensing[8] and regulation of banks, trust companies, money services businesses (MSBs), and credit unions[9]. This included the regulation of 18 entities: six banks, eight trust companies and four money services businesses. During the review period one trust company was voluntarily liquidated, while another one remained under voluntary liquidation.

> **"The department shifted focus to supervisory measures geared at monitoring, assessing and responding to the effects of the pandemic on the financial system."**

The onset of the COVID-19 pandemic disrupted the department's work program. The department shifted focus to supervisory measures geared at monitoring, assessing and responding to the effects of the pandemic on the financial system, while adjusting to remote working and virtual communication with licensees and the wider regulatory community.

Due to the pandemic, lower revenue and increased expenses impacted profit margins across the sectors. Nevertheless, the sectors proved to be resilient to the economic shock brought on by the pandemic.

3.1.1 *Regulatory Activities*

The department delayed its planned focus on risk-based supervision to instead concentrate on assessing and responding to the effects of the pandemic on the department, licensees, and regulated sectors. Banks received most of the department's attention, given their importance to financial sector stability and the economy. This was done through the development and introduction of new reporting templates and more frequent reports to facilitate closer monitoring, for example, reports on liquidity risk moved from monthly to weekly for the retail banks. Reporting requirements were also introduced to monitor the performance of the various customer relief programmes and their possible impact on banks' asset quality, capital, and liquidity. Regulatory guidelines were issued with parameters for the granting of moratoria. Surveys were issued to gather information on the operational and financial impact of COVID-19 on the sectors. The responses generally reflected the resilience of the system with some concerns around governance in the sectors.

Despite the increased reporting in some areas, licensees also benefited from reporting deadline extensions and were allowed to report electronically. This was critical, given the operational constraints and changes instituted to continue to accommodate customers and employees in a safe environment, while adjusting to remote working and/or observing social distancing guidelines.

By the end of the financial year, supervisory reporting generally returned to a normal schedule with continued engagement with licensees via virtual meetings. However, the impact of the pandemic on credit quality post-customer relief programmes is still being assessed.

3.2 BANKING

3.2.1 *Capital Adequacy*

The banking sector weathered the COVID-19 pandemic and remained adequately capitalised, with all the banks maintaining capital levels well above the 11.0% minimum statutory requirement throughout the

8 Bank licensing decisions are made by the Board of Commissioners on the recommendation of the department and the Commission's Licensing Committee.

9 As at 31 March 2021, there were no credit unions licensed by the Commission; however, the department remained engaged with potential applicants.

review period. However, with lower profits to transfer to capital and increased assets, the sector's Capital Adequacy Ratio[10] (CARs) fell 1.8 percentage points to 28.5%, when compared with the previous financial year.

Chart 1 illustrates the banking sector's CAR level over the last six years and paragraphs 3.2.2 and 3.2.4 discuss the root causes for the change in assets and revenues, respectively.

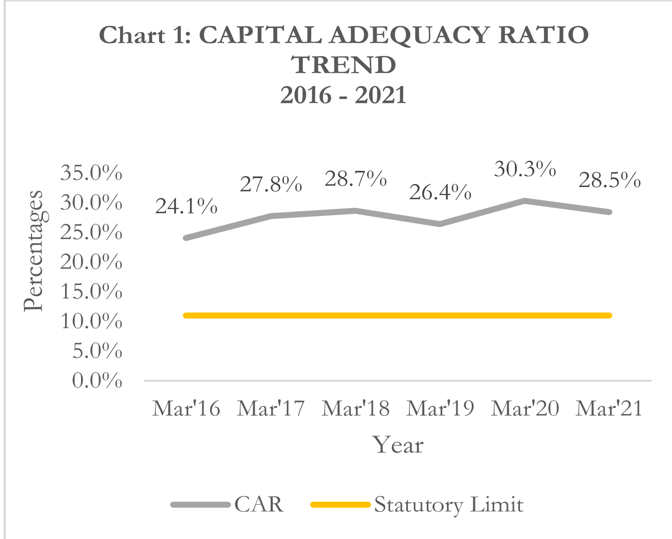
3.2.2 *Asset Quality*

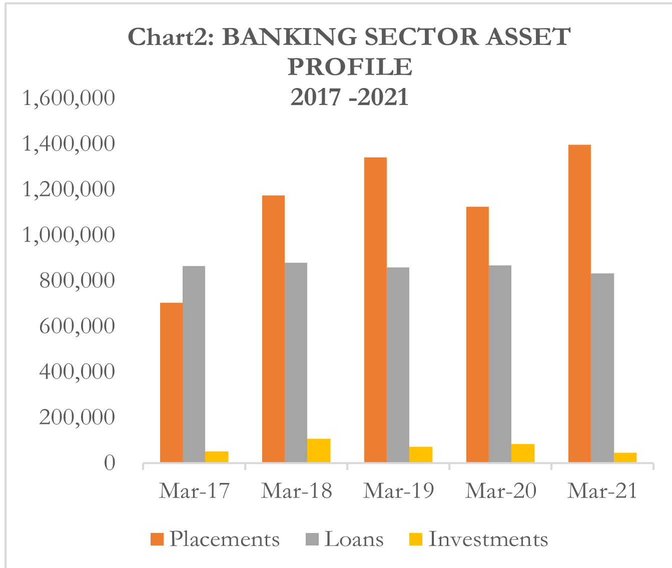
Total assets in the banking sector grew by 8.1% to $2.3B. Five of the six banks had increases in their total assets, which was reflected mainly in balances due from financial institutions, while loan portfolios contracted for most of the banks. The increase in the system's assets was funded by a 12.5% increase in deposits, which was generated in the last two quarters of the financial year as economic conditions improved.

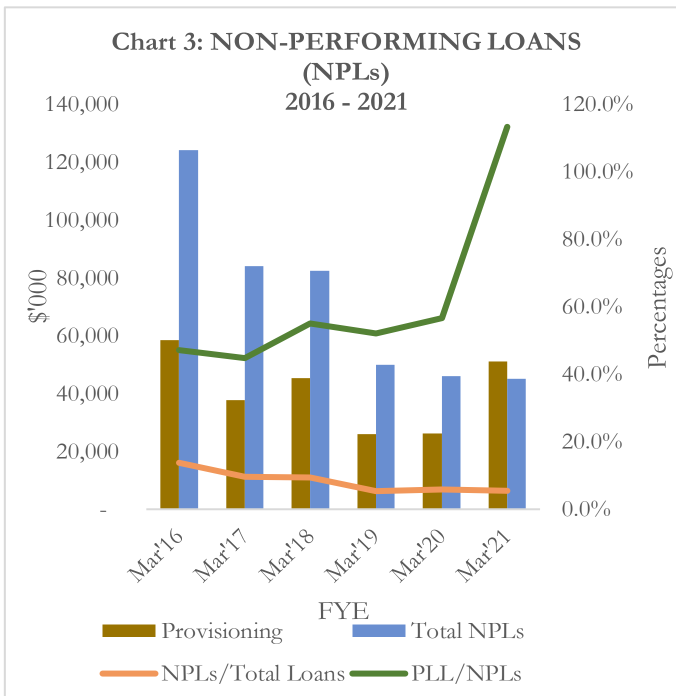
The sector's loans, the main interest earning asset, contracted by 3.9% to $833.1M, influenced primarily by the sale and write-off of non-performing loans during the financial year[11].

The pandemic's impact on credit quality is yet to be fully determined, as customer relief programmes were granted, which allowed for moratoria on interest and/or principal up to six months, without any change to the credit risk rating and credit classification of the borrowers. At the end of the moratoria period, some credit facilities were restructured and/or extended, while others were being closely monitored[12].

As a response to the pandemic, banks generally became even more conservative in their assets and liabilities management. As indicated above, total loans contracted and investments fell by 46% ($38.5M) to $45.1M, while placements (balances due from financial institutions) increased by 24.1% ($271.4M) to $1,396.6M.







10 The Capital Adequacy Ratio is the ratio of qualifying capital to risk-weighted assets. It mainly measures the adequacy of capital against the risk in a bank's asset portfolio.
11 Note that these non-performing loans were not the result of losses sustained during the pandemic but mostly represented legacy facilities.
12 The customer relief programmes granted moratoria to both retail and commercial customers, with performing facilities. In most instances, the relief programmes came to an end by December 2020, but the banks continued to work with customers who were still experiencing financial constraints.

As indicated in Chart 2, placements, the largest asset class, moved from 52.0% to 59.6% of total assets; loans and advances declined to 35.6% from 40%, while investments accounted for a mere 1.9%.

Despite banks' balance sheets being heavily concentrated in placements, credit risk remained the most significant risk, which was heightened by the economic stress caused by the pandemic. Given global economic projections, market uncertainties and customers' behaviour, banks increased provisioning during the financial year, in anticipation of increased credit losses, post-moratoria.

As illustrated in Chart 3, NPLs increased 2.2% ($1M) while provisioning doubled when compared to the downward trend for the two prior years. The ratio of non-performing loans to total loans deteriorated slightly by 0.1 percentage point to 5.4%, while provisioning for loan losses as a percentage of NPLs stood at 113.3% (56.6%, the previous year). Credit quality deterioration was concentrated in the largest borrower group, the personal[13] sector, which had a 35% ($6.9M) increase in its NPLs, while most of the other sectors' NPLs declined.

Credit risk outlook remains negative in the short term, as the jurisdiction approaches the hurricane season and continues to experience the effects of the pandemic.

3.2.3 *Liquidity*

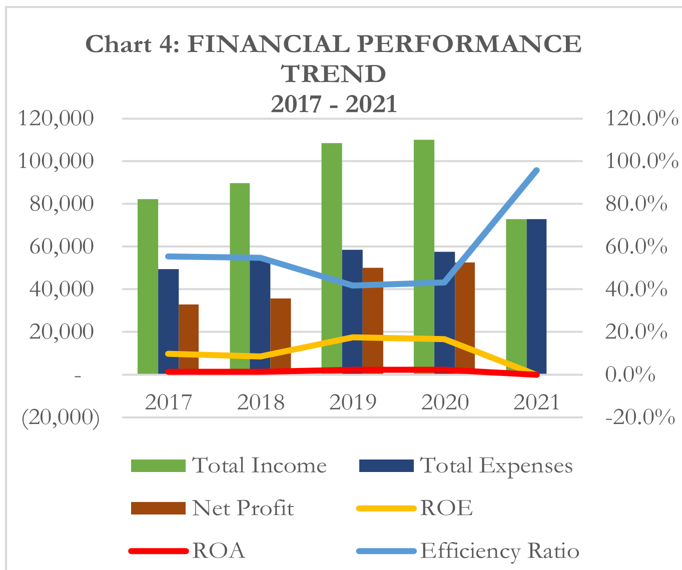
The banking sector remained adequately liquid throughout the 2020/21 financial year, maintaining an average monthly liquidity ratio[14] of 67%, well above the statutory requirement of 12% of deposit liabilities. The sector ended the financial year with a liquid asset ratio of 71.5%. The sector's high liquidity was also evident in the ratio of liquid assets to total assets at 59.3%, as banks held a significant portion of their assets in deposits with financial institutions outside of the TCI.

During the first and second quarters of the 2020/21 financial year, liquid assets in the sector dipped but remained adequate. This decline in liquid assets was evident during the COVID-19 lockdown, as households, private businesses, and the government drew down their deposits. With the increase in economic activities and travel, customer deposits have increased, but the banking sector remained conservative in its investment activities, which has resulted in increased liquidity.

The sector's liquidity outlook remains positive.

3.2.4 *Earnings*

The banking sector generated revenue of $72.9M during the 2020/21 financial year, relative to $110.2M the previous financial year. The 34% reduction in revenue was influenced by the fall in interest income as the loan portfolio contracted and interest rates fell; the moratoria on loan payments; and reductions in fees and commissions. This fall in revenue, coupled with the 26.8% ($15.4M) increase in expenses, resulted in an unaudited net loss of $222K for the 2020/21 financial year, relative to a net profit of $52.5M, the previous year.



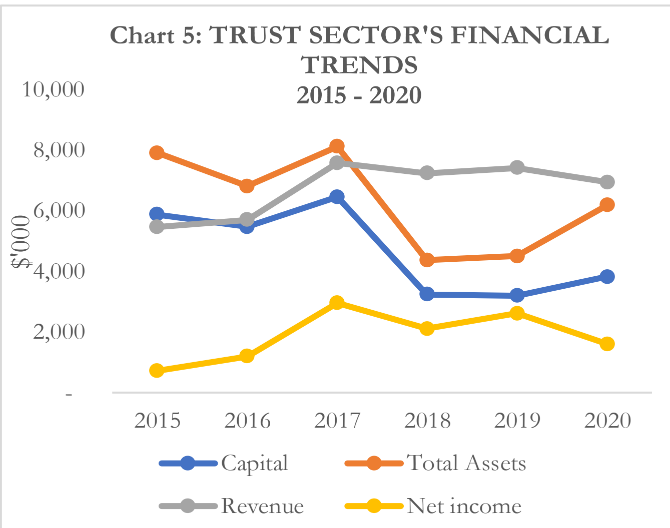
A significant contributor to the sector's net loss was increased provisioning. Provisioning expense for loan losses increased by 95.7% to $51.1M, relative to $26.1M for the previous year, and was the largest expense item for the sector. However, to temper the negative profit outcome, the sector reduced interest rates[15] on customers' deposits, to zero in some instances.

13 Residential and household borrowers.
14 Liquid Asset Ratio – High Quality Liquid Assets (as is defined in the Commission's Guideline on liquidity Requirements for Banks in the Turks and Caicos Islands) as a percentage of deposit liabilities (customers' deposits and balances due to financial institutions).
15 For information on interest rates and fee charged in the banking system, please visit the Commission's website: https://tcifsc.tc/bank-rates-and-charges/

Despite the pressure on revenue, the banks were efficient in managing cost, thus, the efficiency ratio[16] jumped nearly two times its normal average, as reflected in Chart 4.

3.3 TRUST COMPANIES[17]

Trust companies in the Turks and Caicos Islands generally hold multiple licences and offer a myriad of services, including corporate, management and investment services, and lending. Most of the trust companies' revenue was generated from services provided via their corporate and/or investment licenses. Revenue from trust services contributed just 21.7% to the sector's total revenue for the calendar year ended 2020.



As depicted in Chart 5, total assets in the trust sector grew by 37.2% to $6.2M during the review period. The increase was mainly due to one trust company's accounts reflecting a large increase in transitory funds, during 2020[18].

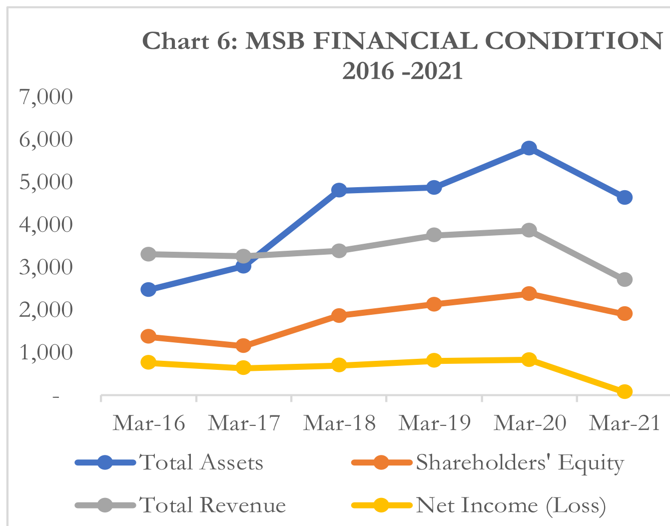
Trust companies' total assets under management, which included trust assets, managed companies and managed funds, amounted to $771.9M as at 31 December 2020 (December 2019: $725M), of which trust assets accounted for 82% ($631.9M). Trust assets was the largest value of fiduciary activities, despite not being the largest revenue earner for the sector. The number of trust accounts declined from 255 to 216 during the review period.

The sector's revenue fell by 6.3% ($470K), while expenses increased by 11.2%, resulting in a lower profit margin of $1.6M; this was 38.6% below the previous year's level.

3.4 MONEY SERVICES BUSINESSES (MSBS)

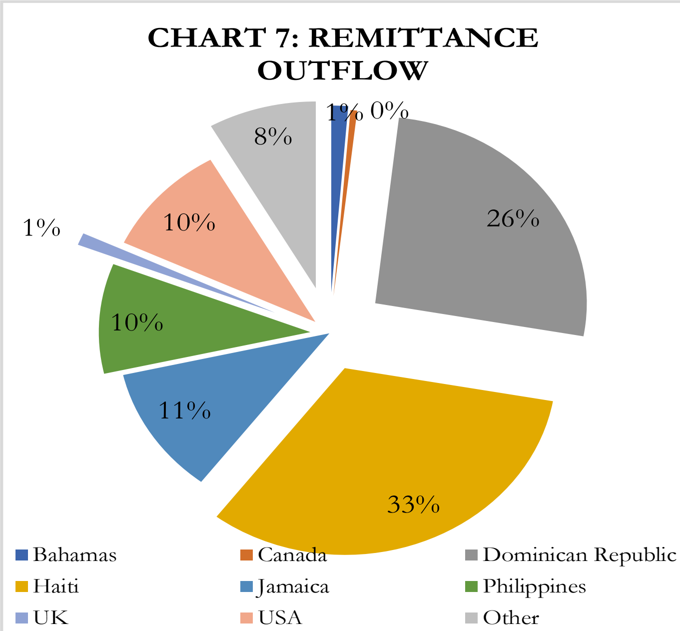
After a four-year growth trend, depicted in Chart 6, the money transmitters were especially hard hit by the effects of the pandemic, with transfers falling by 19.7%, when compared with the previous year. Revenue declined by 30%, resulting in total profit of $69K relative to $830K, the previous year.

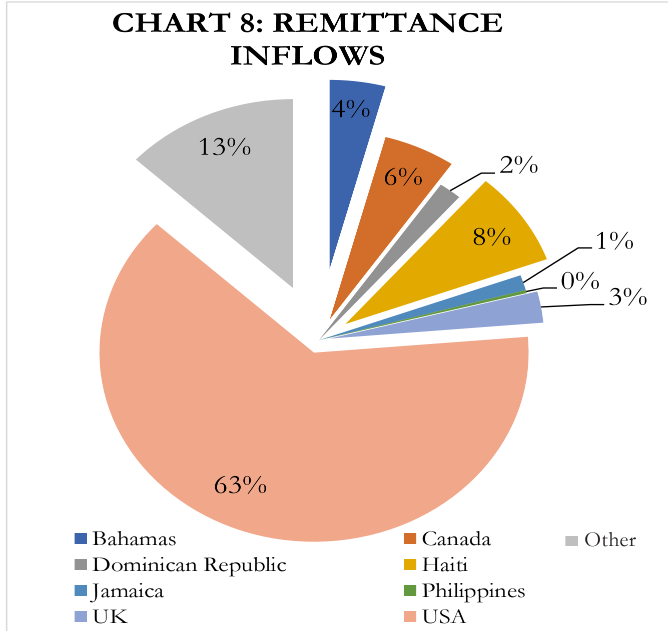
The 20% ($1.2M) contraction in total assets was due to the 20% ($687K) reduction in total liabilities and the 20% ($477K) decreased capital. The reduction in capital was due to one MSB sustaining increased losses, while the other entities reported lower unaudited profit relative to the prior year.



Total funds transmitted via MSBs amounted to $109.7M compared to $136.5M in the previous financial year. Outflows declined by 24% and accounted for 89% ($97.6M) of total transfers while inflows increased by 52.9% to $12.1M and accounted for the remaining 11%. Haiti and the Dominican Republic continued to be the main recipients of outbound remittances, and the United States of America contributed the largest portion of the inflow to the TCI. Charts 7 and 8 show the percentages of remittance inflows and outflows by countries.

16 Non-interest expenses as a percentage of total income, measuring the sector's cost management relative to revenue generated.
17 The following analysis on the trust sector represents the financial position of the sector as at December 2020 relative to December 2019, as the reporting structure does not provide for information as at March 2021. Additionally, the sector data does not include the position of one licensed entity, due to the varied nature of its operation.
18 These funds represent clients' funds in-transit, which were to be invested and/or return to the clients. There was an unusual built up in funds due to the impact of the lockdowns and COVID 19 on economic activities during the period.





3.5 LOOKING AHEAD

With the roll out of the COVID-19 vaccination programme, increased economic activity with the reduction of the curfew period, and the influx of tourists, the overall economic outlook for these sectors is positive in the short-term, with some level of uncertainty in the medium-term. That is, the outlook is threatened by the upcoming hurricane season, uncertainty about the impact of the various strains of the coronavirus on the TCI, despite the vaccination programme. Additionally some of the sectors are still assessing how the past year impacted their clients, as some jobs have become redundant.

> "the sector has shown resilience through different shock experiences over the years. These experiences coupled with high quality capital, strong liquidity, and the extra cushion of reserves, the sectors' complete rebound in the medium-term is expected."

The banking sector is anticipating some level of further deteriorating asset quality before full recovery, as some borrowers continue to be challenged by the impact of COVID-19. On the flip side, the sector has shown resilience through different shock experiences over the years. These experiences, coupled with high quality capital, strong liquidity, and the extra cushion of reserves, the sector's complete rebound in the medium-term is expected.

Given the slowdown in trust business worldwide, coupled with the competition from larger markets, there is concern that the number of trust companies in the TCI market will continue to decline in the medium-term. Nevertheless, trust companies have been developing new product offerings and reinventing themselves in response to these challenges. Accordingly, it is anticipated that the stronger companies will continue to grow in strength. Additionally, proponents of the TCI financial sector are trying to grow the sector by attracting new investors.

There are signs of growth in the MSB sector; however, this is dependent on several internal and external factors. These factors include favourable economic and government policies; continued new investors' interest; new product offerings; effective cost management; strong governance and controls; and the ability to find and maintain banking relationships for new entrants and current entities.

On the regulatory side, the department continues to work with the Commission's legal and policy units to guide the development and/or enhancement of legislation and guidelines. The transition to risk-based supervision (RBS) continues, even though the process was slowed due to adjustments in the work programme to enhance monitoring due to COVID-19. The sectors should anticipate more engagements as the Commission transitions to RBS.

3.6 SUMMARY SELECT FINANCIAL DATA

Select data for the banking sector relating to capital adequacy, asset quality, liquidity and earnings, and for the money services and the trust sectors for the 2020/21 financial year are set out in Table 1.

FINANCIAL DATA				
Description	Mar-20	Mar-21	Change	
	$ 000	$ 000	$ 000	%
BANKING SECTOR				
Capital Adequacy:				
Qualifying Capital*	331,610	316,209	-15,401	-4.6
Risk weighted Assets	1,093,065	1,110,281	17,216	1.6
Capital Adequacy Ratio (%)	30.3%	28.5%		
Asset Quality:				
Gross Assets*	2,165,641	2,341,733	176,092	8.1
Assets (net)*	2,139,542	2,290,670	151,128	7.1
Loans and advances (Gross)	867,258	833,139	-34,119	-3.9
Investments	83,598	45,126	-38,472	-46.0
Placements*	1,125,195	1,396,635	271,440	24.1
Non-performing Loans (NPLs)	46,076	45,052	-1,024	-2.2
Provisions for loan losses (PLLs)	26,099	51,063	24,964	95.7
NPLs/TL	5.3%	5.4%		
PLLSs/NPLs	56.6%	113.3%		
Liquidity:				
Liquid Assets	1,161,354	1,389,255	227,901	19.6
Customers Deposits	1,485,329	1,671,146	185,817	12.5
Due to other Financial Institutions	289,389	272,943	-16,446	-5.7
Liquid Asset Ratio (%)	65.4%	71.5%		
Earnings:				
Gross income	110,159	72,859	-37,300	-33.9
Net Profit*	52,521	-222	-52,743	-100.4
Interest Income	83,292	51,050	-32,242	-38.7
Expenses*	57,638	73,081	15,443	26.8
Return on Assets (%)	2.4%	0.0%		
Return on Equity (%)	16.6%	-0.1%		
MONEY SERVICES BUSINESS SECTOR				
Total Assets	5,799	4,636	-1,163	-20.1
Net Income	830	69	-761	-91.7
Outflows	128,605	97,551	-31,054	-24.1
Inflows	7,940	12,144	4,204	52.9
Return on Assets (%)	15.6%	1.3%		
Return on Equity (%)	36.8%	3.1%		
Description	**Dec-19**	**Dec-20**	**Change**	**Change**
	$ 000	**$ 000**	**$ 000**	**%**
TRUST SECTOR				
Total Assets	4,503	6,179	1,676	37.2
Cash & Cash Equivalents	1,291	3,948	2,657	205.8
Net Income	2,610	1,603	-1,007	-38.6
Assets Under Management	724,991	771,915	46,924	6.5
*Indicates previous period data was revised				

Table 1: Summary of Statistics

4.0 INSURANCE DEPARTMENT

4.1 OVERVIEW

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

As at 31 March 2021, the department regulated 7,852 (8,119 in 2020) licensees. The insurance sector was dominated, in number, by international insurers, primarily Producer Owned Reinsurance Companies[19] ("PORCs") *(see table 2)*.

As at 31 March 2021, there were 7,804 international insurers operating from the TCI, a decline of 3.0% when compared to the previous period. There was an upward trend in the number of non-domestic international insurers, excluding PORCs, with seven new licences being issued; however, this growth was tempered by the surrender of four licences due to business strategic decisions. During the period 472 PORC licences were issued; however, this growth was offset by the cancellation and/or surrender of 742 PORC licences *(see table 2)*,most of these entities were no longer carrying on insurance business. There was no change in the number of licensed insurance managers.

One insurance intermediary was licensed during the review period, an insurance subagent, and one insurer surrendered its license and exited the market. Table 2 provides details on movement of licensees during the review period.

4.2 REGULATORY ACTIVITIES

During the year, the department issued two regulatory advisories to assist with the supervision of non-domestic insurers. These advisories provided information on the enhanced annual returns template to be submitted by all non-domestic insurers, excluding PORCs, and the revised application form for a non-domestic insurance licence. The new returns template came into effect on 1st January 2021, with reports to be submitted by 31st March each year. The information received will allow the department to assess the degree of risk in international insurers' operations and determine the allocation of supervisory resources based on the level of risk identified.

The department continued to put measures in place to reduce the processing time for PORC applications. To promote transparency, the Commission has published a report on the processing time achieved for 2020. The Commission will continue to publish this information quarterly.

The Commission circulated a consultation paper to the insurance industry with a proposal to expand the classes of risk that can be underwritten by insurers that are licenced to operate in and or from the TCI, including the proposed licensing and regulatory framework for these insurers. Also included was a proposal for an expansion in the classes of insurance brokers and the requisite licensing and regulatory requirements. The Commission provided responses to all comments received from the industry on the consultation paper.

Regarding international cooperation, the department participated in various surveys during the review period. The surveys were conducted by i) AM Best on the insurance marketplace in the Caribbean; ii) Caribbean Association of Insurance Regulators on the implementation of IFRS 17 in the Caribbean; and iii) the International Association of Insurance Supervisors Peer Review Process for Insurance Core Principle 19, which dealt with business conduct of insurer and insurance intermediaries.

4.3 DOMESTIC INSURANCE

Two of the 18 domestic insurers were incorporated

19 A reinsurance company that provides financial protection to insurance companies that have issued contracts to cover warranty, finance and insurance risk of its affiliates.

in TCI and two of the 16 branches had a physical presence in the TCI; the remaining branches operated through assigned insurance brokers or agents. Consequently, the management and control of most of the insurers operating in the TCI resided outside of the jurisdiction. Taking the uniqueness of the market into consideration, the regulatory framework focuses on strong collaboration with these entities' home supervisors.

As part of its prudential supervision, the department ensured that insurers complied with the requirements of Section 8(3) of the Insurance Ordinance, which requires that sufficient funds, in the form of cash and or investments, be held in the TCI to match current liabilities, life insurance funds and annuity funds. Additionally, insurers were required to maintain the minimum solvency margin as a branch and as a legal entity. Capital adequacy and solvency in the insurance sector remained at adequate levels. As at December 2020 the Solvency Margin Ratio (SMR) of individual insurers exceeded the minimum requirement of 100.0 per cent prescribed by the Insurance Ordinance.

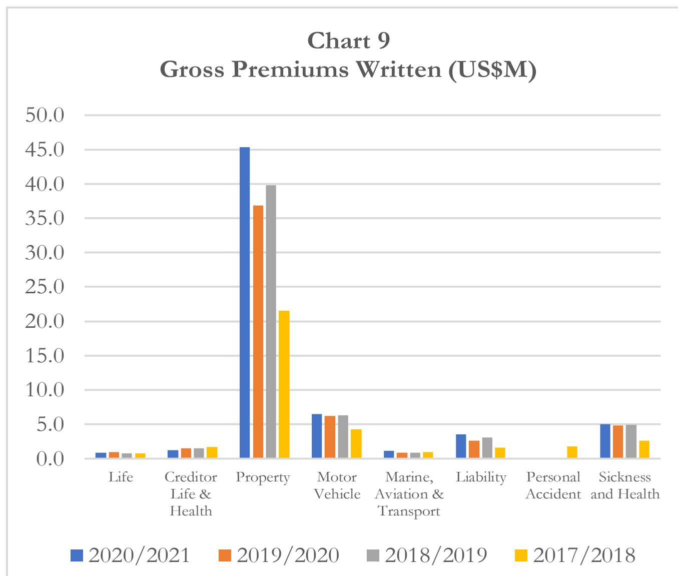
The department carried out an assessment of the audited financial statements submitted by brokers for the 2020 financial year; the consolidated data will be posted on the Commission's website. Insurance brokers earned commission of $7.0M, a marginal increase of 2% when compared to the prior year, which suggests that the COVID-19 pandemic did not have a negative impact on revenue. Brokers' cash and deposit holdings increased by 34.4% to $8.1M, which may have been influenced by the timing of payments to insurers, as accounts payable increased to $2.2M (2020: $0.6M). Brokers accounted for 85.5% of gross premiums written by domestic insurers as at December 2020.

The department implemented the 2nd phase of its assessment of select insurers in accordance with its RBS framework. As part of the assessment, the Commission conducted a review of entities' significant activities and risk, through separate assessments of inherent risk and risk management processes; this provided a better understanding of the insurer's operation, its risk appetite and its risk profile. The risk matrix and assessment documents were completed for four insurers and updates were provided for the two insurers that were initially assessed under the 1st phase of the pilot project.

The regulatory framework was further enhanced by continued engagement with other insurance regulators. The Commission participated in College of Regulators[20] meetings with the Bermuda Monetary Authority. The meetings were held to discuss insurance companies operating in the TCI, whose parent companies were incorporated in Bermuda.

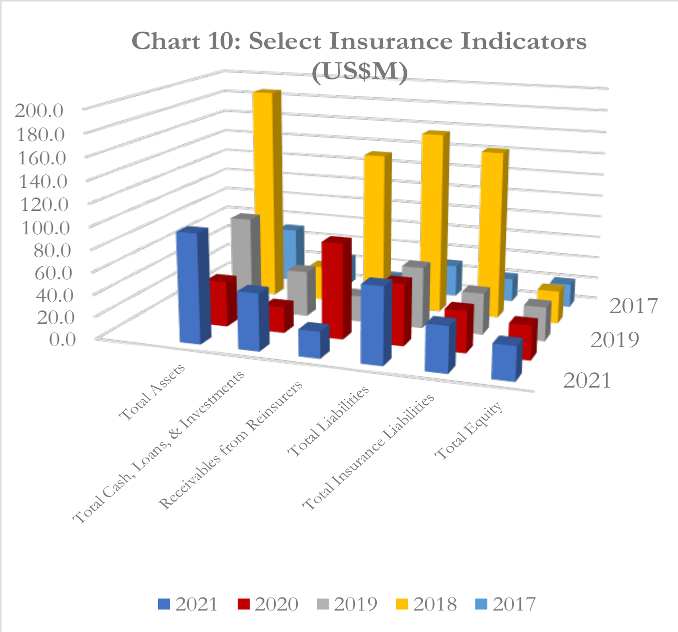
4.3.1 *Performance of the Domestic Insurance Sector*

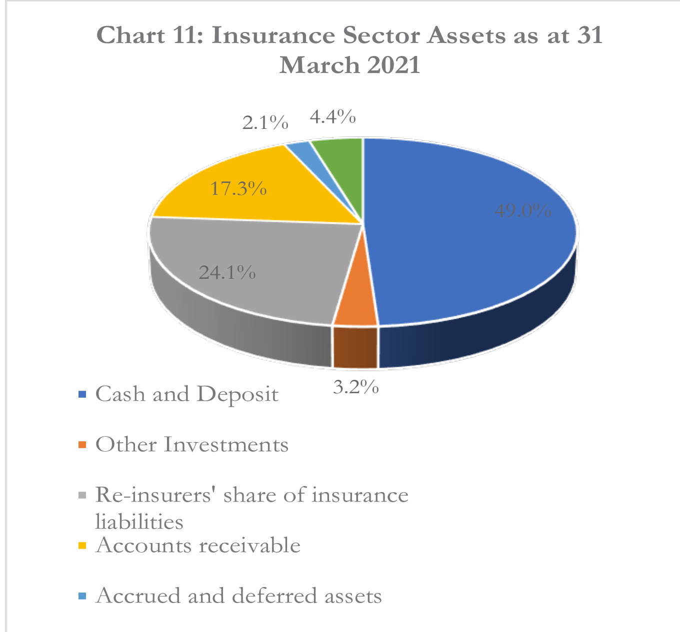
The domestic insurance sector comprised insurers (locally incorporated and branches of foreign insurance companies), insurance brokers, insurance agents and insurance sub-agents. A significant percentage of the domestic insurance business was written through insurance brokers. Property continued to be the dominant class (by value) of business written in the TCI, as shown in Chart 9. It should be noted that property was significantly reinsured.



Gross premiums written by domestic insurers during the 2020/2021 financial year increased by 18.5% to $63.8M when compared to the prior period. This increase reflected a rise in insurance rates for property, an increase in the value of insured property, and an increase in high value properties being placed with local insurers. Life insurance business in the TCI was very small, with $2.1M in premiums during the period.

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





As shown in Chart 10, there was a noticeable improvement in select balance sheet indicators compared to the previous year. The chart shows that the domestic insurance sector continues to grow, and that insurers' balance sheets were not negatively impacted by the pandemic. The improvement in insurers' performance was evident from the 23.9% increase in cash, loans, and investments to $51.1M, which caused the 14.3% growth in total sector assets to $98.1M. The chart also shows that 2018 was an unusual year reflecting the financial aftermath of the active 2017 hurricane season. The significant increase in the assets and liabilities of the insurance sector was a direct result of the considerable increase in claims outstanding and a corresponding increase in amounts recoverable from reinsurers.

Chart 11 provides a breakdown of the domestic insurance sector's assets as at 31st March 2021.

4.4 INTERNATIONAL INSURANCE

During the review period, the Commission, through the department, continued its active engagement with the international insurance sector. Two PORC Working Group meetings were held during the period; the major issues discussed were the proposal for a single licence for PORCs and amendments to section 9 of the Insurance Ordinance to update the regulatory framework for PORCs. The relevant amendments were passed during the last quarter of 2020; however, at the request of the industry, citing the short turnaround time for implementation, the Commission agreed to defer the commencement date to January 2022.

The international insurance industry remained vulnerable to factors external to the TCI, such as changes in legislation and market conditions in the United States of America. While the department is not aware of any foreign legislative or regulatory changes that might impact the attractiveness of the TCI as a domicile for international insurers, the Commission will continue to closely monitor the impact of COVID-19 on market conditions in the USA, which might have a negative impact on the international insurance sector.

Additionally, the Commission published its first report on the non-domestic insurance sector, excluding PORCS, during the period. The report, which is available on the Commission's website, provides aggregate statistics and other relevant information on the sector as at December 2019 and the comparative results as at December 2018. Total assets of this subsector increased by 13% to $3.2B for the period ended 31st December 2019, which was mainly attributable to increased investments, as the subsector's cash and investment grew by 12.8% to $1.6B. The total revenue reported by this subsector increased by 22.7% to $252.8M.

4.5 LEGISLATIVE AGENDA

The Commission continued to work with the Attorney General's Chambers to develop regulations in support of the Domestic Insurance Ordinance; regulations required for the new Domestic Insurance Ordinance to become operational. The Ordinance is expected to establish new, and strengthen existing, protections for policyholders, and generally enhance the regulation of domestic insurance business in the TCI. The coming into effect of the Domestic Insurance Ordinance will repeal certain sections of the current Insurance Ordinance. The current Insurance Ordinance (with repealed sections) will provide for the regulation of the international insurance sector until an International Insurance Ordinance is passed.

The Commission will seek to expand the classes of insurers and insurance intermediaries that are licensed to operate in and/or from the TCI. This amendment will allow for a more nuanced regulatory framework based on the risk profile of the licensee.

4.6 COVID-19 IMPLICATIONS

Considering the disruptive effect of the COVID-19 pandemic, the Commission provided strong support for the enactment of legislation which extended the deadline for payment of the 2020/2021 annual fees from 31st March 2020 to 30th June 2020. Additionally, the Commission exercised regulatory forbearance for delays in the submission of audited financial statements.

The department moved quickly during March 2020 to address challenges posed by the pandemic and remote working arrangements by facilitating the submission of insurance and other applications electronically. This new facility was implemented prior to the issuance of the shelter in place order in the TCI and allowed the Commission to provide continuous service to its clients during the lockdown period.

In August 2020, the department conducted two surveys to assess the operational and financial impact of COVID-19 on the insurance sector in the TCI. The survey found that domestic insurers successfully implemented 'work from home' measures and cyber security protocols to remain operational during the period. To reduce the likelihood of policy lapses, insurers exercised flexibility with clients experiencing challenges by offering longer payment arrangements and extended policy periods. The survey also indicated that the COVID-19 pandemic and the resulting lockdown in the USA and other countries did not have a significant operational and financial impact on TCI non-domestic insurers. Non-domestic insurers were proactive in their approach and implemented a comprehensive range of measures to minimise health risks, and to ensure limited disruption to customers during that period.

"The survey also indicated that the COVID-19 pandemic and the resulting lockdown in the USA and other countries did not have a significant operational and financial impact on TCI non-domestic insurers."

The Commission engaged with insurers to gauge the impact of the UK Supreme Court ruling that policyholders can claim against insurers for business interruption caused by the pandemic. The relevant TCI insurers were confident that the ruling and precedent would not have a material impact on their claims experience.

4.7 LOOKING AHEAD

In addition to normal regulatory activities, the following programs will be implemented during 2021/2022:

i) Publication of aggregate financial statistics for the PORC sub-sector; this will be the first time statistics will be published for this sub-sector.

ii) Development of an insurance database for PORC licensees that will facilitate online submission and processing of applications, electronic licence certificates and online payment of fees.

iii) Implementation of annual AML reporting forms for life and other long-term domestic insurers.

iv) Commence Phase III of the Risk Based Supervision framework. This will include i) preparation of the supervisory plan for the six companies that were previously assessed under the RBS framework, ii) hosting of supervisory/management meetings for four companies, ii) updating of the risk assessment document and the risk matrix, and iv) risk-based assessment of an additional four domestic insurers.

Licensees	2020/21	2019/20	2018/19	2017/18	2016/17
Reinsurers (PORCs)	7,727	7,997	7,716	7,334	7,021
Credit Life[21]	*7,100*	*7,222*	*6,967*	*6,725*	*6,404*
Non- Credit Life	*627*	*775*	*749*	*609*	*617*
Non-domestic Insurers Excluding PORCs	70	67	67	69	65
Insurance Managers	7	7	7	7	7
International Insurers/Intermediaries	**7,804**	**8,071**	**7,790**	**7,410**	**7,093**
Domestic Long-Term Insurers	5	5	5	5	5
Domestic General Insurers	13	14	14	14	14
Insurance Brokers	11	11	11	11	11
Insurance Agents	10	10	7	5	5
Insurance Sub-Agents	9	8	8	10	10
Domestic Insurers/Intermediaries	**48**	**48**	**45**	**45**	**45**
Total Licensee	**7,852**	**8,119**	**7,835**	**7,455**	**7,138**
Regulatory Activities					
Licenses Issued-Domestic	1	4	2	1	2
Licenses Issued-International	479	513	735	611	792
Licences Cancelled/Surrendered – Domestic	1	1	2	1	2
Licences Cancelled/Surrendered – International	746	232	355	294	701
Onsite Examinations	0	0	1	7	4
RBS Assessments	4	2			
Meetings & Discussions Held	1	8	7	6	6
Performance Indicators – Domestic US$M	**March 2021**	**March 2020**	**March 2019**	**March 2018**	**March 2017**
Gross Premium – General	61.7	51.4	54.9	33.4	21.8
Gross Premium – Long-Term	2.1	2.4	2.3	2.0	1.6
Claims – General	4.2	3.2	5.4	15.6	4.4
Claims – Long-Term	0.02	0.1	0.03	0.0	0.07
Total Insurance Liabilities	39.1	36.1	53.1	151.1	20.8
Reinsurers' Share of Insurance Liabilities	23.5	23.2	39.3	141.9	11.4

Table 2: Summary Insurance Statistics

21 Any policy of insurance securing the obligations of a debtor under a credit contract in the event of the debtor's death, illness or injury and includes extended warranty insurance cover.

5.0 INVESTMENT BUSINESS REPORT

5.1 OVERVIEW

In January 2020, the Commission embarked on a program to enhance its approach to the regulation of the investment business sector in the TCI. This approach considered the Commission's obligation to:

i) Protect investors.
ii) Promote markets that are fair, efficient, and transparent.
iii) Reduce systemic risks.

5.2 INVESTMENT BUSINESS

Investment business was conducted by seven entities which, in some instances, were issued multiple licences to conduct both investment dealing and mutual fund operation under the Investment Dealers (Licensing) Ordinance and the Mutual Funds Ordinance, respectively. Three entities accounted for approximately 54 per cent of the total investment business portfolio.

The sector was mature and fairly stable, and while there were no new entrants in the sector for the reporting period, portfolio values steadily increased. As at 31st March 2021, total value of assets under management amounted to US$1,254M, representing a 17 per cent ($182M) increase when compared to the previous year.

5.2.1 *Licensees*

As reflected in Table 3, the total number of licensees decreased by one to 19 during the review period due to the discontinuation of operations by one exempt mutual fund operation.

"The sector was mature and fairly stable, and while there were no new entrants in the sector for the reporting period, portfolio values steadily increased."

5.2.2 *Risk Management*

In response to The Caribbean Financial Action Task Force (CFATF) Mutual Evaluation Report of the Turks and Caicos Islands dated January 2020, the Commission introduced new Prudential Guidelines for the Supervision of Investment Business in March 2021.

The objective was to establish a framework for the prudential supervision of investment businesses, with particular emphasis on the requirement for businesses to implement and maintain effective systems to identify, measure, monitor, and control risk as part of their overall risk management strategy. The investment business sector was invited to comment on the draft Guidelines, prior to the Board's approval and issuance.

The new supervisory approach included a reporting component. The Commission requires each investment business to provide specific information on operational and risk-focused elements of the business through periodic reporting, with the first report due from licensees by 31st July 2021.

Type of Licensee	Licensees at 31/3/2020	Licensees at 31/3/2021
Mutual Funds	5	5
Exempt Mutual Funds	4	3
Mutual Funds Administrators	4	4
Investment Dealers/Advisers/Fund Manager	7	7
Total	**20**	**19**

Table 3: Sector Composition

This approach is part of the Commission's broader supervisory strategy and is consistent with the core objectives and principles of securities regulation which are advocated by the International Organization for Securities Commissions (IOSCO) as relevant standards for this area of business.

Throughout the period under review, the Commission facilitated staff training and capacity building through industry related training offered by organizations which included: The Fintech Forum, Centre for Latin American Monetary Studies (CEMLA), International Organization of Securities Commissions (IOSCO), Caribbean Financial Action Task Force (CFATF), and Association of Certified Financial Crime Specialists (ACFCS).

5.2.3 *Regulatory Activities*

During the review period one sector meeting was held. The new reporting requirement was discussed, and the industry was updated on regulatory initiatives planned for 2021-2022.

As part of their annual regulatory reporting, licensees are expected to show evidence of implementation and ongoing reviews of their business planning and risk management systems.

5.2.4 *Enforcement Actions*

The use of enforcement action is integral to the supervisory approach. With the supervisory guidance in place, the Commission will be monitoring periodic reporting for regulatory compliance. No enforcement action was taken on licensed investment businesses during the period under review.

5.3 UNLICENSED INVESTMENT ARRANGEMENTS

The Commission responded to several reports alleging the conduct of unregulated financial business within the islands. In one instance an operation offered significant returns to the public through a pooling of funds of contributors based on each member's fixed contribution of $500. A notice was issued to the public advising that caution be exercised, and the financial and other associated risks carefully assessed when pooling or investing funds as part of any arrangement.

5.4 LEGISLATIVE AGENDA

Proposed amendments to the Investment Dealers (Licensing) Ordinance remained part of the Commission's legislative agenda. The amendment is in response to the industry's call for inequities in the legislation to be addressed, particularly in relation to the licensing of investment advisers. Current licensing requirements do not consider the risks associated with the various categories of licenses.

5.5 LOOKING AHEAD

The Commission's commitment to continue enhancing its supervisory and regulatory framework includes:

i) undertaking research on the digital and virtual asset marketplace, which is expected to guide internal and national discussions on risk appropriate oversight of crypto asset activity operating in and from the Turks and Caicos Islands. The work is expected to be completed in November 2021.

ii) proposals for legislative revisions to update the Investment Dealers (Licensing) Ordinance and the Mutual Funds Ordinance to give legal effect to certain IOSCO principles, and to criminalise certain acts or omissions relating to the regulation of investment business.

iii) contributing to the establishment of a risk-based supervisory framework for investment businesses.

iv) facilitating sector engagement on these initiatives.

v) on-going desk based/onsite reviews during the financial year .

vi) facilitating at least one industry meeting to address effectiveness of the new supervisory regime.

6.0 AML SUPERVISION DEPARTMENT

6.1 OVERVIEW

The AML Supervision Department is responsible for the regulation of risks connected to money laundering, and the financing of terrorism and weapons of mass destruction. Its regulatory/supervisory mandate extends to all financial institutions, corporate service providers[22], non-profit organisations (NPOs), and designated non-financial businesses and professionals (DNFBPs). Its operations are guided by a legislative framework[23] which generally seeks to establish a risk-based approach (RBA) to risk management by requiring relevant persons – licensees and registrants – to prepare documented risk assessments on their operations, and that of the entities they represent.

6.2 CFATF'S IV ROUND MUTUAL EVALUATION

The TCI is a member of the Caribbean Financial Action Task Force (CFATF), an organisation of 25 states in the Caribbean, Central and South America, which have agreed to implement common counter-measures to address money laundering and terrorist financing. The CFATF's Mutual Evaluation Report (MER)[24] on the TCI's compliance with the FATF Recommendations was published in January 2020.

"The Commission and the department have designed their respective work programs over the next three years around the findings of the CFATF assessment."

The Commission and the department have designed their respective work programs over the next three years around the findings of the CFATF assessment. The department continued to apply the principles of RBA in the ongoing assessment of the ML/TF risks of regulated/supervised sectors. This included maintaining updated registrant files to ensure that accurate risk rates were assigned to entities, allowing for more targeted and effective use of the department's resources.

Due to the pandemic, no onsite examinations were conducted by the department during the reporting period.

6.3 REGULATED/SUPERVISED SECTORS

As of 31st March 2021, the department regulated or supervised 471 entities, as detailed in Table 4.

Sector	Responsibility	No.	%
Company Managers	Regulatory	29	6%
Company Agents	Regulatory	3	1%
Designated Non-Financial Businesses and Professionals	Supervisory	185	39%
Non-Profit Organisations	Supervisory	254	54%
Total		**471**	**100%**

Table 4: AML Supervision's Regulated and Supervised Sectors

6.3.1 *Corporate Services Providers (CSPs)*

Based on the Commission's assessment, supported by the findings of the MER, the primary regulatory concerns in this sector remained the adequacy of i) controls around client onboarding; ii) assessment of key personnel and the operations of represented clients, especially introduced business; iii) transaction monitoring; iv) client risk assessments; and v) business risk assessments. The analysis and management of risk associated with the financing of terrorism and weapons of mass destruction continued to be under-represented in CSPs' business risk assessments.

The department continued its assessment of each

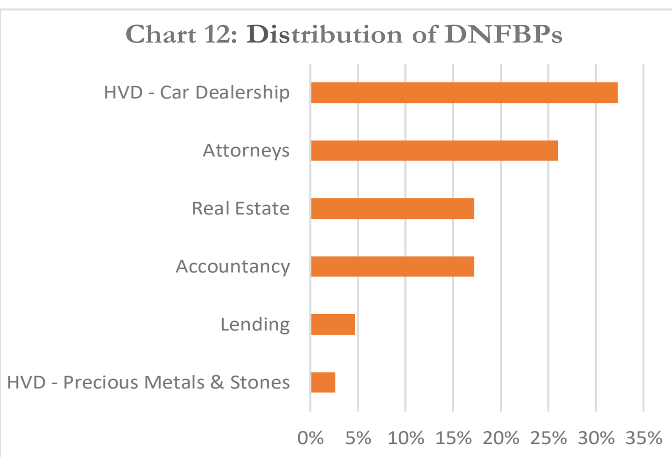
22 The department assumed regulatory responsibilities for corporate service providers (company managers and agents) in January 2020.
23 Available on the Commission's website.
24 Available on the Commission's website.

CSP to objectively assess the effectiveness of its risk management framework, particularly by reviewing annual returns. During the reporting period, and due to the pandemic, onsite examinations were suspended with a focus on desk-based review of materials submitted by CSPs as part of the annual licence renewal assessment. During the review period, one company manager licence was issued and one was revoked.

The department also issued Regulatory Advisories on the renewal of CSP licences[25] and continued to work with licensees to strengthen their onboarding and client monitoring risk management frameworks.

6.3.2 *Designated Non-Financial Businesses and Professionals (DNFBPs)*

The registration of Designated Non-Financial Businesses and Professionals (DNFBPs)[26] continued to grow slowly but steadily over the last three years (2019-2021), with just under 10% growth during the review period. Car dealerships continued to represent the largest segment of this sector, accounting for just over 30% of the supervised portfolio, followed by legal professionals at 26%. The number of dealers in precious metals and stones remained unchanged as the smallest segment of the sector, with four registered entities. Chart 12 illustrates the sector's composition as at 31st March 2021.



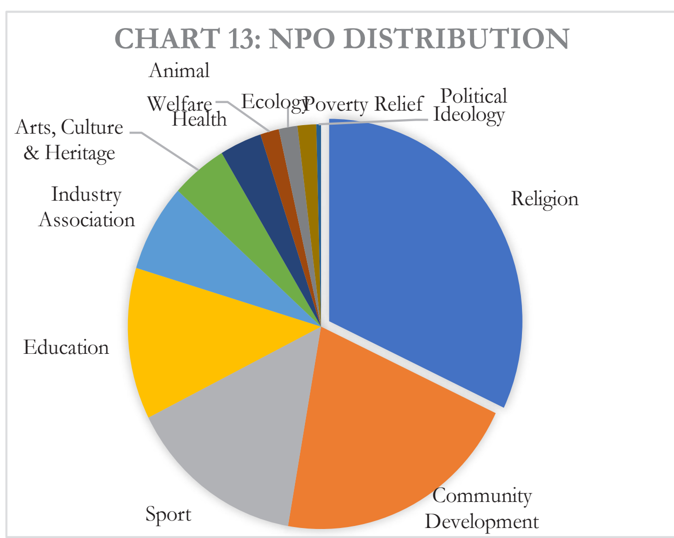
The supervisory concerns of this sector remain the perception of a relatively poor grasp of money laundering and terrorist financing risks, a particular observation of specific segments of the sector i.e. car dealerships, dealers in high value goods, and money lenders. This manifests in weak AML frameworks, including entities' processes around Know Your Client assessments, Source of Funds analysis, and identification and reporting of Suspicious Activity.

Given the above concerns, the department has scheduled a sector periodic review in 2021 to collect missing and updated Know Your Registrant data. Alongside this exercise, the department is also planning a sector questionnaire, designed to gauge technical knowledge gaps, and thus guide the department in the planning of effective sector training.

The department's supervisory efforts with the DNFBP sector continued to focus on the issuance of sectoral technical guidance[27] on Financial Sanctions, Human Trafficking and Smuggling, Risk Assessment, and Due Diligence and Enhanced Due Diligence for High-Risk Customers.

6.3.3 *Non-Profit Organisations (NPOs)*

Following the trend of the previous reporting period, the registration of Non-Profit Organisations continued to grow at a steady rate. By the end of the reporting period, 256 NPOs were registered with the NPO Supervisor, a 10% increase when compared to the same time in 2020. As illustrated in Chart 13, religious institutions continued to represent the largest cohort in this supervised sector, followed by NPOs focused on community development.



25 Regulatory Advisories may be accessed here: https://tcifsc.tc/regulatory-advisories/.
26 This includes legal professionals (lawyers), real estate agents, accountants, dealers in high value assets (car dealers and dealers in precious metals), and micro-finance.
27 Guidance may be accessed here: https://tcifsc.tc/aml-ctf-guidance/.

As part of its strategic response to the CFATF MER findings and long-standing supervisory concerns about the sector's appreciation of its ML and TF risks, the department continued its critical review of Know Your Registrant data held on NPOs, and the modelling of the sector in terms of ML/TF risks.

As such, the department's efforts continued to focus on collecting, verifying, and analysing information on NPOs registered with the NPO Supervisor, including the identification of NPOs that were eligible for exemption from supervision, or for de-registration. Ultimately, the exercise was designed to acquire a more accurate assessment of the sector's ML/TF risk and vulnerabilities, and to guide the allocation of regulatory resources.

The department is also planning a sector questionnaire designed to gauge technical ML and TF knowledge gaps, and thus guide the department in planning effective sector training in 2021 and 2022.

6.4 FINANCIAL SANCTIONS

Triggered by a priority recommendation in the CFATF MER, the department continued to fine tune its communication strategy to promptly disseminate Financial Sanctions Notices (FSNs) issued by the UK Office of Financial Sanctions Implementation (UK OFSI). Within 24 hours of receipt of FSNs from the TCI Attorney General's Chambers, FSNs were emailed to all regulated/supervised persons and promptly posted on the Commission's website, as per the UK OFSI standard. A total of 144 FSNs were disseminated by the department during the review period.

The department also published its 'Financial Sanctions Survey Report[28]', summarising the findings of the Commission's online industry survey, conducted in May 2020. The survey was designed with three goals in mind: to assess the awareness of Financial Institutions (FIs) and DNFBPs of their obligations under FSNs issued by the TCI Attorney General's Chambers; to gauge the level of implementation of these obligations on an on-going basis, and the adequacy of internal sanctions screening systems and controls; and to strengthen the collective ability of FIs and DNFBPs to meet their sanctions obligations. Among the issues highlighted was the lack of knowledge of the steps to be taken where there is a match against a sanction notice.

6.5 RISKS AND REGULATORY CONCERNS

The department continued to focus on key areas of concern in both its supervised and regulated sectors. These included the un-quantified risk of terrorist financing in the charitable sector and a general misunderstanding of the sector's vulnerability to money laundering risk, as well as relatively weak Anti-Money Laundering infrastructure of some segments of the DNFBP sector.

6.6 REGULATORY COOPERATION

During the reporting period, the department collaborated with the Financial Intelligence Agency (FIA) on a project focusing on a key MER finding relating to low Suspicious Activity Reporting (SAR) in the TCI. The intra-agency work focused on the design and dissemination of a sector survey and the critical analysis of its findings. The final FIA report is due to be published during the next financial year.

The department also actively supported the on-going strategic efforts of the AML Committee, chaired by the Attorney General. This included the Commission's direct participation in two working groups of the AML Committee: the Supervisors Forum (a collaborative platform between the Commission and the Gaming Inspectorate), and the Counter-Terrorism and Proliferation Financing Focus Group. During the next financial year, the Commission, through the department, will launch a third working group of the AML Committee – the Public/Private Partnership Forum.

6.7 LOOKING AHEAD

The department will remain focused on the recruitment of skilled AML professionals of varying seniority, and their acquisition of globally recognised industry qualifications. The department is also focused on the completion of 2019/2020 projects, including the Risk Rating of the NPO sector and the delivery of effective sector training. The department is scheduled to commence the periodic review of the DNFBP sector, with the final goal of its Risk Rating, following the principles of RBA supervision.

28 The report may be found here: https://tcifsc.tc/sanctions-guidance/

7.0 LEGAL AND ENFORCEMENT UNIT REPORT

7.1 OVERVIEW

In fulfilment of its mandate, the Legal Unit provided legal, enforcement, and regulatory support to the Commission, and secretariat services to the Board during the reporting period. The general functions of the unit are detailed below.

The unit, which was staffed by two officers (Legal Advisor and Legal Officer), received operational support from Registry staff to manage the Beneficial Ownership Register, and legal support from the Deputy Managing Director.

7.2 COVID-19

The reporting period commenced at the height of the COVID-19 pandemic and the resulting shelter in place order and curfews. Understanding the need for the Commission to continue to serve its clients during the lockdown period, the unit reconfigured its operations to be able to provide service to the Commission and its clients from home.

Although challenged by COVID-19, the unit performed satisfactorily and was able to provide the level of support that was required by the Commission. Even with the lifting of some restrictions, the unit continued to leverage the electronic systems and procedures adopted during COVID-19 with the goal of remaining efficient and responsive.

7.3 GENERAL LEGAL SUPPORT

The unit provided the Commission with appropriate legal and quasi legal support as required.

7.3.1 *Legal Support*

The unit saw an increase in requests for legal support from the various departments in respect to general legal advice and interpretation of legislation. Support was given in respect to a wide cross-section of issues.

7.3.2 *Legislative Agenda*

During the review period, the Commission's legislative agenda slowed due to the operational challenges and demand on resources caused by COVID-19 pandemic. It was difficult to move legislation to completion because staff and stakeholders had varying degrees of operational challenges during the crisis. With the establishment of a new Cabinet, the Commission was required to resubmit all the Cabinet Papers not previously considered due to COVID-19 *(see table 5)*.

7.4 LITIGATION

The unit continued to be charged with the management of existing and new litigation. The Commission was named in one new matter[29] and continued to respond to two matters which commenced in the 2019/20 reporting period.

7.4.1 *Guideline for Receipt of Legal Process*

Internal policy guidelines were introduced to assist staff with receiving and processing legal documents submitted to the Commission. The policy guidelines are designed to reduce the time between receipt by the Commission and receipt by the Legal Unit of legal documents. The policy guidelines were introduced with training for relevant staff. The guidelines and training have resulted in improved efficiency in the receipt and timely processing of legal documents.

7.4.2 *Company Restoration*

The unit continued supporting the Registrar with company restoration applications. With one exception, all applications were agreed and dispensed with by Consent Order without requiring the Commission to appear in Court. One application did not receive the consent of the Registrar; the application was outside of the authority of the Registrar, the company was struck and dissolved for more than 10 years.

7.4.3 *General Litigation*

The Commission was named as respondent in one new legal matter; an appeal of the Commission's decision to revoke a licence issued under the Company Management (Licensing) Ordinance. The Commission responded to the application and the applicant discontinued the appeal.

The Commission/Registrar continued to be named in a judicial review action against the decision of the Registrar to restore a company to the Register. Interlocutory issues to which the Commission had no locus continued during the review period and it is expected that the judicial review will continue into the next reporting period.

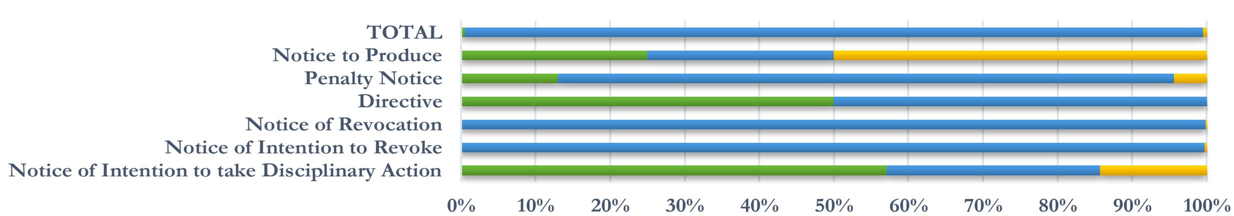
The second matter carried over from the 2019/20 period involving an Insolvency Practitioner seeking guidance and clarification on issues within the Insolvency Ordinance. This matter was discontinued by the applicant after the Commission and Attorney General's Chambers agreed to initiate agreed amendments to the Insolvency Ordinance to address the anomalies.

7.5 ENFORCEMENT ACTION

The unit continued to manage the Commission's enforcement and disciplinary regime. The enforcement regime considered the Commission's decision to extend deadlines and exercise forbearance, where possible, in response to the challenging conditions created by the COVID-19 pandemic.

Chart 14 provides a summary of enforcement

Chart 14: Enforcement/Supervisory Action



	Notice of Intention to take Disciplinary Action	Notice of Intention to Revoke	Notice of Revocation	Directive	Penalty Notice	Notice to Produce	TOTAL
Bank & Trusts	4	0	0	1	3	1	9
Insurance	2	843	766	1	19	1	1632
Company Managers	1	2	1	0	1	2	7

29 Excluding procedural company restoration matters.

actions taken in 2020/21. The large number of enforcement actions against insurance licensees was due to consolidation of the register of licensees. Most of the revocations were issued to licensees that were defunct (i.e., did not pay fees or file returns for several years). This consolidation was done in consultation with the industry.

7.6 POLICIES

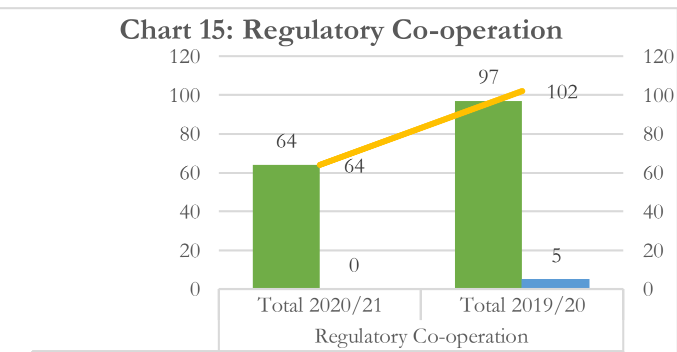
The unit assisted with the review of various policies, including the Commission's Employee Manual, Telecommuting Policy, policies on quarantine and quarantine orders, Code of Business Conduct, Complaints Policy, and guidelines to licensees, among others.

7.7 BENEFICIAL OWNERSHIP REGISTRY

The period under review saw increased compliance with the Beneficial Ownership Register. There was high compliance by newly incorporated companies however, older companies remained delinquent. The Commission has recommended amending the legislation to provide for additional enforcement powers to encourage compliance.

7.8 REGULATORY CO-OPERATION

As part of its mandate to support and facilitate regulatory cooperation pursuant to the Commission's duty under



	Total 2020/21	Total 2019/20
Domestic	64	97
International	0	5
TOTAL	64	102

the Financial Services Commission Ordinance, the unit assisted both domestic and international authorities. There was a reduction in cooperation requests during the review period. All 64 requests for assistance came from domestic authorities; one because of a Mutual Legal Assistance Treaty (MLAT) request. Domestic assistance was provided to the Integrity Commission, Special Investigation and Prosecution Team (SIPT), the Attorney General's Chambers, and the Royal Turks and Caicos Islands Police Force.

Chart 15 provides comparative data on the number of assistance requests received in the current and prior review periods.

The unit assisted the Commission in responding to information requests and surveys from various international bodies, such as, Caribbean Financial Action Task Force (CFATF), European Union Global Forum, Organisation of Economic Co-operation and Development (OECD), Group of International Finance Centre Supervisors (GIFICs) and United Kingdom Foreign Commonwealth Office (UK FCO).

7.9 OFFICIAL ASSIGNEE

During the review period, the Commission continued to monitor and supervise licensed insolvency practitioners. As a result of the pandemic, insolvency practitioners recommended that steps be taken to protect businesses from insolvency proceedings considering that the lock-down resulted in economic hardship. The Commission contemplated, based on the industry's recommendation, suspension of Section 268 of the Insolvency Ordinance to provide insolvency protection on account of the pandemic (including implementation of moratoria and delays in respect to proposed insolvency actions against companies). This considered the UK's suspension of its equivalent provision; however, it was determined that the TCI Insolvency Ordinance already provided some level of similar protection.

The Commission, with the assistance of the industry, established a rota system for awarding contracts to licensed insolvency practitioners to assist the Commission in its duty as Official Assignee. The rota system was not used during the review period as the Official Assignee was not appointed to conduct any insolvency services by the court.

At the end of the reporting period there were seven licensed insolvency practitioners.

7.10 SECRETARIAT

The Legal Advisor continued to serve the Board of Commissioners as its Secretary by providing general secretariat, governance, and legal advice as appropriate. In addition, the Legal Officer was appointed secretary to the Governance Committee of the Board.

To improve governance, the Legal Unit drafted charters for each Board Committee for their review and approval. The Charters, which are intended to assist the Committees' operations, were considered and are likely to be finalised and operationalised early in the next reporting period. Upon completion of the Committees' Charters, the unit will consider updating the Board's Charter to ensure that it continues to be relevant and encompasses best practice.

7.11 LOOKING AHEAD

The reporting period closed with the Commission returning to some level of normalcy. It is anticipated that the next reporting period will see increased economic activity and new risk factors, which will impact the work of the unit; however, the unit remains confident that the policies and procedures in place will allow it to meet the challenges ahead.

"the unit remains confident that the policies and procedures in place will allow it to meet the challenges ahead."

With the increase in electronic and cyber activities caused by the pandemic, the unit has commenced research on cyber risk mitigation legislation and legislation surrounding the regulation and supervision of virtual assets.

Cabinet Papers Resubmitted for Approval	
Legislation	**Purpose**
Companies Ordinance (BO late Penalties)	Amendment to CO17 to allow the Commission to implement administrative penalties leading to striking for failure to file BO Information
Companies Ordinance (PORC Voluntary Liquidation)	To exempt solvent PORCs from requiring a licensed insolvency practitioner for voluntary liquidation
Companies Ordinance (Electronic Filing at Registry)	Amendment to CO17 to allow the Commission to implement a fee to accept paper filing where electronic filing is available
Money Transmitters Ordinance	Amendments to update the MTO
Trademarks Ordinance and Rules	To amend the TMO and redraft the Trade Marks Rules to update and align with international standards
Business Licensing Ordinance	Amendment to Business Licensing Ordinance (BLO) to exempt Insolvency practitioners licensed under the IO17 from BLO registration like other financial services
Financial Services Commission Ordinance	Adjustment of period of limitation for disciplinary action
Limited Partnerships Ordinance	Filing of BO information for limited partnerships with Commission and general partnerships with Business Licensing Unit
Cabinet Papers Approved for Submission to the House of Assembly	
Insolvency Ordinance	Amendment to IO17 to deal with anomalies and other minor issues
Bills/Amendments Approved for Drafting	
Business Names Bill	Draft and implement a new Business Names legislation
Investment Dealers Licensing Ordinance	Amendment to implement a regime for Investment Advisors separate from Investment Dealers
International Insurance Bill	Draft and implement a new International Insurance Ordinance (Specialist drafter required)
Resolution Bill	Draft and implement a new legislation to empower the Commission to take necessary steps to assist with financial institutions resolutions (Specialist drafter required)
Approved Legislative Changes	
Insurance Ordinance	Amendment to the PORC regulatory regime. Commencement date delayed at the request of the industry
Companies (Amendment) Bill	To provide for ANPs to continue as NPOs under the CO17
Stamp Duty (Amendment) Ordinance	Amendment to remove stamp duty for transfer of share by companies
Legislative Changes Under Consideration	
Domestic Insurance Ordinance and Regulations	Bill for the licensing and regulation of domestic insurance
Banking Suite of Legislation	Bill for the licensing and regulation of banks
Securities Bill	The establishment of an omnibus piece of legislation for the licensing and regulation of all securities businesses (mutual funds, investments, etc).
Financial Institutions Bill	Legislation for the licensing and regulation/supervision of currently unregulated financial services (e.g. money lenders, digital wallets, etc)

Table 5: Legislative Agenda

8.0 REGISTRY REPORT

8.1 OVERVIEW

The Registry's[30] primary functions are the registration/incorporation of companies, and the registration of trademarks, patents, limited partnerships, and business names. As at 31st March 2021, the Registry administered the following pieces of legislation:

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

8.2 LEGISLATIVE CHANGES

There was one legislative change during the period; an amendment to the Companies Ordinance 2017, which came in force on 18th December 2020. The Companies (Amendment) Ordinance, 2020, provided that all entities registered as Associations Not for Profit (under the old Companies Ordinance) shall be deemed to be registered as a company under the Companies Ordinance 2017 until 30th June 2021. This is an automatic exercise of the law; the entities are not required to do anything to be deemed a company during this period.

The Amendment therefore temporarily created a new type of company and provided the following specific options (only) for these companies: -

i) Register as a non-profit company under the Companies Ordinance 2017, or

ii) Apply to be removed from the register and become an unincorporated association.

The amendment to the Companies Ordinance also required that any association not for profit wishing to register as a non-profit company must first obtain the approval of the NPO Supervisor. Where the NPO Supervisor does not give the required approval, the association not for profit may elect to register as an 'ordinary' company.

All other legislative amendments which were dependent on other policymaking agencies were put on hold.

8.3 COMPANIES

8.3.1 *Incorporations/Registrations*

The Registry recorded a 3.4% decrease in incorporations/registrations during the review period compared to the previous year. The decline was seen primarily in the first half of the year, with 361 companies being registered compared to 477 in the previous year. This contraction was influenced by the slowdown in worldwide economic activity due to the COVID-19 pandemic.

As reflected in Table 6, the total number of companies on the register declined from the previous year, with the figure standing at 15,952 (16,347:2020).

TOTAL ACTIVE COMPANIES AND PARTNERSHIPS BY TYPE					
ENTITY TYPE	**Mar-17**	**Mar-18**	**Mar-19**	**Mar-20**	**Mar-21**
Companies					
Companies (other than NPC or PCC)	15,673	16,381	15,995	16,057	15,564
Protected Cells	2	2	3	3	3
Non-profit[31]	122	129	131	139	241
Foreign	72	77	77	78	75
Total Companies	**15,869**	**16,589**	**16,206**	**16,277**	**15,883**
Limited Partnerships	65	70	71	70	69
Active Companies/ Partnerships	**15,934**	**16,659**	**16,277**	**16,347**	**15,952**

Table 6: Companies/Partnerships at Year End 2017-2021

30 The Registry includes the Companies, Patents, Trademarks, Business Names and Beneficial Ownership Registries.
31 Non-profit: includes associations not-for-profit, which have deemed as companies effective 18 December 2020.

8.3.2 *Court Restoration of Companies*

During the review period, the Registry received 14 applications, two less than the previous year, for companies to be restored via the Court. Of the 14 applications, 13 companies were restored following completion of the judicial and administrative processes.

8.3.3 *Registration of Charges*

During the review period, 55 charges were registered, compared to 68 during the previous period.

8.4 TRADEMARKS AND PATENTS

During the review period, 310 trademarks were registered compared to 459 during the 2019/20 financial year. The number of patents registered during the year (13) remain unchanged from the previous year. Efforts at acquiring an online database remains in progress.

8.5 BUSINESS NAMES

The number of new business names registered during the year declined by 20% to 1,194 compared to 1,498 registered in the previous financial year.

8.6 KREGISTRY

During the review period, the Registry continued to expand the use of technology to improve service delivery, enhance customer experience and increase efficiency. There was a shift away from paper filings for companies to online filing as the Registry added the following forms to its KRegistry operating system:

i) Notice of Directors and Members - Automatic Registration

ii) Notice of Amendment of Articles of Incorporation and Notice of Filing of Restated Articles of Incorporation

iii) Application for Certificate of Registration - Automatic Registration

iv) Incorporation of non-profit and protected cell companies

v) Registration of foreign companies

vi) Continuation of companies to the TCI

vii) Notice of Variation of Charge and Notice of Satisfaction/Release of Charge

viii) Notice of Change of Name

In March 2021, the online services were expanded to include the filing of business names renewals and annual fee payment for companies.

The Registry is pleased that 29 of the 34 Corporate Service Providers were actively using the online system at the end of the financial year.

8.7 TRAININGS/ MEETINGS

A focus group comprising the KRegistry developers, KRegistry users and staff was established and met in the first and second quarters of the financial year. The group's purpose is to provide feedback on the platform, identify system deficiencies, recommend improvements, and plan for future rollouts of system features and enhancements.

Training on the Kregistry online system was provided to company administrators who had not used the system before or whose use was infrequent. This was to encourage greater use of the system, as it appeared that the guidelines provided were not being used. Participants were later provided with recordings from the meeting for future use.

9.0 INFORMATION TECHNOLOGY DEPARTMENT

9.1 OVERVIEW

The goal of the Information Technology (IT) Department is to create and maintain a secure, accessible, and modern information technology infrastructure. The vision of the department is to provide scalable and efficient technology that facilitates secure and continuous access to data from any place.

9.2 IT INITIATIVES 2020 – 2021

9.2.1 *Cyber Security and Operational Resilience*

The COVID–19 pandemic provided a live test of the operational resilience of the IT Department. The escalation of telecommuting created increased demand on the core network infrastructure, a significant surge in user support requirements, and new security threats. The department was able to use its current resources as well as tap into innovative technology to meet these unexpected and unprecedented demands. Employees were able to access their network folders and the system, and carry out all major functions of the Commission from home with the same level of access as in the office. This off premise access was governed by the Commission's recently developed Telecommuting Policy.

The impact of the pandemic has vastly increased the Commission's cyber threat landscape. Cyber attackers saw the pandemic as an opportunity to focus on exploiting vulnerabilities in systems and people. Given these threats and vulnerabilities, the department has enhanced and expanded the Commission's Security Awareness Program to include Phishing Simulation Tests and other related training. The department also increased its circulation of Cyber Security Awareness Tips via electronic mail and newsletters.

Recognising that employees can be the best gatekeepers but also the area of greatest vulnerability, the Security Awareness Program focused on training and educating employees to identify potential malicious threats. Accordingly, the department held several internal trainings with its staff to ensure that they were kept abreast of best practices and had the right skillsets to maintain the technology required to provide efficient services.

The increased reliance on digitalisation has brought about increased data protection and privacy concerns. Accordingly, the department improved its IT infrastructure and implemented new security and surveillance systems to manage and mitigate these risks. A holistic approach to cybersecurity was adopted during the year with the goal of ensuring business continuity and enhanced efficiency while increasing data protection and privacy.

9.2.2 *"Working Smarter, Not Harder"*

During the year, the department embarked on a drive to assist other departments to work smarter, rather than harder. This effort involved assessing current workflows and outputs, as well as introducing technological innovations and automations (databases) to drive productivity. The departments which benefited from this effort included i) the Human Resource and Administration Department, ii) Insurance Department, iii) Legal Unit, iv) Companies Registry, and v) the Bank and Trust Department.

During the year, the department also launched its IT Help Desk System. The IT Help Desk System allowed the department to streamline its processes and more promptly address employee concerns.

9.2.3 *eGovernment Initiative*

The Commission will continue to monitor developments with the Government's eGovernment initiative, which considers the coordination, interconnectivity and interoperability of IT services across government departments, agencies and statutory bodies. The Commission will look to align its systems with those of the Government, where relevant and appropriate, as part of the Government's eGovernment initiative.

9.2.4 *Policies and Plans*

With an emphasis on security and a commitment to operational resilience, the department commenced work on updating its Information Management and Security Policy, the IT Strategic Plan (2021 to 2023), and the Commission's Business Continuity Plan.

9.3 IT RISK

Technology enables virtually every activity at the Commission; hence, it was important that the department adopt a framework that will assist in identifying, managing, and addressing IT risks. The most significant IT risks that the department has identified included i) Data Management, ii) Technology Operations, iii) Cyber Security and Incident Response, iv) IT Resiliency and Continuity, and v) Strategic risk. The department continues to monitor all IT risks identified and put measures in place to mitigate these risks, where applicable.

> **"Technology enables virtually every activity at the Commission; hence, it was important that the department adopt a framework that will assist in identifying, managing, and addressing IT risks."**

9.4 LOOKING AHEAD

With its IT Strategic Plan, the department has a plan for modernising IT services at the Commission; phasing out legacy systems, and protecting information and systems against sophisticated attacks, while ensuring that the IT solutions that are implemented are aligned with the Commission's business needs. The plan will focus on three goals: Information Security and Privacy, Operational Excellence, and Continuity of Operations. The plan will be implemented in a phased approach, to be completed by 2023.

10.0 HUMAN RESOURCE AND ADMINISTRATION

10.1 OVERVIEW

The Human Resources and Administration Department's (HRAD) core mandates are i) efficient and effective recruitment, ii) staff development, iii) administration of personnel policies, and iv) managing administration and fixed assets.

The department had as its focus for the review period "Developing Leaders: A Coaching and Mentoring Experience". However, this focus shifted to business continuity and staff support due to the profound and prolonged impact of the COVID-19 pandemic on the Commission and the TCI. This required the HRAD to strategically identify ways to support, engage, motivate and manage staff during a period of sustained uncertainty.

During the review period, the HRAD focused on policies and procedures that prioritised the safety and wellbeing of staff, the protection of clients, business continuity, and minimised business interruption.

10.2 COVID-19: ACTION PLAN

Although 2020 proved to be a difficult year, the pandemic confirmed the resilience, commitment and adaptability of staff. With the COVID-19 influenced lockdown, staff had to quickly transition, adjust and adapt to working from home. Transition back to the office also required some adjustments to the new normal of mask wearing, social distancing and enhanced sanitisation.

Staff is to be commended for their support, understanding and flexibility in responding and adapting to the various protocols introduced by the Commission to mitigate risks associated with the pandemic. The changes included varied working hours, the introduction of a shift system, telecommuting, and working from varied office space to facilitate adequate social distancing. Relevant areas were retrofitted to

"Staff is to be commended for their support, understanding and flexibility in responding and adapting to the various protocols introduced by the Commission to mitigate risks associated with the pandemic."

maximise the safety of staff and customers. This involved the installation of barriers, hand sanitizer machines, social distance markers and temperature monitors in the reception areas; the provision of hand sanitizer and face masks to staff; and the arrangement of onsite COVID-19 testing for interested staff. Safeguarding the health and safety of staff and customers was and remains the Commission's highest priority during this crucial period.

The HRAD led the effort in implementing the above changes, including the development of policies and procedures to govern the new processes, such as, i) the Telecommuting Policy and ii) Guidelines for Staff Subject to a Quarantine Order.

10.3 STAFFING

During the financial year, the Commission had a staff complement of 76 employees. The regulatory departments[32] had 23 staff members, while the administrative and operational departments[33] had 50, and executive core[34] had three *(see table 7 below)*. The Commission continued to be challenged to find, recruit and retain trained and experienced regulators. At the end of the review period the Commission had seven vacant regulatory positions.

32 Anti-Money Laundering Supervision Department (AMLSD), Bank and Trust Department, Insurance Department, Legal Unit, and Policy Unit.
33 Human Resources and Administration Department (HRAD), Finance Department, Information Technology Department (IT) and the Corporate Registry.
34 Managing Director, Deputy Managing Director and Senior Advisor.

10.4 RECRUITMENT

10.4.1 *Permanent Placement*

One of the Commission's requirements for success is the ability to recruit, develop and retain talented staff to permanent positions. However, planned recruitment activities during the period were negatively impacted by circumstances including, but not limited to: i) the moratorium on new work permits, ii) COVID-19 travel restrictions, iii) COVID-19 social distancing space requirements, iv) the fierce regional competition for regulatory talent, and v) local demand for staff influenced by the reopening of the economy. Despite these challenges, the Commission was able to facilitate the hiring of five replacement staff to permanent positions.

10.4.2 *Temporary Placement*

During the period under review, the Commission recruited temporary staff for specific tasks within the Registry. These contracts were designed to terminate upon the completion of the task or employment term, which ranged from six months to one year. The Commission projected hiring of five temporary staff members during the review period; however, only four temporary positions were filled.

10.5 TRAINING AND DEVELOPMENT

Given the COVID-19 pandemic and the need to guarantee safe working arrangements for all staff, the Commission suspended all face-to-face training during the review period. However, staff were exposed to training via webinars and other virtual training platforms *(see table 8 below)*.

As to be expected, the emphasis of a significant portion of the training was on operating in a COVID-19 environment and the impact of COVID-19 on financial sector stability.

10.5.1 *Performance Management System*

In November 2020, the Commission introduced a new electronic performance tracking and management system, through a third-party vendor. This performance management software facilitates annual, semi-annual and continuous performance reviews; the setting of objective goals, which are weighted based on significance; the monitoring of goal achievement, and provision of continuous feedback. The department conducted several training sessions to familiarise staff with the new performance management system and commenced using the system in December 2020.

10.5.2 *Succession Plan*

The Commission places great importance on succession planning, with the objective of developing local talent for leadership positions. It is also the Commission's policy to recruit within the organisation or locally, wherever possible.

In keeping with the above objective, the Commission has developed and instituted a succession plan covering all management positions at the Commission. The plan targeted departments that would require the recruitment of staff in the short-term. The plan identified the knowledge, skills, and competencies that are required for a particular task, and then established a plan to prepare individuals to potentially perform those functions.

The HRAD monitored the plan and engaged with departments to ensure that the plan remained dynamic and responsive to the changing needs of departments and the Commission as a whole.

10.5.3 *Internship*

The Commission suspended its annual internship program due to the additional space required to facilitate social distancing.

10.5.4 *Education Assistance Programme*

The education programme continued to receive positive results and the development goals of staff that received financial support were achieved during the review period. The programme supported eligible staff to pursue academic and professional

"The education programme continued to receive positive results and the development goals of staff that received financial support was achieved during the review period."

qualifications. Staff from the Legal Unit, AMLSD, IT and Finance Departments who were enrolled in various courses or programmes successfully completed their programmes during the financial year.

10.5.5 *Employee Recognition Program*

The department has seen further expansion in the number of staff being recognised for the year. During the annual recognition program, staff were nominated by their peers and were given a small token. Awards for Manager, Supervisor and Employee of the Year, and Spirit of the Commission were received by staff from the Legal Unit, HRAD, Registry and IT Departments.

10.6 EMPLOYEE MANUAL

The Commission continued to update its policy documents to ensure that policies and practices remained consistent and relevant, especially considering the changes brought on by COVID-19. During the period, the employee manual was revised/updated in collaboration with management and consultation with staff. Staff feedback was incorporated into the final draft which was scheduled for consideration and approval by the Board of Commissioners early in the next financial year.

10.7 ADMINISTRATIVE MATTERS

The department worked consistently over the review period to ensure that supplies were maintained; contracts negotiated, updated or renewed; and assets acquired, as necessary. The planned procurement of assets for the Commission's new office in Providenciales was deferred to the next financial year.

10.7.1 *Automated Leave Management System*

The department, in collaboration with the IT Department, implemented an Automated Leave Management System in June 2020 to create greater efficiency in the monitoring of leave. This new system was supported by a Leave Management System User Guide developed by the two departments.

10.8 LOOKING AHEAD

The COVID-19 pandemic has created an impetus for the digitisation of the HRAD and the automation of several processes. This is reflected in the introduction of the electronic performance monitoring and management system, and the automated leave management system. Work has also commenced on transferring all personnel information to an HR Shared drive, which can be accessed anytime and from anywhere with an internet connection. This will allow the HRAD to move away from a paper-based to an electronic document management system.

The Commission recognises that automating aspects of the human resource management processes is essential to enhancing the efficiency of the HRAD by freeing employees from tedious manual tasks. With greater streamlining of some human resource management processes, the department will be able to focus its attention on more strategic roles.

Departments	Staff Complement					
	2019		2020		2021	
AML Supervision	5		5		4	
Bank and Trust	6		7		6	
Company Registry	29		28		31	
Finance	4		4		4	
Human Resource & Admin	7		8		8	
Information Technology	8		7		7	
Insurance	7		9		10	
Legal	1		2		2	
Policy	1		1		1	
Executive Core	2		3		3	
Total Staff Complement	**70**		**74**		**76**	
Description	No.	% of Staff	No.	% of Staff	No.	% of Staff
Non-supervisor	46	66%	47	64%	49	64%
Supervisor	13	18%	15	20%	15	20%
Management	11	16%	12	16%	12	16%
Total	**70**	**100%**	**74**	**100%**	**76**	**100%**

Table 7: Staffing at the Commission

External Training	
Training	**Recipient Department**
FSI Connect	Bank and Trust, Insurance and Policy Unit
Webinar: Risk Management for SMEs - Building Resiliency and Business Continuity in Times of Crisis	Bank and Trust and Insurance Departments
Webinar: IMPACS UNODC CBSI Trade-Based Money Laundering	AMLSD, Legal Unit and Executive Management
BIS-IMF Supervisory and Regulatory Online Course (SROC) for Banking Supervisors 2020	Bank and Trust, Insurance and Policy Unit
Business Continuity Post COVID-19	IT and HRA Departments
New OECD and ADB e-Learning Course: Beneficial Ownership	Companies Registry and Legal
The Competitive Advantage of People Strategy	HRA Department
Webinar: Drive Employee Career Growth in 2021	HRA Department
Designing a Modern Performance Management Strategy	HRA Department
Webinar: How To Make Sure Your Employees Feel Valued at Work	HRA Department
Webinar: How HR Departments Can Benefit from Workflow Automation	HRA Department
FATF Webinars on the Impact of the COVID-19 on ML Investigations, Prosecutions and International Cooperation	Legal Unit
International Diploma in Governance, Risk and Compliance	Legal Unit
Financial Crime Virtual Week	Legal Unit
General Course on Intellectual Property	Legal Unit
Certificate in Insolvency	Legal Unit
Webinar: The Future of Due Diligence – Third Party Risk in the Era of COVID	Bank and Trust Department
Webinar: Financial & Reporting Audit consideration for SMEs During COVID	Bank and Trust Department
Introduction to New Technologies in Regulations and Supervision	Bank and Trust Department
IBEForu: Financial Modelling for Budgeting and Forecasting in Excel	Finance Department
IBEForu: Certified IFRS Specialist with Impact on Financial Statements	Finance Department
7th FSI-IAIS Regulatory and Supervisory Training Online	Insurance Department
Internal Training	
Virtual Training on New Performance Management System	All Departments
Understanding Public Law: The Creature Called Judicial Review	All Departments
Performance Management System: PerformYard	All Departments
Fundamentals of Networking and Group Policies	IT Department

Table 8: Training Coordinated during the Review Period

11.0 FINANCE DEPARTMENT REPORT

11.1 FINANCIAL AND RISK MANAGEMENT SYSTEMS

The department remained guided by the principle of efficient revenue collection and the prudent management of expenditure and risk.

Responding to the impact of reduced economic activities and lockdowns due to pandemic containment measures required a careful evaluation of the Commission's financial risk. This assessment considered cashflow risk given changes to filing deadlines and challenges of in-person transactions. To effectively manage this risk, the department implemented procedures for clients to remit payments online. This resulted in an exponential growth in online transfers which required the adoption of effective and risk aligned internal controls. The department also conducted a judicious review of operational expenditure and prepared a revised budget taking into consideration the impact of the pandemic.

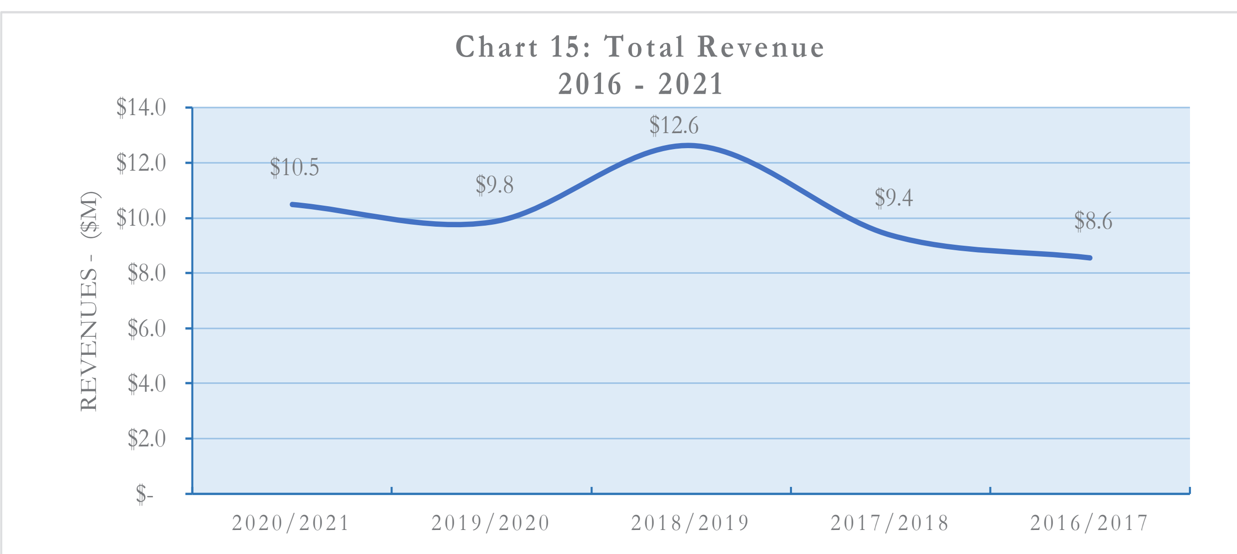
11.2 FINANCIAL PERFORMANCE REVIEW

11.2.1 *Revenue*

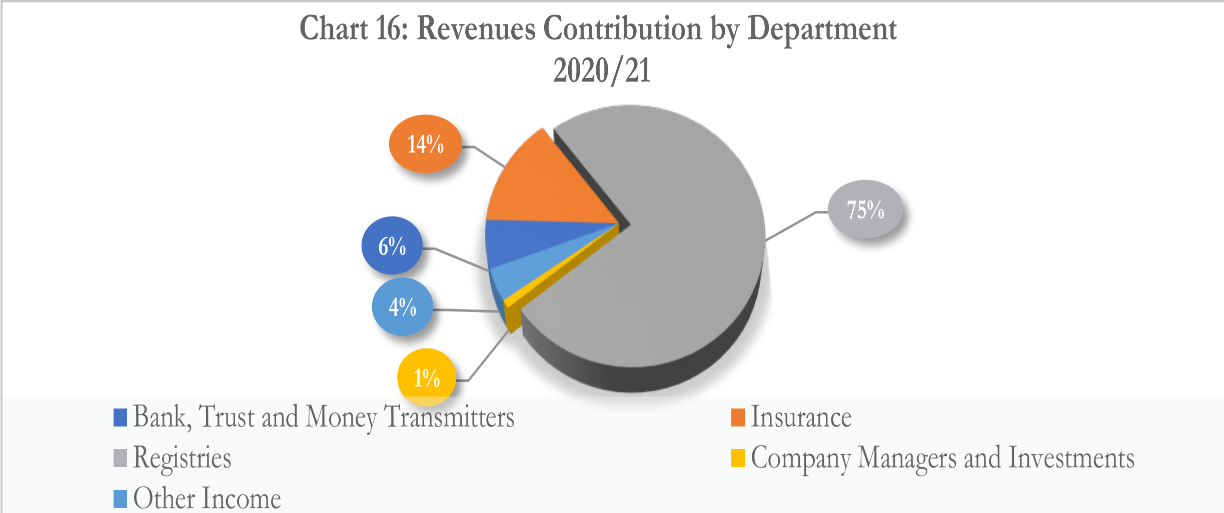
The Commission recorded total revenue[35] of $10.5M for the financial year under review. As reflected in chart 15, the Commission recorded positive revenue trends ranging from 6.0% to 35.0% during the last five years, except for 2019/20 which broke this trend with a 22.0% decline in revenue due to a change in the filing deadline for some companies.

There was a 6.0% increase in revenue during the reporting period when compared to 2019/20 financial year. This growth was reflected in a 75.4% or $2.1M expansion in annual renewal fees. The increase was influenced by a change in the filing deadline for former international companies, which was moved from 31st March to 30th June[36]. This resulted in revenue which would normally be reported in the previous financial year being reported in this financial year. Business names registration also saw a 21.0% growth in revenue in the last quarter of the financial year. However, land share transfer duty, an unpredictable revenue source for the Commission, declined by 51%.

As reflected in chart 16, the Companies Registry generated the lion's share of the Commission's total revenue, 75.0%, compared to 71.0% in 2019/20. The other departments remained relatively consistent in their revenue contributions, as reflected in chart 17. The increase in revenue from the Company Registry was attributed to a change in filing deadline and early payment of annual renewal fees at the end

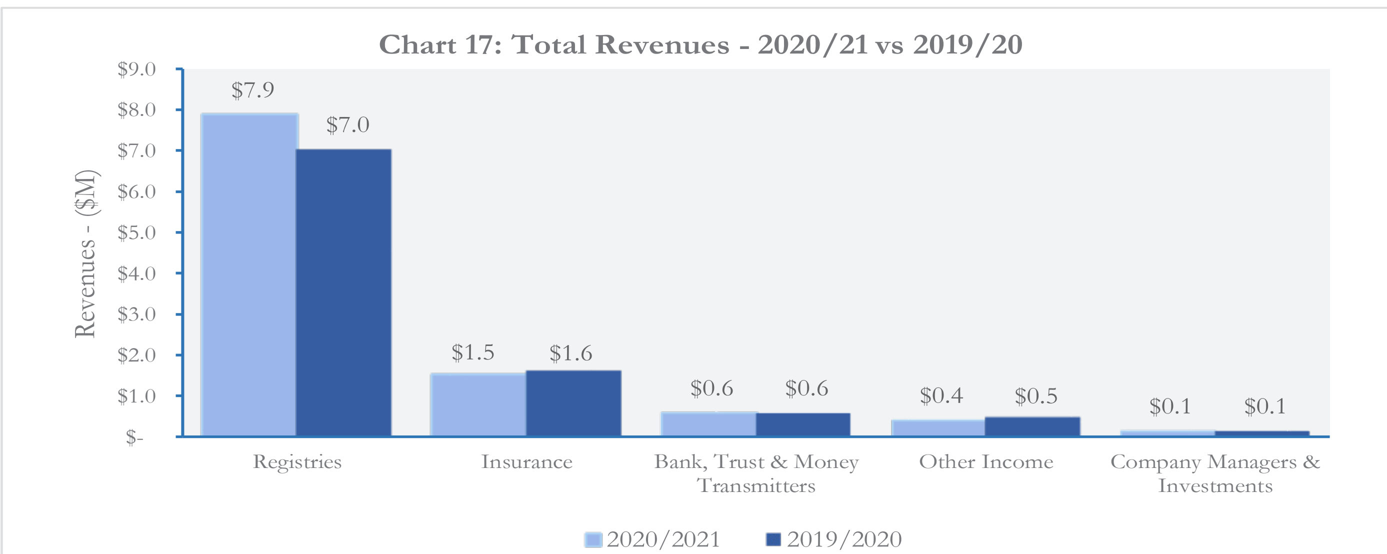


35 Revenue from all sources, including land share transfer duty and sundry fees
36 This resulted in the revenue being recognised from the previous financial year.



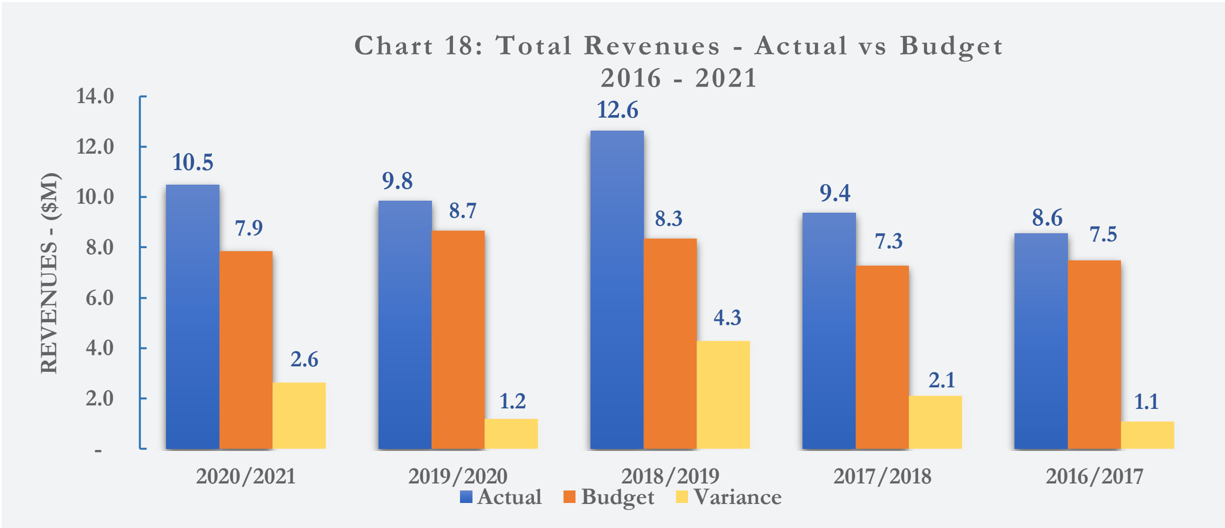
of the financial year. Other revenue comprised interest income, penalties for regulatory breaches or outstanding fees, and miscellaneous fees; penalties accounted for 77% of other revenue.

Table 9 shows comparative revenue collection for the 2020/21 and 2019/20 financial years. Revenue generated from the Companies Registry increased by 12.0% due to a combination of factors namely, change in the annual filing fees for companies formerly classified as international companies and increased registration of business names. Revenue from the bank, trust and money services business sectors remained consistent with the previous year's performance, while revenues from insurers and company managers contracted by 8% and 1%



Revenue by Department	2020/21	2019/20	% Change	Share of Total Rev. 2020/21	Share of Total Rev. 2019/20
Bank, Trust, MSBs	579,023	578,425	0%	6%	6%
Insurance	1,503,945	1,629,296	(8%)	14%	17%
Registries	7,869,304	7,022,392	12%	75%	71%
Company Managers & Investments	135,500	136,200	(1%)	1%	1%
Other Income	399,348	483,589	(17%)	4%	5%
Total	**10,487,120**	**9,849,902**	**6%**	**100%**	**100%**

Table 9: Revenue Contribution by Department and Growth Rates 2020/21 vs 2019/20



respectively, due to revocation of some licences.

As shown in chart 18, the Commission outperformed its revenue targets over the last five years. The actual performance against the budget returned a positive 34% variance for the 2020/21 financial year. The significant contributors to this positive variance were annual renewal fees for companies (32% or $1.2M above target), annual licence fees for PORCs (86% or $0.5M above target) and sundry fees (354% or $0.5M above target). Land share transfer duty was the main contributor to the positive revenue variances for the three financial years 2017/18 to 2019/20; however, this revenue source returned a negative variance of $0.15M (11%) for the financial year under review.

11.2.2 Expenses

Table 10 reflects key expenditure data for the last five financial years. The total expenditure for the reporting

Select Expenditure Items	2020/21	2019/20	2018/19	2017/18	2016/17
Staff Costs	3,841,362	3,772,215	3,472,631	3,381,372	3,773,218
Professional & Consultancy Fees	2,975	15,643	57,453	195,350	302,224
Travel Costs	4,340	193,476	151,306	106,783	99,625
Communication	124,481	130,847	113,116	106,253	103,446
Subscriptions & Contributions	129,213	119,532	89,067	75,100	23,169
Training Costs	17,527	81,861	26,875	44,629	118,695

Category	2020/2021	2019/2020	2018/2019	2017/2018	2016/2017
Total Expenditure	**5,582,814**	**6,066,657**	**5,704,284**	**5,465,625**	**6,035,850**
Change Over Yr.	**(8%)**	**6%**	**4%**	**(9%)**	**(17%)**

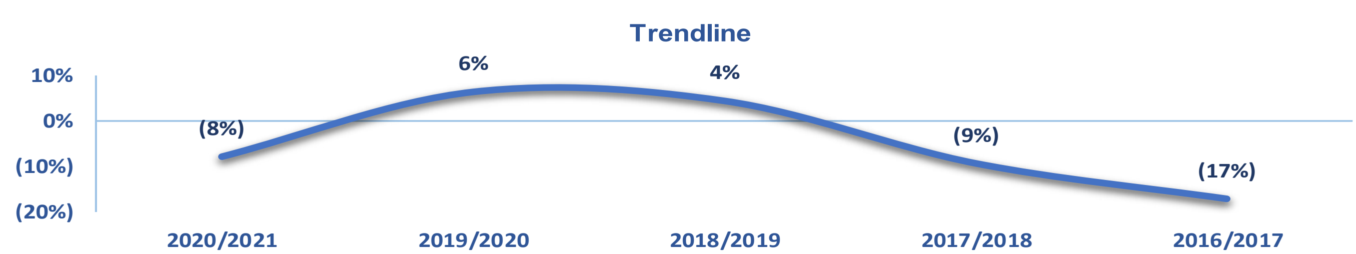


Table 10: Expenditure Over Last Five Years

period was $5.5M, a decline of 8% over the prior period. The COVID-19 pandemic significantly contributed to this decline with the restrictions on travel and face-to-face meetings; travel cost contracted by 98.0%, professional and consultancy fees by 81.0%, and training by 79.0%.

There was a marginal increase in staff costs of 2.0% when compared with the prior period (2019/20); this was consistent with an overall increase of 2.0% in staff cost over the last five financial years. The increase for the current year was attributable to gratuities and pension cost as more staff became eligible to join the Commission's Pension Plan. While the increase over the longer period resulted from the salary re-alignment exercise conducted during the 2018/19 financial year.

Subscription and contributions recorded an increase of 8.0% over the prior period. This was mainly due to an increase in membership subscriptions to international regulatory organisations. This provided the Commission with greater access to resources to build capacity to enhance risk-based supervision and crisis management, and to improve compliance with international standards and best practices.

The Commission recorded a positive expenditure variance against budget for the review period of $1.6M or 22% when compared to the revised budget of $7.1M. The Commission's budget was revised three times during the review period to reflect changing conditions brought on by the pandemic, including delays or deferral of some work program activities.

11.2.3 *Assets, Liabilities and Reserve Funds*

Total assets, net of fixed and intangible assets, amounted to $14.8M, a contraction by 4.0% when compared to $15.5M as at the corresponding period in 2020. The decline was reflected mainly in term deposits held as funds were utilised for the acquisition of a building to house the Commission's Providenciales operations.

As reflected in table 11, cash, cash equivalents and other interest-bearing assets accounted for 97% of total specified assets[37], up from the 94% in the previous period. Investment holdings continued to reflect a mix of local certificates of deposit and foreign treasury bonds of the highest ratings. Treasury bonds accounted for 10% of investments, down from 11% in the prior period. The Commission's investment strategy continued to concentrate on shorter term instruments (cash and cash equivalents) as opposed to longer dated treasury bonds.

Other than cash and cash equivalents[38], trade receivables constituted the other major financial asset of the Commission. During the review year, there was a 51.0% decrease in receivables due to proactive monitoring of outstanding receivables, revocations of delinquent licence holders and penalties being imposed for non-compliance. In keeping with IFRS 9, expected credit losses were recognised; the value of receivables is reported net of those credit losses.

As at 31st March 2021, the Commission had total liabilities of $5.5M. The Commission's liabilities were largely in respect of amounts due to the Turks and Caicos Islands Government (TCIG) and accrued expenses (primarily owed to suppliers, accrued employment benefits and statutory deductions). The Commission had an operating surplus of $4.9M, which was transferrable to TCIG (see chart 19). At the end of the financial year, $3.3M of the transferable amount was due to TCIG.

The reserve fund established pursuant to section 17(3) of the FSC Ordinance stood at $7.2M in compliance

Select Categories	2020/21	2019/20	Change Over Yr.	2018/19	2017/18	2016/17	Change Over 5 Yrs.
Total assets, net of fixed and intangible assets	$14.8M	$15.4M	(4%)	$13.6M	$12.4M	$10.2M	45%
Cash, cash equivalents and other interest-bearing assets	$14.3M	$14.5M	(1%)	$13.0M	$10.8M	$8.4M	70%
Accounts Receivables	$0.3M	$0.7M	(51%)	$0.4M	$0.5M	$0.6M	(48%)

Table 11: Asset Distribution

37 Total assets excluding fixed and intangible assets
38 Term deposits and held to maturity investments

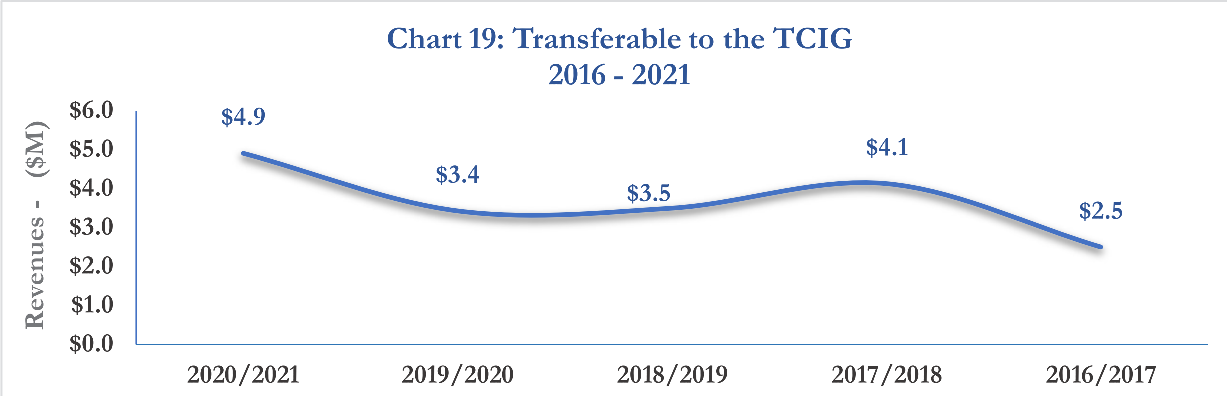


Chart 19: Amounts Transferable to the TCIG

with the Ordinance at the end of the reporting period, while the capital reserve fund established for capital expenditure stood at $4.7M.

11.3 LOOKING AHEAD

Given these changing conditions, it is essential for the Commission to remain capable of safely meeting the needs of its clients in the delivery of financial services through safe channels, such as the use of technology. In addition to the option of online payments for business name renewals, the Commission will continue to consider other non-face-to-face payment means and COVID-19 safe interaction, such as contactless payment services.

SECTION B

STATEMENT ON INTERNAL CONTROL AND CONSOLIDATED FINANCIAL STATEMENTS

Financial Services Commission
Board of Commissioners' Statement on Internal Control 2020/2021

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

Scope and Responsibility

The Board of Commissioners is responsible for oversight of the Commission and for ensuring that it has an appropriate risk management and internal control function.

The Board has established an Audit and Risk Management Committee (ARMC) subcommittee of the Board. This Committee carries out certain oversight functions and provides guidance to the Board on areas, including but not limited to: appropriate internal control environment; effective risk management framework (systems and controls); compliance with statutory financial obligations and relevant board-approved policies; review of the annual financial statements and annual report; and assessment of the performance of the external auditors and management of the work of the internal auditor.

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

Purpose of Systems of Internal Control

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

Risk and Control Framework

The Commission has in place a Risk Management Framework. The framework has the following features: i) identification of stakeholders in the risk management process; ii) identification of risks; iii) procedures for assessing, ranking and assigning ownership of those risks; iv) establishment and use of risk registers; v) identification of taxonomy of risks; and vi) risk reporting. The framework includes the '*three lines of defence*' model for managing operational risks. The framework is reinforced by other control mechanism such as an *Internal Control Statement,* which addresses issues of segregation of duties, limits on control, custody of assets, forced leave policy and training. There is also a *Fraud Risk Policy*. In addition, departments are required to document their business processes and the related procedures. Board approved documents set out the Commission's strategies for managing risk (including stipulating a generally low risk appetite) and the expectations for staff with respect to confidentiality and ethical standards.

Capacity to Handle Risk

The Commission's capacity to manage risk continues to be enhanced. Work continues on the development and use of key risk indicators (KRIs), particularly with respect to the IT function. The concept that risk is central has now been integrated across the Commission, with departments being directed to adopt a risk-focused approach and to provide monthly reports on risks which arise in the department, with details on how the risks are or will be managed. Operational and regulatory risks are co-opted into an Enterprise-Wide Risk Management framework. The Board continued to be central in this process and has issued instructions for the review and updating of the Commission's Code of Conduct. The Code will set out or further enhance the standards by which staff are expected to operate, which should minimise operational risks for the Commission. The Code is expected to be finalised in the next financial year.

There are controls and processes in place to safeguard and manage the Commission's capital (reserve) fund.

Review of Effectiveness

The effectiveness of the risk and control framework is assessed based on its success in reducing/mitigating existing risks and in identifying new risks in a timely manner to facilitate corrective actions.

Focussed assessment work carried out by the Finance Function with respect to data management, produced specific recommendations for improving efficiency in operations, timely data verification and data aggregation. These areas impact data reporting, which is an important element of an effective risk management system.

There were no operational losses during the year that impacted the Reserve Fund. Financial risks (credit and market) were not material based on the values and counter parties involved.

The Board considered the risk and control frameworks to have been effective during the financial year 2020/21

Chairman – Audit and Risk Management Committee
August 2021

Consolidated Financial Statements of

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Year ended March 31, 2021

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Consolidated Financial Statements

Year ended March 31, 2021

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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the Turks and Caicos Islands Financial Services Commission and its subsidiary (together "the FSC"), which comprise the consolidated statement of financial position as at March 31, 2021, the consolidated statements of revenue, expenditures and other comprehensive income, changes in reserves and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the FSC as at March 31, 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the FSC's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the FSC's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the FSC to cease to continue as a going concern.

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the FSC to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the FSC audit. We remain solely responsible for our audit opinion.

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

Report on Other Legal and Regulatory Requirements

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

- We have obtained all the information and explanations we consider necessary for the purposes of our audit.
- In our opinion, the FSC has complied with its obligations under section 21 of the Ordinance.
- In our opinion, the FSC's consolidated financial statements are in agreement with its financial records and give a true and fair view of the consolidated financial position of the FSC as at March 31, 2021 and of its consolidated financial performance and its consolidated cash flows for the year then ended.
- In our opinion, the FSC has discharged with diligence its obligations in relation to the collection of its revenues and the Turks and Caicos Islands (TCI) Government's revenues.

Intended Use of Report

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

Baker Tilly Ltd.

Chartered Accountants

Providenciales, Turks and Caicos Islands

August 27, 2021

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Consolidated Statement of Financial Position

At March 31, 2021
with comparative figures at March 31, 2020

		2021	2020 (as restated)
Assets			
Current assets:			
Cash and cash equivalents (note 5)	US$	11,608,900	10,657,617
Term deposits (note 6)		1,322,035	2,321,084
Accounts receivable, net (note 7)		322,821	661,113
Due from employees (note 8)		84,996	121,905
Held-to-maturity investments (note 9)		1,405,107	1,552,699
Prepayments and other receivables (note 10)		89,739	134,082
		14,833,598	15,448,500
Non-current assets:			
Right-of-use-asset (note 11)		130,961	327,401
Intangible assets (note 12)		173,995	217,587
Property and equipment (note 13)		3,560,080	1,515,253
		3,865,036	2,060,241
	US$	18,698,634	17,508,741
Liabilities and Reserves			
Current liabilities:			
Accounts payable and accrued expenses (note 14)	US$	484,902	397,542
Due to TCIG (note 15)		3,338,711	1,764,745
Current portion of deferred income (note 16)		1,652,712	1,899,474
Current portion of lease liability (note 17)		140,908	198,621
		5,617,233	4,260,382
Non-current liabilities:			
Non-current portion of deferred income (note 16)		207,192	228,385
Non-current portion of lease liability (note 17)		–	140,908
		207,192	369,293
		5,824,425	4,629,675
Reserves:			
Reserve fund (note 29)		7,195,192	7,195,671
Capital reserve fund (note 29)		4,723,011	4,727,389
Retained surplus (note 18)		956,006	956,006
		12,874,209	12,879,066
	US$	18,698,634	17,508,741

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

These consolidated financial statements were approved on behalf of the Board of Commissioners on August 27, 2021 by the following:

David G. Oakden
_______________ Chairman
David Oakden

_______________ Managing Director
Niguel Streete

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TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Consolidated Statement of Revenue, Expenditures and Other Comprehensive Income

Year ended March 31, 2021
with comparative figures for year ended March 31, 2020

		2021	2020
Revenue:			
Fees and charges (note 19)	US$	10,406,306	9,719,574
Interest income		56,869	83,024
Other income		23,945	47,304
		10,487,120	9,849,902
Expenditures:			
Staff costs (note 20)		(3,841,362)	(3,772,215)
Depreciation of right-of-use asset (note 11)		(196,440)	(196,440)
Depreciation of property and equipment (note 13)		(188,345)	(234,839)
Office expenses (note 22)		(152,060)	(156,383)
Subscriptions and contributions		(129,213)	(119,532)
Communication (note 23)		(124,481)	(130,847)
Impairment loss on accounts receivable (note 7)		(117,210)	(163,087)
Repairs and maintenance		(94,872)	(103,709)
Insurance		(93,991)	(96,708)
Utilities		(84,860)	(101,281)
Commissioners fees and expenses (note 24)		(83,316)	(129,992)
Security		(77,412)	(69,985)
Advertising		(74,042)	(60,329)
Amortisation of intangible assets (note 12)		(65,467)	(76,333)
Audit and accounting		(55,000)	(86,250)
Kregistry license annual fee		(54,300)	(49,475)
Other operating expenses (note 26)		(41,692)	(55,961)
Local hosting and entertainment		(33,029)	(106,782)
Rental of buildings		(33,000)	(33,841)
Training (note 25)		(17,527)	(81,861)
Finance charge		(17,380)	(31,688)
Travel and subsistence (note 21)		(4,340)	(193,476)
Professional and consultancy fees		(2,975)	(15,643)
Loss on disposal of property and equipment		(500)	–
		(5,582,814)	(6,066,657)
Surplus before other comprehensive income		4,904,306	3,783,245
Other comprehensive income		–	–
Net surplus for year	US$	4,904,306	3,783,245
Net surplus for year transferred to:			
Reserve fund	US$	(479)	354,435
Capital reserve fund (note 29)		(4,378)	–
TCIG (note 15)		4,909,163	3,428,810
	US$	4,904,306	3,783,245

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

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TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Consolidated Statement of Changes in Reserves

Year ended March 31, 2021
with comparative figures for year ended March 31, 2020

	Reserve fund US$	Capital reserve fund US$	Retained surplus US$	Total US$
Balance at April 1, 2019 (as restated)	6,841,236	4,727,389	956,006	12,524,631
Net surplus for year	3,783,245	–	–	3,783,245
Reserve fund transferred to amount due to TCIG (note 15)	(3,428,810)	–	–	(3,428,810)
Balance at March 31, 2020 (as restated)	7,195,671	4,727,389	956,006	12,879,066
Balance at April 1, 2020 (as restated)	7,195,671	4,727,389	956,006	12,879,066
Net surplus for year	4,904,306	–	–	4,904,306
Reserve fund transferred to amount due to TCIG (note 15)	(4,909,163)	–	–	(4,909,163)
Depreciation on new property (note 29)	4,378	(4,378)	–	–
Balance at March 31, 2021	7,195,192	4,723,011	956,006	12,874,209

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

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Consolidated Statement of Cash Flows

Year ended March 31, 2021
with comparative figures for year ended March 31, 2020

		2021	2020
Cash flows from operating activities:			
Net surplus for year	US$	4,904,306	3,783,245
Adjustments for:			
Depreciation of property and equipment		188,345	234,839
Depreciation of right-of-use asset		196,440	196,440
Amortisation of intangible assets		65,467	76,333
Impairment loss on accounts receivable		117,210	163,087
Finance charge		17,380	31,688
Interest income		(56,869)	(83,024)
Loss on disposal of property and equipment		500	–
		5,432,779	4,402,608
Changes in operating assets:			
Change in accounts receivable, gross of impairment loss		221,082	(414,076)
Change in due from employees		36,909	(10,666)
Change in prepayments and other receivables		44,343	11,615
Changes in operating liabilities:			
Change in accounts payable and accrued expenses		87,360	(195,515)
Change in deferred income		(267,955)	186,991
Net cash from operating activities		5,554,518	3,980,957
Cash flows used in investing activities:			
Change in term deposits		999,049	(2,004,755)
Proceeds from disposal of held-to-maturity investments		2,457,750	1,600,000
Acquisition of held-to-maturity investments		(2,310,158)	(1,651,085)
Additions to intangible assets		(21,875)	(26,075)
Additions to property and equipment		(2,233,672)	(90,395)
Interest income received		56,869	83,024
Net cash used in investing activities		(1,052,037)	(2,089,286)
Cash flows used in financing activities:			
Cash transferred to TCIG (note 15)		(3,335,197)	(2,094,944)
Payment of lease liability (note 17)		(198,621)	(184,312)
Finance charge paid		(17,380)	(31,688)
Net cash used in financing activities		(3,551,198)	(2,310,944)
Net increase/(decrease) in cash and cash equivalents		951,283	(419,273)
Cash and cash equivalents at beginning of year		10,657,617	11,076,890
Cash and cash equivalents at end of year	US$	11,608,900	10,657,617

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

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TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements

Year ended March 31, 2021

1. General information

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

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

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

2. Basis of preparation

(a) *Basis of accounting*

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

During the year the Group restated or reclassified certain reserve amounts to conform with the requirements of Section 17 of the Ordinance (note 29).

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

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

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

(b) *Functional and presentation currency*

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

TURKS AND CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION
Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

2. Basis of preparation, continued

(c) Use of estimates and judgements

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

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

Information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in these consolidated financial statements is included in note 3(j)(i), *Impairment – non-derivative financial assets* and note 3(k), *Leases*.

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

3. Significant accounting policies

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

Certain comparative amounts have been reclassified to conform with the current year's consolidated financial statement presentation and restated to conform with the Ordinance requirements (note 29).

(a) Basis of consolidation

(i) Subsidiary

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

(ii) Non-controlling interest

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

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

TURKS AND CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION
Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

3. Significant accounting policies, continued

(a) Basis of consolidation, continued

(iii) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of reserves. Any resulting gain or loss is recognised in the consolidated statement of revenue, expenditures and other comprehensive income. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iv) Transactions eliminated on consolidation

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

(b) Financial assets and financial liabilities

(i) Recognition and initial measurement

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

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

(ii) Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income (FVOCI) or FVTPL.

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

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

3. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(ii) Classification and subsequent measurement, continued

Financial assets, continued

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

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

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

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

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

The FSC has the following financial assets measured at amortised cost: cash and cash equivalents, term deposits, accounts receivable, due from employees, other receivables and held-to-maturity investments.

Financial assets – Business model assessment

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

TURKS AND CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION
Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

3. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(ii) Classification and subsequent measurement, continued

Financial assets, continued

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

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

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

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest

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

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

TURKS AND CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION
Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

3. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(ii) Classification and subsequent measurement, continued

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest, continued

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

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

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

Financial assets – Subsequent measurement and gains and losses

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

Financial liabilities – Classification, subsequent measurement and gains and losses

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

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

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3. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(ii) Classification and subsequent measurement, continued

Financial liabilities – Classification, subsequent measurement and gains and losses, continued

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

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

(iii) Derecognition

Financial assets

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

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

Financial liabilities

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

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

TURKS AND CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION
Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

3. Significant accounting policies, continued

(b) Financial assets and financial liabilities, continued

(iv) Offsetting

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

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

(c) Intangible assets

(i) Recognition and measurement

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

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

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

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

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

3. Significant accounting policies, continued

(c) Intangible assets, continued

(ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the FSC. All other expenditure is recognised in the consolidated statement of revenue, expenditures and other comprehensive income as incurred.

(iii) Amortisation

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

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

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

(d) Property and equipment

(i) Recognition and measurement

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

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

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

Any gain or loss on disposal of an item of property and equipment, calculated as the difference between the net proceeds from disposal and the carrying amount of the item, is recognised in the consolidated statement of revenue, expenditures and other comprehensive income.

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

3. Significant accounting policies, continued

(d) Property and equipment, continued

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

(e) Provisions

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

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

3. Significant accounting policies, continued

(f) Government grants

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

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

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

(g) Reserves

(i) Reserve fund

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

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

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

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

3. Significant accounting policies, continued

(g) Reserves, continued

(ii) Capital reserve fund

The FSC established a capital reserve fund for the purpose of financing its infrastructure needs. The capital reserve fund was established pursuant to a resolution of the Board of Commissioners of the FSC and after having received the approval of the Governor of TCI, to whom the FSC reports for each specific capital project. Transfers to the capital reserve fund are made by way of an allocation of amounts due to TCIG or from the reserve fund. Subsequent to the approved capital expenditure, the capital reserve fund will be adjusted for depreciation charges related to the project as incurred. The capital reserve fund is reported as part of the FSC's reserves.

(h) Revenue recognition

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

(i) Fees and charges

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

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

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

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

TURKS AND CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION
Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

3. Significant accounting policies, continued

(h) Revenue recognition, continued

(ii) Interest income

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

(i) Employee benefits

(i) Short-term employee benefits

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

(ii) Post-employment benefits

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

(j) Impairment

(i) Non-derivative financial assets

The FSC recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost.

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

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

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

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

3. Significant accounting policies, continued

(j) Impairment, continued

(i) Non-derivative financial assets, continued

Measurement of ECL

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

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

Credit-impaired financial assets

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

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

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

Presentation of allowance for ECL on the consolidated statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

3. Significant accounting policies, continued

(j) Impairment, continued

(i) Non-derivative financial assets, continued

Write-offs

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

(ii) Non-financial assets

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

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

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

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

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

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

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

3. Significant accounting policies, continued

(k) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are recognised on the consolidated statement of financial position of the FSC unless the lease term is 12 months or less or the underlying asset has a low value. The FSC recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments on the consolidated statement of financial position.

The right-of-use asset is initially measured at cost, which is the present value of the lease payments that are not paid at that date, and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

Depreciation of a right-of-use asset and interest on the lease liability is recognised in the consolidated statement of revenue, expenditures and other comprehensive income over the lease term (note 11), and payment of principal and interest on the lease liability is separately presented within financing activities in the consolidated statement of cash flows.

(l) Taxation

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

(m) Related parties

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

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

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

TURKS AND CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION
Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

3. Significant accounting policies, continued

(m) Related parties, continued

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

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

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

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

The following are new standards, amendments and interpretations to published standards, issued but not effective for the financial year beginning April 1, 2020 and not early adopted by the FSC:

- IFRS 17, *Insurance Contracts* – IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of consolidated financial statements to assess the effect that insurance contracts have on the entity's consolidated financial position, financial performance and cash flows.

TURKS AND CAICOS ISLANDS
FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

3. Significant accounting policies, continued

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

IFRS 17 is initially effective for annual reporting periods beginning on or after January 1, 2023, with early adoption permitted only for entities that also apply both IFRS 9 and 15.

IFRS 17 is not expected by management to be relevant or significant to the FSC's operations and, accordingly, will not have a material impact on the FSC's consolidated financial statements and/or accounting policies.

4. Determination of fair values

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

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

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

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

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

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments;

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

4. Determination of fair values, continued

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

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

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

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

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

5. Cash and cash equivalents

		2021	2020
Certificates of deposit	US$	6,704,202	7,649,350
Current accounts		3,763,949	1,872,068
Savings accounts		1,139,899	1,135,349
Cash on hand		850	850
	US$	11,608,900	10,657,617

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

5. Cash and cash equivalents, continued

The US$6,704,202 certificates of deposit held at March 31, 2021 (2020: US$7,649,350) comprised the following:

	2021			
	Principal amount	Maturity value	Interest rate per annum	Maturity Date
	US$	US$		
CIBC FirstCaribbean International Bank (CIBC)	1,843,311	1,843,465	0.10%	April 30, 2021
CIBC	1,449,688	1,450,123	0.12%	April 14, 2021
Scotiabank	1,007,009	1,007,613	0.24%	April 20, 2021
RBC Royal Bank (RBC)	1,003,265	1,003,432	0.20%	April 15, 2021
CIBC	405,292	405,495	0.60%	April 14, 2021
RBC	402,177	402,211	0.10%	April 22, 2021
Turks & Caicos Banking Company Limited (TCBC)	400,000	400,083	0.25%	April 30, 2021
TCBC	150,000	150,141	0.38%	May 31, 2021
RBC	43,460	43,471	0.10%	April 19, 2021
	6,704,202	6,706,034		

	2020			
	Principal amount	Maturity value	Interest rate per annum	Maturity Date
	US$	US$		
CIBC FirstCaribbean International Bank (CIBC)	1,841,260	1,841,474	0.14%	April 1, 2020
CIBC	1,446,486	1,448,377	0.52%	April 14, 2020
Scotiabank	1,300,000	1,300,444	0.41%	April 9, 2020
RBC Royal Bank (RBC)	1,001,268	1,001,433	0.20%	April 16, 2020
RBC	801,138	801,240	0.15%	April 9, 2020
CIBC	410,732	411,067	0.33%	April 20, 2020
CIBC	405,049	405,252	0.60%	April 15, 2020
Turks & Caicos Banking Company Limited (TCBC)	400,000	400,083	0.25%	April 30, 2020
RBC	43,417	43,430	0.10%	April 20, 2020
	7,649,350	7,652,800		

During the year, the savings accounts earned interest at a rate of 0.40% per annum (2020: 0.40%). Current accounts are non-interest bearing.

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

6. Term deposits

The FSC's term deposits at March 31 represented certificates of deposit with a maturity date greater than 3 months, but less than one year, from the date of acquisition:

	Principal amount	Maturity value	Interest rate per annum	Maturity Date
	US$	US$		
TCBC	1,000,000	1,003,125	0.63%	August 12, 2021
CIBC	322,035	322,277	0.15%	June 7, 2021
March 31, 2021	1,322,035	1,325,402		

	Principal amount	Maturity value	Interest rate per annum	Maturity Date
	US$	US$		
Scotiabank	1,000,715	1,005,775	1.00%	July 20, 2020
TCBC	1,000,000	1,006,875	1.38%	August 31, 2020
CIBC	320,369	321,824	0.91%	June 9, 2020
March 31, 2020	2,321,084	2,334,474		

7. Accounts receivable, net

At March 31 accounts receivable, net of allowance for impairment losses, were as follows:

		2021	2020
Company managers	US$	598,558	877,408
Banks		66,459	205
Insurance managers		46,975	54,475
Trust companies		12,000	22,000
Insurance providers and intermediaries		5,539	5,125
Others		8,340	3,740
		737,871	962,953
Allowance for impairment losses		(415,050)	(301,840)
	US$	322,821	661,113

Movement in the allowance for impairment losses was:

		2021	2020
Balance at April 1	US$	301,840	141,953
Impairment loss recognised		117,210	163,087
Write off		(4,000)	(3,200)
	US$	415,050	301,840

During the year ended March 31, 2021, an impairment loss of US$117,210 (2020: US$163,087) on accounts receivable was recognized in the consolidated statement of revenue, expenditures and other comprehensive income.

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

7. Accounts receivable, net, continued

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

8. Due from employees

		2021	2020
Christmas advances	US$	47,905	67,682
Regular salary advances		37,091	54,223
	US$	84,996	121,905

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

9. Held-to-maturity investments

Held-to-maturity investments at March 31, 2021 represented investments in various US debt securities with original maturity periods ranging from six months to one year (2020: one to seven years) and nominal interest rates of 2.13% to 2.63% (2020: 1.50% to 2.75%).

		2021	2020
Face value	US$	1,400,000	1,550,000
Net premium		5,107	2,699
	US$	1,405,107	1,552,699
Carrying value	US$	1,405,107	1,552,699
Less current portion		(1,405,107)	(1,552,699)
	US$	–	–

During the year the FSC earned US$20,165 (2020: US$25,442) of interest on held-to-maturity investments which was included in interest income in the consolidated statement of revenue, expenditures and other comprehensive income.

10. Prepayments and other receivables

		2021	2020
Prepayments to suppliers	US$	72,370	119,728
Other receivables		17,369	14,354
	US$	89,739	134,082

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

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

11. Right-of-use asset

		2021	2020
Right-of-use asset	US$	327,401	523,841
Depreciation		(196,440)	(196,440)
Carrying amount	US$	130,961	327,401

In 2014, the FSC entered into a five year lease agreement with Waterloo Property Ltd. in Grand Turk for the rental of FSC's office building. The initial 5 year lease was later extended for another 2 years and now expires on November 30, 2021. The total monthly fixed office rental is US$18,000. The lease agreement is cancellable at any time by giving the lessor 1 month notice in writing or alternatively by paying to the lessor one month rental in lieu of such notice.

At the reporting date the cost of the FSC's right-of-use asset was US$140,908 (note 17). The right-of-use asset is depreciated over the term of lease.

12. Intangible assets

		2021	2020
Software development cost:			
At beginning of year	US$	913,311	887,236
Additions		21,875	26,075
At end of year	US$	935,186	913,311
Accumulated amortisation:			
At beginning of year	US$	695,724	619,391
Amortisation for year		65,467	76,333
At end of year	US$	761,191	695,724
Carrying value	US$	173,995	217,587

The FSC has been engaged in developing an online Companies Registry (Registry) since 2006. At March 31, 2021 the associated software development costs had a carrying value of US$173,995 (2020: US$217,587). Costs capitalised are amortised over their estimated useful life of seven years.

The Registry was brought into use for internal purposes during the year ended March 31, 2013 for online filing by external users in March 2018. In January 2016, the contract with the supplier of the Registry was amended to include additional services and to amend the payment terms of the original agreement.

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

13. Property and equipment

	Land, buildings & improvements	Office furniture	Office equipment	Computer equipment	Motor vehicles	Total
	US$	US$	US$	US$	US$	US$
Cost:						
April 1, 2019	2,126,450	297,622	182,921	465,775	110,048	3,182,816
Additions	10,669	26,607	26,353	26,766	–	90,395
Disposals	–	–	–	–	–	–
March 31, 2020	2,137,119	324,229	209,274	492,541	110,048	3,273,211
April 1, 2020	2,137,119	324,229	209,274	492,541	110,048	3,273,211
Additions	2,166,236	13,440	30,072	23,924	–	2,233,672
Disposals	–	–	(1,000)	–	–	(1,000)
March 31, 2021	4,303,355	337,669	238,346	516,465	110,048	5,505,883
Accumulated depreciation:						
April 1, 2019	761,681	196,409	74,189	392,847	97,993	1,523,119
Depreciation	152,450	23,581	17,161	29,592	12,055	234,839
Disposals	–	–	–	–	–	–
March 31, 2020	914,131	219,990	91,350	422,439	110,048	1,757,958
April 1, 2020	914,131	219,990	91,350	422,439	110,048	1,757,958
Depreciation	118,840	21,206	18,597	29,702	–	188,345
Disposals	–	–	(500)	–	–	(500)
March 31, 2021	1,032,971	241,196	109,447	452,141	110,048	1,945,803
Carrying value:						
March 31, 2020	1,222,988	104,239	117,924	70,102	–	1,515,253
March 31, 2021	3,270,384	96,473	128,899	64,324	–	3,560,080

During the year the FSC purchased a parcel of land with a building constructed thereon for a total consideration of US$2.2 million, of which US$200,000 was assigned as the land cost, US$11,742 as office furniture and US$22,022 as office equipment. The property is approximately 0.56 acres and is located on Leeward Highway on Providenciales. Stamp duty payable to TCIG in relation to this property of US$220,000 was waived by TCIG.

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

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

13. Property and equipment, continued

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

	March 31, 2021				
	Land and buildings	Improve-ments	Total cost	Accumulated depreciation	Carrying value
	US$	US$	US$	US$	US$
Land and buildings					
Project House	2,166,236	-	2,166,236	(4,096)	2,162,140
Units C7 & C8	236,731	162,834	399,565	(175,268)	224,297
Units C11 & C12	259,650	169,775	429,425	(197,403)	232,022
Units D7 & D8	269,690	145,527	415,217	(223,524)	191,693
Units K11 & K12	327,448	339,277	666,725	(217,163)	449,562
Leasehold	–	226,187	226,187	(215,517)	10,670
	3,259,755	1,043,600	4,303,355	(1,032,971)	3,270,384

	March 31, 2020				
	Land and buildings	Improve-ments	Total cost	Accumulated depreciation	Carrying value
	US$	US$	US$	US$	US$
Land and buildings					
Units C7 & C8	236,731	162,834	399,565	(153,066)	246,499
Units C11 & C12	259,650	169,775	429,425	(173,934)	255,491
Units D7 & D8	269,690	145,527	415,217	(202,229)	212,988
Units K11 & K12	327,448	339,277	666,725	(173,982)	492,743
Leasehold	–	226,187	226,187	(210,920)	15,267
	1,093,519	1,043,600	2,137,119	(914,131)	1,222,988

As at the date of this report it is the intention of the FSC to transfer its ownership of land and buildings at Caribbean Place with a carrying value at March 31, 2021 of US$1,097,574 to TCIG once it moves into its new premises on Leeward Highway.

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

14. Accounts payable and accrued expenses

		2021	2020
Accrued employee benefits	US$	230,665	183,299
Accounts payable		129,116	117,082
Accrued legal fees and expenses		97,015	97,015
Statutory contributions payable		28,106	146
	US$	484,902	397,542

The US$230,665 accrued employee benefits at March 31, 2021 (2020: US$183,299) pertained primarily to US$160,256 (2020: US$143,216) gratuities payable, being a short-term employee benefit offered to all staff members employed by the FSC on a fixed term of employment for at least one year who are not otherwise eligible to benefit from the FSC's pension scheme. The gratuity was calculated at 15% of the employee's basic annual salary, to be paid upon satisfactory completion of the employee's employment contract. The gratuity is expensed in the consolidated statement of revenue, expenditures and other comprehensive income as the related service is provided.

15. Due to TCIG

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

Management have determined that the most appropriate measure of expected recurrent expenditure in accordance with the above requirement is the FSC budgeted expenditure for that financial year as submitted to the Governor of TCI. The budgeted expenditure for the year ended March 31, 2021 was US$7,195,192.

During the years ended March 31, 2021 and 2020 quarterly assessments of amounts due to TCIG were conducted and payments to TCIG were made in full within the time period specified in the Ordinance.

At both dates the balance in the reserve fund exceeded US$5M following such payments.

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

15. Due to TCIG, continued

During the year ended March 31, 2021 US$3,335,197 (2020: US$2,094,944) was transferred to TCIG.

		2021	2020
Due to TCIG at beginning of year	US$	1,764,745	430,879
Payments during the year ended March 31, 2021:			
April 27, 2020		(1,662,101)	–
July 14, 2020		(1,672,018)	–
October 8, 2020		(1,078)	–
		(3,335,197)	–
Payments during the year ended March 31, 2020:			
April 15, 2019	US$	–	(835,286)
July 17, 2019		–	(390,336)
October 16, 2019		–	(340,080)
January 14, 2020		–	(529,242)
	US$	–	(2,094,944)
Net surplus required to be transferred to TCIG:			
April - June	US$	1,494,903	390,336
July - September		75,552	340,080
October - December		–	529,243
January - March		3,338,708	2,169,151
	US$	4,909,163	3,428,810
Amount due to TCIG at end of year	US$	3,338,711	1,764,745

16. Deferred income

		2021	2020
Annual licence fees	US$	953,764	977,373
Annual renewal fees		398,005	510,575
Annual maintenance fees		256,385	277,827
Land share transfer duty		130,742	236,342
Incorporation fees		87,858	60,342
Business name renewal fees		33,150	65,400
	US$	1,859,904	2,127,859
Current portion:			
Annual licence fees	US$	953,764	977,373
Annual renewal fees		398,005	510,575
Land share transfer duty		130,742	236,342
Annual maintenance fees		58,343	63,542
Incorporation fees		87,858	60,342
Business name renewal fees		24,000	51,300
	US$	1,652,712	1,899,474
Non-current portion	US$	207,192	228,385

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

16. Deferred income, continued

(a) Annual licence fees

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

		2021	2020
Banks	US$	465,014	462,398
Insurance providers and intermediaries		254,500	253,500
Company managers		97,500	103,500
Trust companies		70,000	90,000
Insurance managers		22,400	22,300
Investment dealers		21,000	21,000
Money transmitters		14,250	15,375
Mutual funds and mutual funds managers		9,100	9,300
	US$	953,764	977,373

(b) Annual renewal fees

Annual renewal fees pertain mainly to advance payments and deposits received for annual company renewal fees, business name renewal fees, name clearance fees and other related fees.

(c) Annual maintenance fees

Annual maintenance fees pertain to advance payments for maintenance of registered trademarks pursuant to the TCI Trade Marks Ordinance. The annual maintenance fees are non-refundable and applicable for financial years ranging from 2022 to 2031 (2020: 2021 to 2030).

17. Lease liability

The FSC's lease liability representing its obligation to make lease payments on its right-of-use asset (note 11) is as follows:

		2021	2020
Lease liability	US$	339,529	523,841
Payments during the year		(198,621)	(184,312)
		140,908	339,529
Current portion		(140,908)	(198,621)
	US$	–	140,908

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

18. Retained surplus

The retained surplus of US$956,006 at March 31, 2021 (2020: US$956,006) represented the accumulated surplus of the FSC in 2007 prior to implementation of section 17, *Reserve Fund*, of the Ordinance.

19. Fees and charges

		2021	2020
Annual company renewal fees	US$	4,992,095	2,846,239
Annual licence fees		2,085,719	2,208,687
Land share transfer duty		1,251,623	2,576,410
Penalties and other fees		951,899	883,477
Application fees		838,471	967,458
Business names registration fees		286,499	237,303
	US$	10,406,306	9,719,574

20. Staff costs

		2021	2020
Salaries and wages	US$	3,282,818	3,249,635
Insurance and health benefits		218,768	219,485
Gratuities		160,913	140,147
Transportation allowances		113,795	104,060
Contribution to defined contribution pension plan		65,068	58,588
Telephone allowances		–	300
	US$	3,841,362	3,772,215

21. Travel and subsistence

		2021	2020
International:			
Accommodation and subsistence	US$	–	101,246
Airfares		–	31,374
Others		–	1,310
	US$	–	133,930
Local:			
Accommodation and subsistence	US$	2,420	34,706
Air and sea fares		1,920	24,840
Others		–	–
	US$	4,340	59,546
	US$	4,340	193,476

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

21. Travel and subsistence, continued

TCI commenced a national shutdown on March 28, 2020 for purpose of preventing, controlling and suppressing the spread of the corona virus (COVID-19). This shutdown along with the lockdown imposed by other countries caused the decline in travel and subsistence expenditure in 2021.

22. Office expenses

		2021	2020
Office supplies	US$	83,657	119,493
Cleaning services		64,783	33,093
Printing and binding		3,620	3,797
	US$	152,060	156,383

23. Communication

		2021	2020
Line rental	US$	72,115	74,756
Telephone - local costs		29,035	26,347
Internet charges		14,018	14,119
Telephone - international costs		7,420	9,705
Postage and courier		1,893	5,920
	US$	124,481	130,847

24. Commissioners fees and expenses

		2021	2020
Commissioners fees	US$	80,500	93,000
Commissioners expenses		2,816	36,992
	US$	83,316	129,992

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

24. Commissioners fees and expenses, continued

Commissioners fees represented fees paid to the chairman and members of the board. For each board meeting attended, the chairman receives US$3,500 while the other members of the board receive US$3,000. The FSC had five members of the board during the year ended March 31, 2021 (2020: five) and met five times during the year ended March 31, 2021 (2020: six).

Included in commissioners expenses are travel expenses, allowances and hotel accommodation during board meetings.

25. Training

		2021	2020
Academic	US$	11,833	23,529
Local		4,100	20,609
Overseas		1,594	37,723
	US$	17,527	81,861

Included in overseas training expenses are expenses incurred in attending international industry conferences and training.

26. Other operating expenses

		2021	2020
Work permit expenses	US$	21,417	19,263
Bank charges		18,867	24,691
Others		1,408	12,007
	US$	41,692	55,961

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

27. Related party balances and transactions

The following are transactions and balances with TCIG, a related party by virtue of significant influence and common directors, and its related entities, and transactions with key management personnel that were not disclosed elsewhere in these consolidated financial statements:

		2021	2020
Transactions			
NHIB contributions	US$	97,721	99,236
NIB contributions	US$	121,047	120,249
Reserve fund required to be transferred to TCIG (note 15)	US$	4,909,163	3,428,810
Payments to TCIG (note 15)	US$	3,335,197	2,094,944
Balances			
Statutory contributions payable (note 14)	US$	28,106	146
Amount due to TCIG (note 15)	US$	3,334,333	1,764,745
Key management personnel compensation			
Short-term benefits			
Salary and benefits of key management personnel	US$	1,217,017	980,979
Accommodation for Managing Director	US$	33,000	33,000
Commissioners fees (note 24)	US$	80,500	93,000
Commissioners expenses (note 24)	US$	2,816	36,992
Post-employment benefit			
Contributions to pension fund	US$	12,156	12,156

Aside from the managing director and deputy managing director, the FSC had ten other key management personnel during the year ended March 31, 2021 (2020: eight).

Loans to key management personnel

		2021	2020
Beginning balance	US$	29,148	24,712
Loans advanced during year		35,625	51,709
Loan repayments received during year		(54,573)	(47,273)
Ending balance	US$	10,200	29,148

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

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

28. Financial instruments

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

(a) Credit risk

(b) Liquidity risk

(c) Market risk

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

Risk management framework

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

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

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

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

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

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

28. Financial instruments, continued

(a) Credit risk

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

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

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

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

The maximum exposure to credit risk at March 31 was:

		Carrying Amount	
		2021	2020
Current assets:			
Cash and cash equivalents	US$	11,608,900	10,657,617
Term deposits		1,322,035	2,321,084
Accounts receivable		322,821	661,113
Due from employees		84,996	121,905
Other receivables (note 10)		17,369	14,354
Held-to-maturity investments		1,405,107	1,552,699
	US$	14,761,228	15,328,772

At the reporting date, the FSC had a concentration of credit risk as forty-seven percent (47%) (2020: forty-eight percent (48%)) of the FSC's total cash and cash equivalents and term deposit in TCI were held with CIBC.

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

28. Financial instruments, continued

(a) Credit risk, continued

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

		Carrying Amount 2021	2020
Company managers	US$	196,767	584,283
Banks		66,454	205
Insurance managers		37,600	49,525
Trust companies		12,000	22,000
Insurance providers and intermediaries		5,500	5,100
Others		4,500	–
	US$	322,821	661,113

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

		Carrying Amount 2021	2020
Providenciales	US$	304,521	640,513
Grand Turk		18,300	20,600
	US$	322,821	661,113

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

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

		2021		2020	
		Gross	Impairment	Gross	Impairment
Past due					
Not later than one month	US$	218,267	32,100	300	300
Later than one month but not later than three months		–	–	333	–
Later than three months		371,050	365,350	175,640	175,640
Outstanding but not past due		148,554	17,600	786,680	125,900
	US$	737,871	415,050	962,953	301,840

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

28. Financial instruments, continued

(a) Credit risk, continued

During the year ended March 31, 2021, an impairment loss of US$117,210 (2020: US$163,087) relating to accounts receivable was recognised in the consolidated statement of revenue, expenditures and other comprehensive income (note 7).

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

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

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

	2021	2020
US Treasury bonds	AA+; Aaa	AA+; Aaa

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

		2021	2020
Turks and Caicos Islands			
Cash and cash equivalents	US$	11,608,900	10,657,617
Term deposits		1,322,035	2,321,084
		12,930,935	12,978,701
United States of America			
Held-to-maturity investments		1,405,107	1,552,699
	US$	14,336,042	14,531,400

(b) Liquidity risk

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

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

28. Financial instruments, continued

(b) Liquidity risk, continued

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

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

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

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

	2021			
	Carrying amount	Contractual cash flows	Under 1 year	> 1 year
	US$	US$	US$	US$
Cash and cash equivalents	11,608,900	11,610,731	11,610,731	–
Term deposits	1,322,035	1,325,402	1,325,402	–
Accounts receivable	322,821	322,821	322,821	–
Due from employees	84,996	84,996	84,996	–
Other receivables	17,369	17,369	17,369	–
Held-to-maturity investments	1,405,107	1,406,478	1,406,478	–
Accounts payable and accrued expenses	(484,902)	(484,902)	(484,902)	–
Due to TCIG	(3,338,711)	(3,338,711)	(3,338,711)	–
	10,937,615	10,944,184	10,944,184	–

	2020			
	Carrying amount	Contractual cash flows	Under 1 year	> 1 year
	US$	US$	US$	US$
Cash and cash equivalents	10,657,617	10,661,067	10,661,067	–
Term deposits	2,321,084	2,334,474	2,334,474	–
Accounts receivable	661,113	661,113	661,113	–
Due from employees	121,905	121,905	121,905	–
Other receivables	14,354	14,354	14,354	–
Held-to-maturity investments	1,552,699	1,562,488	1,562,488	–
Accounts payable and accrued expenses	(397,542)	(397,542)	(397,542)	–
Due to TCIG	(1,764,745)	(1,764,745)	(1,764,745)	–
	13,166,485	13,193,114	13,193,114	–

TURKS AND CAICOS ISLANDS
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Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

28. Financial instruments, continued

(c) *Market risk*

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

(i) *Interest rate risk*

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

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

		2021	2020
Fixed rate instruments:			
Financial assets			
Certificates of deposit	US$	6,704,202	7,649,350
Term deposits		1,322,035	2,321,084
Held-to-maturity investments		1,400,000	1,550,000
	US$	9,426,237	11,520,434

Cash flow sensitivity analysis for fixed rate instruments

A change of 100 basis points in interest rates for fixed rate instruments at March 31 would have increased/(decreased) surplus in the consolidated statement of revenue, expenditures and other comprehensive income by US$94,262/(US$94,262) (2020: US$115,204/(US$115,204)) assuming all other variables remained constant.

		2021	2020
Variable rate instruments:			
Financial assets			
Savings accounts	US$	1,139,899	1,135,349
	US$	1,139,899	1,135,349

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

28. Financial instruments, continued

(c) Market risk, continued

(i) Interest rate risk, continued

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates for variable rate instruments at March 31 would have increased/(decreased) surplus in the consolidated statement of revenue, expenditures and other comprehensive income by US$11,399/(US$11,399) (2020: US$11,353/(US$11,353)) assuming all other variables remained constant.

(ii) Fair values

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

	2021			
	Carrying Amount	Fair Value Level 1	Level 2	Level 3
	US$	US$	US$	US$
Cash and cash equivalents	11,608,900	–	–	–
Term deposits	1,322,035	–	–	–
Accounts receivable	322,821	–	–	–
Due from employees	84,996	–	–	–
Other receivables	17,369	–	–	–
Held-to-maturity investments	1,405,107	1,405,107	–	–
Accounts payable and accrued expenses	(484,902)	–	–	–
Due to TCIG	(3,338,711)	–	–	–

	2020			
	Carrying Amount	Fair Value Level 1	Level 2	Level 3
	US$	US$	US$	US$
Cash and cash equivalents	10,657,617	–	–	–
Term deposits	2,321,084	–	–	–
Accounts receivable	661,113	–	–	–
Due from employees	121,905	–	–	–
Other receivables	14,354	–	–	–
Held-to-maturity investments	1,552,699	1,552,699	–	–
Accounts payable and accrued expenses	(397,542)	–	–	–
Due to TCIG	(1,764,745)	–	–	–

TURKS AND CAICOS ISLANDS
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Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

28. Financial instruments, continued

(c) Market risk, continued

(ii) Fair values, continued

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

29. Reserve funds

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

Management have determined that the most appropriate measure of expected recurrent expenditure in accordance with the above requirement is the FSC budgeted expenditure for that financial year submitted to the Governor of TCI. The budgeted expenditure for the year ended March 31, 2021 was US$7,195,192 (2020: US$7,195,671).

		2021	2020
Reserve fund at April 1	US$	7,195,671	6,841,236
Net surplus for year transferred to reserve fund		(479)	354,435
Reserve fund at March 31	US$	7,195,192	7,195,671

The net surplus for year transferred to reserve fund comprises:

		2021	2020
Net surplus for year transferred to reserve fund:			
Net surplus for year	US$	4,904,306	3,783,245
Transfer to amount due to TCIG		(4,909,163)	(3,428,810)
Depreciation on new property		4,378	–
	US$	(479)	354,435

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

29. Reserve funds, continued

In addition to the above, on September 17, 2018 the Governor of TCI approved the establishment of a capital reserve fund of US$1,345,689. The capital reserve fund was originally intended to be used to construct a Companies Registry building on Grand Turk, however, management subsequently determined that a new building in Providenciales would be more beneficial in the long-term considering the reduced operations on Grand Turk.

On February 20, 2019 the Cabinet also granted approval for the FSC to retain any net surplus greater than US$3.5M, for the year ended March 31 2019 only, to fund capital acquisitions. This retention totalled US$3,381,700 for the year ended March 31, 2019.

On September 23, 2020, Cabinet granted approval for the FSC to acquire a commercial building on Providenciales. The property which comprised of land, building, furniture and equipment amounted to US$2,200,000. For the year ended March 31, 2021 US$4,378 of depreciation on the new property was recognised and offset against the capital reserve. Depreciation on the new property will be offset against the capital reserve each year.

The capital reserve fund at March 31, 2021 of US$4,723,011 (2020:US$4,727,389) represents the aforementioned initial capital reserve fund of US$1,345,689 set up on September 17, 2018 plus the net surplus retention of US$3,381,700 approved on February 20, 2019 less the depreciation charge of US$4,378 on the new property during the year ended March 31, 2021.

Reclassification of reserves

Prior to April 1, 2020, the FSC classified the aforementioned net surplus retention of US$3,381,700 as part of the reserve fund.

Section 17 of the Ordinance states that the reserve fund should equal the expected recurrent expenditure of the FSC for the financial year, provided always, that the balance should not fall below US$5 million. To conform with the Ordinance, the US$3,381,700 was reclassified to the capital reserve fund.

Reserve fund reclassification at March 31, 2020

		At March 31, 2020		
		Previously Reported	Reclassification	Restated Balance
Reserve fund at April 1	US$	10,222,936	(3,381,700)	6,841,236
Net surplus for year		3,783,245	–	3,783,245
Reserve fund transferred to amount due to TCIG		(3,428,810)	–	(3,428,810)
	US$	10,577,371	(3,381,700)	7,195,671

TURKS AND CAICOS ISLANDS FINANCIAL SERVICES COMMISSION

Notes to Consolidated Financial Statements, continued

Year ended March 31, 2021

29. Reserve funds, continued

Capital reserve fund reclassification at March 31, 2020

		At March 31, 2020		
		Previously Reported	Reclassification	Restated Balance
Capital reserve fund at April 1	US$	1,345,689	3,381,700	4,727,389
Movement during the year		–	–	–
Capital reserve fund at March 31	US$	1,345,689	3,381,700	4,727,389

30. Contingent liabilities

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

31. Subsequent event

On June 13, 2021, Cabinet granted approval for the FSC to purchase the land adjacent to the recently acquired property on Providenciales which will be used for future expansion and parking space.

On July 30, 2021, the FSC purchased the land for a total cost of US$275,000.

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