Annual Report 2009

British Virgin Islands Financial Services Commission

Mission Statement

To uphold the integrity of the British Virgin Islands (BVI) as a well-regulated international finance centre and safeguard the economic interests of the territory by:

- Protecting the interests of the general public and market participants
- Ensuring industry compliance with the highest international regulatory standards and best business practices.
- Ensuring that the BVI plays its part in the fight against cross-border, white collar crime, while safeguarding the privacy and confidentaility of legitimate business transactions.

Strategic Aims

- To be fully aware of international standards and their application to the BVI and issue guidelines to the industry as necessary

- To ensure that all entities we authorise and supervise are operating within BVI legislation and regulation and international standards of best practice

- To ensure that all entities we authorise and supervise meet "fit and proper" criteria at the licensing stage and on an ongoing basis

- To conduct an ongoing review of financial services legislation and make recommendations for changes where necessary

- To ensure that the FSC operates effectively and efficiently

- To identify and deter abuses and breaches of legislation

- To raise public awareness of the BVI financial services industry and develop and implement a system of continuing education for industry practitioners

- To ensure that the Registry of Corporate Affairs provide world class services to ensure the international competitiveness of the BVI

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British Virgin Islands
Financial Services Commission

Chairman's Statement

I am pleased to report to the Government and people of the British Virgin Islands through the Honourable Premier and Minister of Finance on the activities of the Commission during 2009.

The severe downturn in the global economy continues to have an adverse impact on the financial wellbeing of this Territory, although in the financial services arena we have been impacted less severely than elsewhere. Overall, revenues collected on behalf of the Government were marginally higher in 2009 than in 2008, bolstered by company renewal fees received in the Registry of Corporate Affairs. The global downturn, however, took its toll on new company formations, which were down 23%, and on captive insurance business in the Territory, with fees received by the Insurance Division in 2009 down 37% in comparison with 2008.

The Commission has strived to maintain the Territory's reputation as a well-regulated international financial centre and to meet the ever-increasing demands placed upon us by supra-national bodies. Towards this end, the Commission from time to time puts forward its proposals for new legislation/amendments to further enforce regulatory procedures, and also to make the Territory more attractive as a global centre from which to transact business.

I wish to commend the staff of the Commission for their hard work and dedication in the performance of their duties in what has been a challenging year – additionally, our more senior personnel have provided exemplary service as ambassadors for the Territory in their many presentations made at and participation in conferences and seminars at the international level.

In accordance with section 27 of the Act, I present this report on the operations and activities of the Commission for the 2009 year of operations together with the enclosed auditor's report and accompanying financial statements.

Robin Gaul
Chairman


J.R. O'Neal Botanic Gardens, Tortola

Board of Commissioners

Mr. Robin Gaul
Chairman

Mr. Colin O’Neal
Deputy Chairman

Mr. Phillip Fenty
Commissioner

Mr. E.
C

The Board of Commissioners meets at least once per month and meetings are presided over by the Chairman and in his absence the Deputy Chairman, with a quorum of four Commissioners. The Board derives its decisions by a majority vote of the Commissioners present.

The appointments of Commissioners are on terms determined by Cabinet and are usually not for periods exceeding three years in one instance. Periods of appointment are made such that no more than one-third of the members’ appointments shall expire every two years.

The Board is comprised of the Managing Director, as an ex-officio member, and not fewer than four or more than six other Commissioners, one of whom must be from outside the Territory and have a financial services background.

Walwyn Brewley
Commissioner

Ms. Eleanor Smith
Commissioner

Mr. Robert Mathavious
(Ex-officio) Commissioner

Mr. Martin Fuggle, OBE
External Commissioner

The Board also has two sub-committees, one in respect of compensation and one with responsibility for finance. Both sub-committees held meetings during the year to deliberate and address issues related to their specific subject areas.

Some of the matters discussed by the Board during its 12 monthly meetings in 2008 included: Action Plans for implementation following the Caribbean Financial Action Task Force assessment and Mutual Evaluation Report, the approval of long term study leave consistent with the Commission's policy and a thematic survey covering the provision of insurance products in the domestic market.

Managing Director's Statement

Change, challenges, consultations, cooperation and compliance were the central themes for the Commission in 2009.

The turmoil within global finance markets arising from the 2007/2008 financial crisis continued in 2009 to place an international spotlight and even greater scrutiny on the activities of so-called offshore financial centres. The BVI was not immune from this intense scrutiny. On both the regulatory and business fronts, we continued to be beset by challenges. The past 12 months have not been plain sailing for the BVI any more than they have been for most of the other smaller jurisdictions providing cross-border financial services.

The aftermath of the crisis and the onset of worldwide economic recession affected the flow and volume of new financial services business into the Territory and there was a fall-off in business across all sectors of the industry.

Responding appropriately to this international scrutiny was a major preoccupation of the Commission during the year and had a significant bearing on our work. Our responsibilities as regulator become ever more complex and more challenging.

This report sets out how the Commission coped with the significant challenges presented by the global financial conditions. It provides an account of the activities we have taken in fulfilment of our statutory mandate and in safeguarding the Territory's reputation as a situs for legitimate cross border financial services business.

The Commission has long maintained that jurisdictions stand or fall on their reputation. This is especially so for small island financial centres. It is this belief that continued to fuel our commitment to redouble efforts to enhance and maintain the Commission's standing as a world class, risk-based regulator committed to sound, proportionate and prudent supervisory practices which are in line with relevant international standards. Building on a favourable 2008 assessment by the CFATF of the Territory's AML/CFT regime, the Commission was pleased to coordinate and facilitate swift action by the BVI authorities to implement effectively all the recommendations directed at the BVI for improving our regime. The CFATF's positive report was further validated in 2009 by the FATF's publication of its International Co-operation Review Group (ICRG) ratings, which showed BVI as compliant or largely compliant in 14 of the 16 core FATF recommendations. This placed the BVI within the top tier of jurisdictions assessed.

Further evidence of the BVI's commitment to meeting international standards was provided by the country's inclusion on the OECD's white list of countries satisfying the threshold requirements of signing at least 12 Tax Information Exchange Agreements (TIEAs). The BVI Authorities continued to negotiate more TIEAs during the course of the year. In addition, the BVI is a member of the Global Forums' peer review group.

Another significant development in 2009 was the publication of the much-heralded Independent Review of British Offshore Financial Centres undertaken by Michael Foot for HM Treasury. The scope of the review, which looked at the long-term opportunities and challenges for the Crown Dependencies and Overseas Territories, covered financial supervision, transparency, international cooperation, taxation in relation to financial stability, sustainability and future competitiveness, as well as financial crisis management and resolution arrangements. The Commission engaged fully with Mr Foot's review and was extremely pleased when the conclusions were published in October. The Commission received significant credit for the robustness of the BVI regulatory regime's compliance with relevant international standards.

The report's recommendations addressed a number of areas outside the Commission's remit where improvements to the BVI financial services model were needed. For example, the report reflected the international consensus which has now emerged that depositor protection schemes should be in place in all significant financial centres. The Commission continues to believe that any such scheme should be operated and funded separately from the regulator. Nevertheless, the Commission is prepared to make its experience and expertise available in any way to aid the process and has presented the government with a position paper on the matter for its consideration.

The much anticipated 2009 comprehensive assessment of our financial sector activities by the IMF was delayed due to the IMF's preoccupation with the global financial crisis. The Commission nonetheless coordinated and facilitated a tremendous amount of planning and preparation at the national level for this assessment, now to be conducted in 2010. The constant reviews to which the BVI and other OFCs are subjected require us to prove, time and time again that we are a compliant and cooperative jurisdiction which takes its role in, and responsibility towards, the global financial services markets place seriously and which does what it commits to. As ever, we look forward to the opportunity to have the IMF independently review our entire regulatory, supervisory and legislative regimes and we are confident that this, too, will result in a positive validation of the probity of our modalities and will confirm that they comply with relevant international standards.
As an integrated regulator with an international perspective, the Commission understands and recognises the importance of remaining engaged with international regulatory developments. It is the Commission's firm view that this engagement results in a more robust and internationally compliant regulatory and supervisory "right touch" regime. As a result the

Commission is involved with a wide range of international regulatory groups and associations, including the BVI Association of Compliance Managers, BVI Bankers Association, BVI Insurance Association,Caribbean Financial Action Task Force (CFATF), Offshore Group of Banking Supervisors, (OGBS), International Organization of Securities Commissions (IOSCO), Council of Securities Regulators of the Americas (COSRA), Association of Supervisors of Banks of the Americas (ASBA), Caribbean Group of Banking Supervisors (CGBS), International Association of Insurance Supervisors (IAIS) and the Society of Trust and Estate Practitioners (STEP). Through active involvement in these groups as well as special working groups of the Financial Action Task Force (FATF), regional colleges of regulators and the revived Overseas Territory's Regulators meetings, the Commission has remained involved in global discussions on issues regarding supervisory policy and practices relevant to the BVI financial services Industry. This is also very much in keeping with our long-established policy that the BVI should continue to ensure that its voice is heard wherever matters of significance to its financial services industry are being discussed. The Commission remains committed to consulting with the industry before implementing regulatory changes and to taking note of feedback to ensure better-informed legislation and policy formation.

Extensive consultations with public and private stakeholders were held throughout the year on all proposals for policy and legislative change. All regulatory divisions were encouraged to establish new industry liaison groups to foster improved engagement, dialogue and feedback with their respective constituencies. Dialogue with the industry was further boosted through the FSC's quarterly "Meet the Regulator" (MTR) meetings, seminars and workshops on AML/CFT, the new Regulatory Code and the proposed Securities and Investment Business Act (SIBA).

It would be remiss of me not to state here the Commission's profound gratitude to those industry practitioners, along with the Association of Registered Agents, the Mutual Fund Practitioners Association, the Association of Insurance Managers and the BVI Bar Association, who continue to give freely of their time and expertise in contributing ideas and serving on committees, taskforces and liaison groups. Their continued contributions are a vital component of the BVI industry's strengthened value proposition and our territory's competitiveness.

The Commission has long been concerned with the provision of skills training for the financial services sector and continues to subsidise the activities of the Financial Services Institute (FSI), which is now better able to facilitate the provision and delivery of a wide range of benchmarked industry-related professional qualification and skills training.

The cooperation and teamwork the Commission enjoyed with our partners in the government of the BVI throughout 2009 was again vital in addressing many of the challenges confronting the BVI financial services industry. We extend our sincere thanks to all for another year of productive collaboration, in particular to the Ministry of Finance, the Attorney General's Chambers, the Financial Investigation Agency, the Cabinet Office, the Premier's Office and the House of Assembly. It is as a result of our combined efforts that 2009 will be remembered as the year the BVI cemented its reputation in respect of financial services as a compliant and cooperative jurisdiction.

Within the Commission there exists a depth of talented and professional staff that I am privileged to lead. The Commission seeks to keep abreast of market changes and challenges by continuously developing and re-skilling staff, thus ensuring that we maintain the depth of knowledge and talent required to regulate effectively in an ever-changing and more complex marketplace. Throughout the year, staff at all levels and across all divisions participated in an enhanced range of training courses both within the Commission and abroad. I am as ever extremely grateful to our dedicated, devoted and energetic employees, who worked with renewed commitment and vigilance to ensure that the Commission achieved its objectives effectively and objectively.

The quality of our staff contributes to the growing international profile of the BVIFSC as a world-class regulator that makes useful and valuable contributions to regulatory developments and issues with global implications.

Finally, I must thank our Board of Commissioners for their ongoing wise counsel, steadfast support, leadership, strategic direction, skill and dedication to regulatory and supervisory practices here in the BVI. The BVI is extremely fortunate to have the services of such a group of Commissioners at this time. I am proud to be a part of such a remarkable team.

Robert Mathavious
Managing Director/ CEO

Executive Management Team

Robert Mathavious
Managing Director/CEO

Jennifer Potter-Questelles
Deputy Managing Director,
Corporate Services

Kenneth Baker
Deputy Managing Director,
Regulation

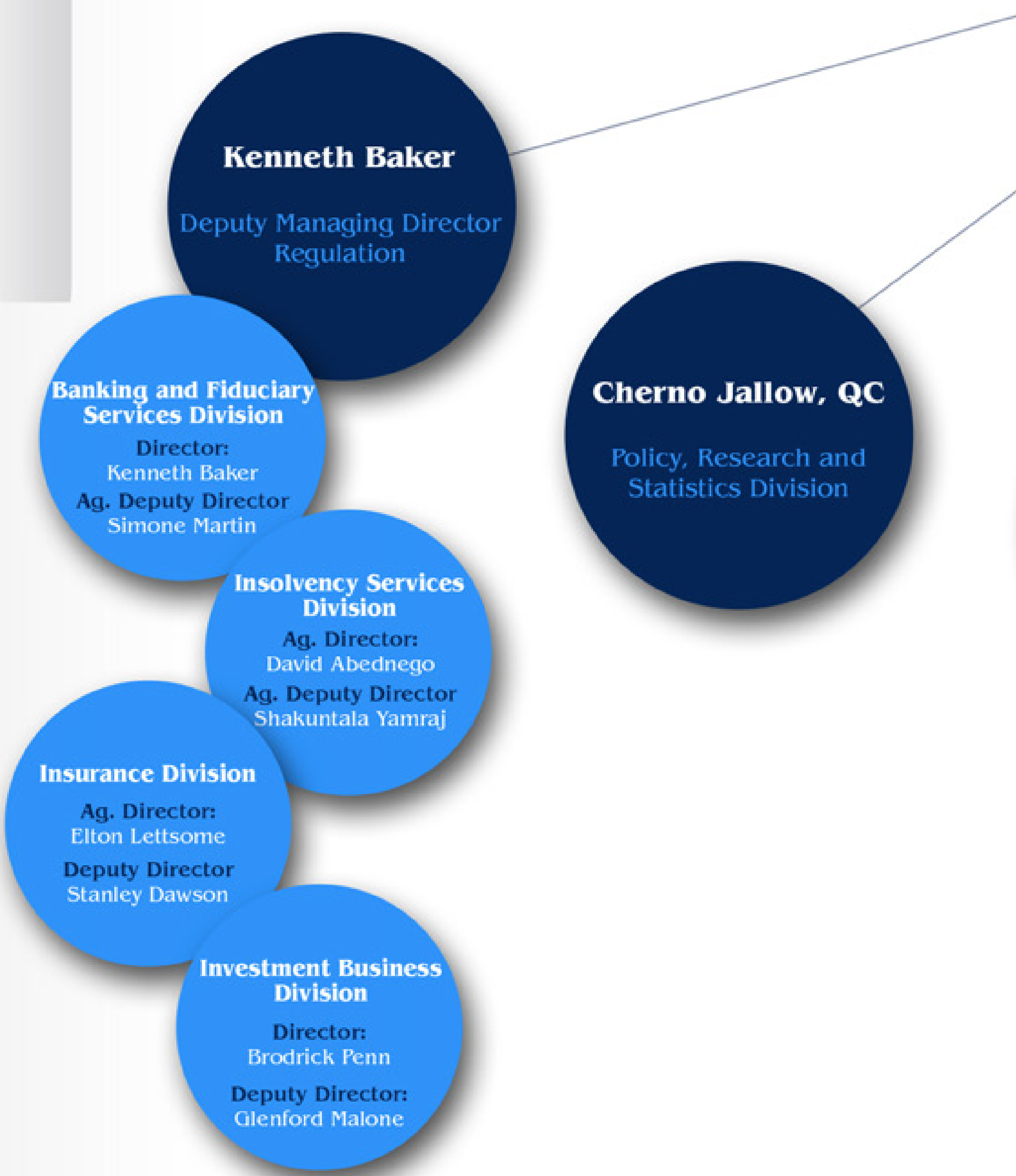
Jacqueline Wilson
Director, Legal and Enforcement
Legal Counsel

Cherno Jallow, QC
Director, Policy, Research and
Statistics

Annet Mactavious
Manager, Human Resources
Secretary, Board of Commissioners

Board of Commissioners

Robin Gaul (Chairman), **Colin O'Neal** (Deputy Chairman), **E. W**




Walwyn Brewley, Phillip Fenty, Eleanor Smith, Martin Fuggle, OBE
Board Secretary
Annet Mactavious
Robert Mathavious
Managing Director/CEO
Jennifer Potter-Questelles
Deputy Managing Director Corporate Services
Annet Mactavious
Human Resources Manager
Secretary, Board of Commissioners
Jacqueline Wilson
Legal and Enforcement Division
Legal and Enforcement Division
Director:
Jacqueline Wilson
Deputy Director, Legal
Lynette Ramoutar
Deputy Director, Enforcement
Gary Wilson
Corporate Services Division
Director:
Jennifer Potter-Questelles
Finance
Financial Comptroller:
Sheldon Scatliffe
Registry of Corporate Affairs
Director:
Myrna Herbert
Deputy Director:
Hugh Allington Hodge
Deputy Director:
Lydia Cline-Parsons

Old Government House, Tortola

Regulation and Supervision

On-site Inspection Programme

The Commission's On-site compliance inspection programme was introduced in 2004 with the primary purpose of assessing businesses in terms of their performance against relevant laws, codes of practice, best practices and prudential standards. This is accomplished by assessing the resources, record keeping and general compliance of licensees. The On-site compliance inspections afford the Commission an opportunity to improve its understanding of the business environment and the risks incurred by regulated entities, focusing in particular on those areas deemed by the Commission to be the most significant. These inspections also provide the Commission with a better understanding of the business risks assumed by licensees and the nuances of their business environments. Further, it is the Commission's aim in conducting Onsite inspections to promote high standards within the BVI Financial services sector by identifying instances in which licensees may be at risk, or where regulatory standards and best practices expected of the financial services industry are not being observed.

During 2009, the Commission continued its programme of On-site inspections as part of its supervision of regulated entities. The Commission undertook a range of On-site examinations which covered licensees from the four regulatory divisions: Insolvency Services, Investment Business, Insurance and Banking and Fiduciary Services. With the exception of four focused inspections, all inspections were full inspections covering a broad range of topics including: scope of business, management, accounts, controls and systems, compliance, training, audit, insurance, capital adequacy, safekeeping of clients' money, business continuity plans, complaints handling, client file reviews, and compliance with AML/CFT requirements.
The regulated entities indentified to be the subject of an On-site inspection are determined using a risk-based approach. The actual On-site visits are carried out by a team led by a senior regulator from the relevant Division, responsible for the day-to-day supervision of the regulated entity. The visits are facilitated by the use of the FSC's electronic K-Review system and provide each Division with an opportunity to clarify any issues that may arise from the preliminary data gathered from the pre-inspection questionnaire.

The scope of the On-site inspection is determined by the complexity of the regulated entity's business, its available resources and the Commission's specific concerns. Inspection visits generally last one week, depending on the size of the regulated entity and systems. At the end of the inspection, the Commission provides the entity with a formal inspection report, summarising the areas assessed and setting out recommendations for corrective action where required.

On-site Inspections Conducted - 2009

	Q1 2009	Q2 2009	Q3 2009	Q4 2009	% of regulated entities inspected
Banking and Fiduciary Services: Banks	1	0	0	0	11.2
Banking and Fiduciary Services: Trust Companies	2	5	3	3	5.3
Insurance	0	7	1	2	22.3
Insolvency Services	1	1	2	0	23.6
Investment Business	2	2	1	1	1.1
Total Inspections	6	15	7	6	3.9

Figures represent concluded inspections i.e. inspections for which close-out meetings have been held

Licensing and Supervisory Committee

The Licensing and Supervisory Committee is one of the statutory Committees established by the Financial Service Commission Act, 2001, the other being the Enforcement Committee which is discussed in the other section.

The Licensing and Supervisory Committee's (LSC) functions are to receive, review and determine applications for authorisation, licences, registration and recognition under any Financial Services legislation. The LSC supervises regulated persons to ensure that they continue to satisfy the fit and proper criteria for the conduct of financial services business. The committee's function is also to publish the names of persons who have been granted licences or certificates under financial services legislation other than certificates under the BVI Business Companies Act. Where in any financial services legislation reference is made to the Commission with respect to the granting of an authorisation or a licence, registration or recognition, the power to grant such an authorisation or a licence, registration or recognition is construed to vest in the LSC. Also, where the LSC does not approve an application for a licence or for registration or recognition under financial services legislation, it is required to notify the applicant and transmit a copy of the decision, together with a copy of the application to the Board of Commissioners for its record. Any person who is aggrieved by any decision of the Committee other than a decision on the grant of a licence or a decision under the Mutual Funds Act, 1996 refusing the grant of a licence, registration or recognition to an entity which does not qualify as an entity within the meaning of that Act may appeal the decision in accordance with Part VI of the FSCA.

2009 : Matters Brought Before the Licensing and Supervisory Committee

	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Total 2009
Banking and Fiduciary Services	74	37	86	139	336
Investment Business	205	208	240	257	910
Insurance	29	36	66	73	204
Insolvency Services	9	3	5	4	21
Total	**317**	**284**	**397**	**473**	**1,471**

Enforcement Committee

The protection of the public, investors, users of persons who are engaged in the provision of financial services business in or from within the Virgin Islands is one of the main functions of the Commission. This function explains the rationale, need and relevance of the essential enforcement tools vested in the Commission and exercised on its behalf by the Enforcement Committee (EC) which is statutorily established under section 14(1) of the Financial Services Commission Act, 2001 (FSCA).

The Commission is keen to address enforcement issues as the reputation and integrity of the Virgin Islands as a financial services centre hinges on it.

While the enforcement powers are used primarily to ensure that regulated persons comply with the requirements of the FSCA, and financial services legislation, they also enable the Commission to achieve its regulatory objectives as set out in the Financial Services Commission Act. The Commission tries where ever possible to address regulatory non-compliance without recourse to intrusive enforcement action. For example, where the contravention is minor and a licensee has taken immediate steps to remedy it, the Commission usually issues a warning. However, where the breach is of a serious nature or there is a history of non-compliance with regulatory laws or the licensee has not taken adequate remedial action in respect of a breach, the Commission considers what course of action would be a proportionate response while adhering to the required standards of fairness and consistency.

The most prevalent form of enforcement action during 2009 was the imposition of administrative penalties, and a majority of the cases in which penalties were imposed involved licensed insurers. 28 cases in which penalties were imposed related to the late submission of audited financial statements. Of the twenty eight (28) cases, twenty four (24) involved the insurance sector and four (4) involved the Banking and Fiduciary Services sector. In the Banking and Fiduciary Services sector six (6) of the ten (10) cases in which penalties were imposed involved the failure to seek the Commission's prior written approval (to appoint directors, transfer shares or administer a trust) as required by law.

Warning letters were issued in twenty eight (28) cases, fifteen (15) of which involved the Insurance sector. A majority of these cases involved the failure to seek the Commission's prior written approval as required by law. Six (6) cases involved the trust and corporate services sector, three (3) of which related to the failure to obtain required approvals while the other three (3) related to failure to file audited financial statements within the required time frame, failure to comply with corrective action prescribed in a compliance inspection report and undertaking trust business outside the scope of a licence.

2009	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Enforcement Cases Before EC**		14	12	16	27	18	18	8	13	19	25	11	**195**
Administrative Penalty:													
- Initial Notice	-	4	1	1	1	2	2	-	23	2	-	5	**41**
- Final Notice	-	3	-	-	1	1	-	-	4	-	20	1	**30**
- Late Payment Penalty	-	-	-	4	-	3	-	-	-	-	-	-	**7**
- Waived Penalty	-	-	3	-	-	-	-	-	-	1	3	-	**7**
Issue of an Advisory Warning	-	1	1	-	7	4	5	2	4	-	-	-	**24**
Appointment of an Administrator	1	-	-	3	-	-	-	-	-	-	-	-	**4**
Appointment of an Examiner	-	-	-	-	-	-	1	-	-	-	-	-	**1**
Appointment of a Liquidator	-	-	-	-	3	-	-	-	-	-	-	-	**3**
Issue of a Directive	1	2	-	-	1	-	-	-	1	-	1	-	**6**
No Action Warranted	-	-	-	-	4	2	-	-	-	2	-	-	**8**
Noted for Information	10	10	9	10	9	5	8	5	2	13	17	7	**105**
Public Statement	2	-	2	-	-	1	-	-	-	1	-	-	**6**
Referral to Director of Public Prosecutions	-	-	-	-	-	-	1	-	-	-	-	-	**1**
Referral to Licensing & Supervisory Committee	-	-	-	1	-	-	-	-	1	-	-	-	**2**
Revocation of Certificate or Licence	-	-	-	1	-	-	-	-	-	-	-	-	**1**
Warning Letter	4	4	5	3	3	3	2	1	-	2	1	-	**28**
Withdrawal of Approval of Director/Senior Officer	1	-	-	-	-	-	-	-	-	-	-	-	**1**
Total Enforcement Action	**19**	**24**	**21**	**23**	**29**	**21**	**19**	**8**	**35**	**21**	**42**	**13**	**275**

***NB:- Each case before the Enforcement Committee may result in more than one enforcement action.*

2009	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
On Site Inspection - Compliance Cases Before EC	1	3	1	4	-	1	2	1	-	4	2	4	**23**
Administrative Penalty:													
- Initial Notice	-	-	-	-	-	-	-	-	-	1	-	-	**1**
- Final Notice	-	-	-	-	-	-	-	-	-	-	-	1	**1**
- Late Payment Penalty	-	-	-	-	-	-	-	-	-	-	-	-	**-**
- Waived Penalty	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Annual/Biannual Review	-	-	-	-	-	-	-	1	-	-	-	-	**1**
Corrective Action Plan	-	1	-	2	-	-	-	-	-	-	1	2	**6**
Directive	-	-	-	-	-	-	-	-	-	-	-	1	**1**
No Action Warranted	-	-	-	-	-	-	-	-	-	-	-	-	**-**
Noted for Information	1	2	-	2	-	-	2	-	-	2	-	-	**9**
Referral to Licensing & Supervisory Committee	-	-	-	-	-	-	-	-	-	1	-	-	**1**
Warning Letter	-	-	1	-	-	1	-	-	-	-	1	-	**3**
Total Compliance Actions	**1**	**3**	**1**	**4**	**-**	**1**	**2**	**1**	**-**	**4**	**2**	**4**	**23**

Regulatory Overview

Mount Healthy, Tortola

Banking and Fiduciary Services

The Banking and Fiduciary Services Division regulates trust and corporate services providers and financial institutions under the Banks and Trust Companies Act, 1990 ("BTCA") and the Company Management Act, 1990 ("CMA"). Licensees that fall under the remit of the BTCA, and seek to provide trust services and/or company management services are categorised in 1 of 5 classes: Restricted Class II trust, Class III trust or restricted Class III trust in accordance with section 10 (1) of the BTCA. Further, licensees that are seeking to operate as a bank may be licensed under 1 of 3 classes; specifically, they may be licensed with a general banking licence, restricted Class I banking licence, or a restricted Class II banking licence. Additionally, applicants who qualify may seek to be licensed under the CMA if they intend to provide company management services only.

Sector Overview

The fiduciary services industry remained stable following the global economic crisis and has generally weathered the slowdown of business through increased focus on value added services. During early 2009, one small trust and corporate services provider surrendered its licence as a direct result of the global economic crisis; the parent entity faced fiscal challenges and, in conjunction with assistance from government bodies, contracted its global operations. The Commission has noted a small net increase in the number of service providers, with an increase from 207 service providers in 2008 to 211 in 2009.

The BVI's banking sector currently remains healthy and continues to grow in size. The Total Asset size of the BVI continues to grow and is up 5% year on year with Total Advances and Loans increasing 8%. Total Deposits also increased year on year by 11%. Most of the banks in the Territory have experienced positive growth in Shareholders' Equity. All banks are liquid and properly capitalised, well over the regulatory requirement of 12% Tier I capital, with an average ratio of 30% amongst the commercial banks and 421% for the non commercial banks.

Banks operations continue to receive support from the parent institutions which are monitored closely by the Division. Overall profitability was down 8% due to low earnings as a result of the current financial environment where interest rates are comparatively low. Despite the effects of the global economic crisis, the BVI banking sector continues to grow with no change in the average percentage of Non-Performing loans to Total Loans.

New Developments

During the year a policy paper on the proposal for the development of a regional financial crisis management plan was prepared by the CGBS Technical Working Group and circulated to Governors for sensitisation on the issues, challenges and implications for respective jurisdictions. Further, the OGBS continues to engage the G20, IMF, FSB and BCBS in relation to new standards being developed, especially in the area of enhanced regulation and supervision by regulators of financial services business.

In October, 2009, the BVI completed its two year term as the Caribbean region director for ASBA.

Newly introduced or significant changed legislation

Financing and Money Services Act

In late 2009, the Financing and Money Services Act, 2009 ("FMSA") was brought into force. The FMSA sets out the requirements for licensing providers of money services and financing business.

Regulatory Code

The Regulatory Code was made publicly available for consultation during the year, and the final version was approved by the Board of Commissioners in December, 2009. Some of the key areas of the Code that relate directly to the activities and supervision conducted by the Division include: (i) the codification of prudential standards and best practices ; (ii) clearer treatment of managed trust arrangements; (iii) amendment to the range of regulatory deposits to better reflect risk from the scope of business undertaken; and (iv) requirements for the treatment of capital and liquidity for banks. The Regulatory Code, also puts legislative power on breaches of the Code, pursuant to section 41 of the FSCA.

Change in scope of supervisory reach

At a Meet the Regulator Forum in January, 2009 the Commission advised the industry that a new unit would be established for the processing of applications for directors, senior officers and compliance officers. In April, 2009, the Commission introduced the Approved Persons Regime Unit for this purpose. The Approved Persons Regime Unit now has the responsibility for the processing of all post licensing applications for the approval of senior officers, including directors and compliance officers, for all regulatory divisions. The Unit carries out its functions as provided for by the Guidelines for the Approved Persons Regime, and Guidance Notes for ComplianceOfficers which were issued by the Commission.

Supervisory Report
Key Initiatives

Prudential Returns

During the course of 2009 the Division continued its development of prudential returns and anticipates that these returns will be introduced early in 2010. Additionally, the development of new application forms for all regulated entities was complet-ed in late 2009, and will be implemented in early 2010.

Desk-based or offsite monitoring

The Division continues to utilise the risk based questionnaire that forms a part of the Commission's risk assessment framework. The data generated from the responses received allows for a risk weighting to be assigned to each licensee. From this the Division considers, with other information gathered from offsite assessments, any necessary action which may need to be taken, including the determination of the scheduling of an inspection or heightened offsite supervision.

Training

During 2009, Regulators in the Division were exposed to training from ASBA, CGBS, OSFI and the US Federal Reserve. Additionally, two Regulators participated in the CFATF's Mutual Evaluation Examiners Training Programme.

The OSFI College of BNS Supervisors, organised by ScotiaBank in collaboration with the Office of the Superintendent of Financial Institutions Canada was held in Toronto, Canada in September, 2009. The college highlighted the need for designing a structure where individual officers within the supervisory/ regulatory bodies are assigned to specific bank(s). This was seen as being prudent to bring about the level of familiarity and attentiveness to each bank's operations needed for effective monitoring of the Bank's activities locally and at its head office. By attending the college, the Commission's representatives came away with the understanding that the Commission's concerns with the locally supervised banks are no different than those of OSFI, as well as other regulators throughout the world.

Statistical analysis

As noted earlier, the banks in the BVI are properly capitalised and above the regulatory requirement of 12% Tier 1 capital with the average Tier 1 capital to risk weighted asset ratio being reported as 30% for commercial banks and 421% for non-commercial banks. The capital condition of the Branch operations are monitored, managed and supported overseas by their parent institutions.

At the end of 2009 the commercial banks held $2,453,025 of the banking system's total assets, increasing less than 1% when compared to $2,451,927 in the Q3. The total assets held by the non-commercial banks decreased 22% to $37,990 Q3 and Q4. At year end, the three largest banks held over 70% of the total assets in the BVI banking sector.

Banking Sector (in US '000s)

	Q4 2009	Q3 2009	Q4 2008
Total Assets			
- Commercial	2,453,025	2,451,927	
- Non Commercial	37,990	37,990	
Total Liabilities	2,089,477	2,111,235	2,018,926
Total Deposits	1,749,025	1,744,258	1,570,831
Long Term Debt	**169,716**	**96,599**	**92,769**
Total Accrued Liabilities	**11,954**	**6,032**	**5,349**
Total Other Liabilities	**156,920**	**262,519**	**348,502**
Total Loss Reserves	**1,862**	**1,827**	**1,475**

The Total Liabilities for the BVI banking sector at the end of Q4 2009 was $2,089,477, down 1% from $2,111,235 in Q3, but up 5% on the $2,018,926 reported in Q4 2008. The BVI banking sector's Total Deposits was up less than 1% at $1,749,025 compared to 1,744,258 in Q3, and up 11% compared to $1,570,831 in Q4 2008.

Long Term Debt increased 75% to $169,716 compared to $96,599 reported at the end of Q3 2009, and increased 82% when compared to $92,769 reported at the end of 2008.

Total Accrued Liabilities increased 98% to $11,954 from $6,032 reported at the end of Q3 2009, and increased 123% compared to $5,349 reported at the end of the Q4 2008. Total Other Liabilities was reported at $156,920, a 40% decrease in comparison to $262,519 reported in Q3 2009, and a 55% decrease in comparison to $348,502 reported at the end of the Q4 2008.

The Total Loss Reserves reported increased 1% to $1,862 from $1,827 in Q3 compared to the 26% increase from $1,475 reported at the end of the Q4 2008. The BVI banking sector's Total Shareholder's Equity continues to grow at a consistent rate showing an increase of 3% between the Q3 and Q4 of 2009, and a 16% increase compared to Q4 2008.

In November 2009, the Director, Banking and Fiduciary Services conducted a seminar for the Monetary Authority of Macao and the Macao Bank Association on the BVI Business Companies Act at their request. The seminar covered the development of international business companies and offshore financial services systems in the BVI, the regulation and supervision of the financial services business in the BVI and the challenges faced, and effective customer due diligence for BVI Business Companies in the BVI.

Also in November 2009, a workshop was held in the Cayman Islands to facilitate the CFATF's Project Group on Typologies. The participants of the workshop included members from Bermuda, Cayman, Netherlands Antilles, Belize, Virgin Islands, USA, St, Vincent and Grenadines and OGBS. Included in the issues reviewed were: (i) the determination of the need to establish standards for Trust and Corporate Service Providers (TCSPs); (ii) the role of TCSPs as it relates to transparency and international cooperation and the information that they maintain which directly impacts ongoing efforts to mitigate against money laundering and terrorist financing; and (iii) the compilation of current data collected by way of Questionnaire. The Virgin Islands is represented on this Group by the Deputy Director, Investment Business and the Acting Deputy Director, Banking and Fiduciary Services.

Speaking Engagements, working groups, and attendance at events where key policy development decisions making occured*


Sage Mountain National Park, Tortola

Investment Business

The Investment Business Division administers the Mutual Funds Act, 1996 and supervises all funds, managers and administrators recognised, registered and licensed under the Act.

Sector Overview

Globally, 2009 was touted as a year of "recovery" as evidenced by both hedge fund and market indices making double digit gains. The positive returns earned by Hedge Funds in 2009 resulted in a decrease in the rate of redemptions requests (and generally fund closures), and as the year progressed there was an uptick in fund launches.

However, as anticipated, in 2009 the local hedge fund industry continued to see a large decline in the level of new business when compared to previous years. The industry remained busy with reorganisations, and restructurings and the global 'uptick' trickled into the BVI as evidenced by the quarter on quarter rise in new applications for 2009.

New Developments

Global regulatory reform continued to take centre stage. While much of the debate focused on central actors of the global meltdown including investment banks and securitised products, hedge funds too continued to undergo significant scrutiny. Of note were the recommendations made by various organisations or groupings, including IOSCO, the G20 and the G30, and the legislative proposals made for hedge fund oversight by the European Union (EU) and the United States (US). All of the proposals share some broad regulatory tenants requiring certain funds and/or managers to be subject to authorisation, supervision, transparency (in relation to reporting), and risk assessments.

In 2009, the supra national organisations of the G20 reinforced the need to bring hedge funds into the regulatory sphere and IOSCO published high level principles. However, the proposed legislation of the EU (AIFM Directive) and US (HFTA) were slow to progress, each having many critics and dissenters. The EU proposals in particular garnered much discussion and are subject to significant revisions, but are expected to be passed into law in 2010 and come into force by 2011. There is more uncertainty as to the progress of the US legislation, save for the fact that there appears to be constant calls from their national regulators for improved regulation of the Hedge Fund Industry.

Internationally, in 2009 IOSCO published its Hedge Fund Oversight Report as well as its regulatory standards for funds of Hedge Funds. The Hedge Funds Oversight Report introduced six high level principles for hedge fund regulation, one of which requires that it be mandatory that all Hedge Funds and their managers/advisers be registered. This general requirement is consistent with current practice in the BVI to regulate both funds and managers.

Local regulatory reform is ongoing, and current regulatory practices already encapsulate a number of the global proposals. However, the regime will have to be re-examined on a detailed level to determine its compliance with emerging and current principles on hedge fund regulation. On one level the latter is already at an advanced stage owing to the work of the OTs Hedge Fund Regulatory Working Group. The BVI has led the group in drafting a paper on hedge fund regulation which analyses the global standards (extant and emerging) and discusses the practices of the OT's, as well as to make recommendations on those principles.

Newly introduced or significant changes to legislation

Securities and Investment Business Act ("SIBA")

After significant consultation with the SIBA focus group and other industry practitioners, the final draft of SIBA was completed during 2009 and it was subsequently forwarded to the Government of the Virgin Islands for consideration. SIBA is an encompassing piece of legislation which will replace the current Mutual Funds Act. With its broadened scope it will cover the regulation and supervision of investment business; public issues of securities; mutual funds; and criminalising market abuse.

The Mutual Fund Regulations were also finalised in 2009. Additionally, work continues on the relevant section of the Regulatory Code as it relates to Securities and Investment Business as well as on the proposed Public Issuers Code.

The Division is hopeful that SIBA will become law prior to the end of 2009. The Division anticipates circulating the Regulatory Code as it relates to the Securities and Investment Business, the Mutual Fund Regulations and the Public Issuers Code for the wider consultation of the industry in early 2010.

It is anticipated that SIBA and its accompanying regulations and codes will be brought into force prior to the end of 2010.

Change in scope of supervisory reach

In anticipation of implementing SIBA, the Division steadily built its staff complement to accommodate new levels of business. SIBA is expected to dramatically change the administrative and procedural tasks of the division when it is introduced.

Division specific problems encountered

The Division, largely as a result of the liquidity issues brought on by the global crisis, continued to see a number of illiquid funds, some of which were suspended, or which necessitated restructuring or liquidation. Invariably, these types of cases have also led to some investor complaints or allegations of wrong doing or triggered investigations.

Supervisory Report

Annual Returns

The Commission introduced the Financial Services (Prudential and Statistical Returns to) Order, 2009 in November, 2009 which, amongst other things, requires that all regulated funds submit an annual return to the Commission within six months (30 June) after the end of the calendar reporting year (31 December).

In order to facilitate efficient filing of the Mutual Funds Annual Return and to reduce administrative costs, the Commission successfully launched its online platform for the submission of prudential and statistical returns in September, 2009.

The Commission is in the process of compiling the statistics on returns filed to date for publication to the then industry. The Commission, armed with this statistical data, will be in a better position to respond to requests for information consistent with its international obligations as a regulatory body, or by virtue of its membership or observer status with any domestic or international institution, as well as the development of its own statistical data for public dissemination.

Training

The Division continued the Commission's tradition of providing significant and relevant training to its staffers, and all staffers were exposed to various overseas training and conferences. Notable training and or conferences included the Division's Director attending enforcement training facilitated by the Ontario Securities Commission, participation in IOSCO's Emerging Markets Committee and Inter American Regional Committee meetings; the Division's Deputy Director's continued participation in CFATF Plenary as a financial expert examiner which during the year included his appointment as a member of the typology working group for Trust and Company Service

Providers, attendance and participation at IOSCO's General conference, and various AML training and other relevant securities training through major regulatory counterparts such as the US SEC and Canadian Securities regulators.

In addition, the Commission was pleased and privileged to participate in another secondment with an international fund administration company in Europe. The secondment afforded the employee an opportunity to be trained in the operational aspects of fund administration. The Commission was the financial sponsor of all the staffers who pursued diplomas or were seconded.

Statistical Analysis

There was a significant decrease in the number of licences and certificates granted which was expected given that the filing of new applications was at its lowest level since the inception of the regime. In 2008 the Division antici-pated that 2009 would see a greater fall out with respect to the global crisis resulting in high volumes of fund closures and, as predicted, the Division saw high levels of cancellation requests in 2009. Many of the requests were due to fund failures, either as a result of significant losses, failure to reach economic size, or failure to launch.

Together, the decreases in new applications coupled with the increases in cancellations resulted in a slight overall decrease in the number of active fund entities in the BVI at the end of 2009. The number of active managers and/or administrators as of Q4 2009 decreased by 1.4% from that of the year-end figures for 2008, representing eight (8) less licence-holders. The decrease in the number of active mutual funds in Q4 2009 represents a 0.6% decrease from Q4 2008, or 16 less funds.

Licences Granted 2008 - 2009

	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Total* 2009	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Total* 2008	% Change from 2008 to 2009
Functionaries											
Managers	10	3	11	7	491	12	9	10	10	496	(1.0)
Administrators	0	0	1	0	37	0	0	4	0	39	(5.2)
Managers & Administrators	0	0	0	0	45	1	1	0	1	46	(2.2)
Total	**10**	**3**	**12**	**7**	**573**	**13**	**10**	**14**	**11**	**581**	**(1.4)**
Mutual Funds											
Professional	49	33	42	46	1905	57	83	74	49	1894	0.6
Private	9	12	11	20	816	16	11	21	9	831	(1.8)
Public	3	1	1	1	216	4	6	6	3	228	(5.3)
Total	**61**	**46**	**54**	**67**	**2937**	**77**	**100**	**102**	**61**	**2953**	**(0.6)**

Cumulative as at 31st December

The relatively small percentage in declines given the extended turmoil of the global crisis may be indicative of the resiliency of the industry. Although 2009 closed as a year with minimal decline in the overall numbers of funds and licence-holders, it is significant in the history of the regulatory regime as it is only the third time (2001 and 2003 being the others) that there has

not been growth in overall levels of new fund business.

The Division was represented at IOSCO's annual general meeting as well as its Emerging Markets and Inter American Regional Committee meetings where matters in relation to IOSCO's various mandates, carried out by its working groups and committees were discussed.

During 2009, the division's Deputy Director, participated in the CFATF Plenary XXX and Ministerial XVI and CFATF Plenary XXIX where he presented the follow-up report for the Virgin Islands. Additionally, he was selected as a member of the Typologies Working Group on Trust and Company Services Providers and named Co-Chair of the Sub-Group in relation to development and analysis of its questionnaire and related responses. The Typologies Working Group on Trust and Company Services Providers is a joint exercise between the FATF and CFATF which is geared toward understanding how Trust and Company Services Providers may be utilised for money laundering and terrorist financing.

The Division continues to be a key resource for, and plays a leading role in, OGCISS. In 2009 senior members of the Division attended OGCISS' annual meeting and served as panellists for discussions on enforcement cases and onsite inspections and their respective challenges, as well as regulatory challenges facing collective investment schemes. The Division will host the 2010 annual meeting of the group.

Outlook for 2010

The Division anticipates that 2010 will continue to reflect an economy on the path to recovery. The lack of liquidity within the markets was a major issue over the past two years and in response many hedge fund managers were faced with managing and accommodating illiquid assets within their portfolios. Reports have indicated that liquidity will improve in 2010, which should in turn result in the unwinding of many distressed funds and cause much of these illiquid assets to be converted to more liquid forms. This should result in less fund closures as well as hopefully the restoration of new fund launches to levels seen prior to the crisis in 2008.

Josiah’s Bay Plantation, Tortola

Insurance

The Insurance Division has the responsibility for the prudential regulation, supervision, and inspection of all insurance entities licensed to operate in and from within the territory as required by the Insurance Act, 1994 and the Insurance Regulations 1995.

Sector Overview

The BVI Insurance Sector continued to experience negative growth in 2009. Analysis shows that among the factors contributing to this negative growth is the significant number of exits from the market as a direct result of the global economic slowdown. Further, the customary influx of companies seeking to be licensed at the end of the financial year was not recognised in 2009. Despite this, 285 captive insurance companies were licensed, most of which are of US origin. Over 250 of these were single parent captives. Of the 285 captive insurance companies licensed, over 75% of the business was written in the classes of property, liability, pecuniary and life which also accounted for 54% of the premiums.

The Division continues as a strong member of the International Association of Insurance Supervisors (IAIS) and The Offshore Group of Insurance Supervisors (OGIS) and continues to serve on the evaluation committee of OGIS, and as a representative of the Caribbean region.

In our commitment to reviewing the standards, principals, guidance and issues paper adopted by the IAIS during its 2009 annual general meeting, the Division reviewed and analysed the papers adopted on the structure of capital resources for solvency purposes and the use of regulatory colleges in group wide supervision.

The financial meltdown of two large regional insurers has again highlighted the benefit that a strengthened regional association of insurance supervisors such as Caribbean Association of Insurance Regulators (CAIR) would provide.

Supervisory Report

As a direct result of the need for professional indemnity cover for BVI licence holders there has been an unusual number of enquiries and applications to write business in the domestic market. The Commission received nine applications for new companies to be licensed in 2009, bringing the total of domestic insurers to 34.

The BVI Insurance Industry is an almost $700 million dollar industry, comprising of $77 million in premiums for domestic carriers and $613 million for captives. Property and liability insurance accounts for the largest lines of business written in the offshore market, while health and property insurance dominate the domestic market.

The service standards established by the Commission and published at the end of 2009 require aggressive recruitment of additional human resources coupled with the rollout of a comprehensive training programme to assist with staff development.

Premiums by Line of Business

Domestic Insurance Companies		
Total Gross Written Premiums		
Line of Business	2008 Audited Financials	2007 Audited Financials
Motor	$ 6,443,173.78	$ 6,026,000.00
Property	$ 16,153,706.15	$ 17,949,684.00
Liability	$ 5,729,041.00	$ 14,630,613.00
Marine & Aviation	$ 7,992,120.68	$ 6,717,311.00
Health	$ 30,771,893.00	$ 31,597,831.00
Accident	$ 187,133.00	$ 287,117.00
Life	$ 3,323,603.73	$ 3,257,445.00
Other	$ 6,691,174.00	$ 6,365,829.00
Total	**$ 77,291,845.34**	**$ 86,806,630.00**

Domestic Claims by lines of business

Domestic Insurance Companies		
Claims		
Line of Business	2008 Audit	2007 Audit
Motor	$ 3,449,393.22	$ 2,594,782.00
Property	$ 8,104,181.00	$ 1,129,996.00
Liability	$ 74,546.00	$ 358,046.00
Marine & Aviation	$ 2,210,483.24	$ 1,442,513.00
Health	$ 16,988,614.00	$ 15,551,753.00
Accident	$ 570.00	$ 150,414.00
Life	$ 752,874.70	$ 749,912.00
Other	$ 1,770,413.00	$ 73,375.00
Total	**$ 33,351,075.00**	**$ 22,050,791.00**

Captives by Key Indicators

Captive Insurance Companies (2009)		
Key indicators	2008 Audited financials	2007 Audited financials
	285 Companies	392 Companies
Gross Premium	$ 613,307,183.56	$ 785,889,254.08
Net premium	$ 508,667,651.62	$ 671,956,387.01
Claims Incurred	$ 102,401,496.23	$ 110,605,317.50
Underwriting Results	$ 161,632,505.85	$ 54,697,241.64
Gross Assets	$ 2,236,730,257.07	$ 4,114,481,366.73
Net Worth	**$ 1,000,186,771.77**	**$ 947,115,888.82**

Captives by Lines of Business

Captive Insurance Companies (2009)		
Line of Business	**2009 Companies**	**Percentage**
Motor	1	0%
Property	106	37%
Liability	93	33%
Marine & Aviation	4	1%
Pecuniary *	17	6%
Health	5	2%
Workers Compensation	12	4%
Warranty	7	2%
Life	23	8%
Other	17	6%
Total	**285**	**100%**

* surety bonds, credit insurance, business interruption

Captives by Captive Type

Captive Insurance Companies (2008)				
Captive Type	**2009**	**Percentage**	**2008**	**Percentage**
Single Captive	250	88%	281	85%
Third party	14	5%	22	7%
SPC	8	3%	9	3%
Group	6	2%	7	2%
Agency	5	1.7%	7	2%
Other	2	0.3%	6	1%
Total	**285**	**100%**	**332**	**100%**

Captives by Industry

Captive Insurance Companies (2009)				
Industry	**2009**	**Percentage**	**2008**	**Percentage**
Finance & Insurance	81	28%	107	32%
Healthcare	40	14%	66	20%
Construction	51	18%	52	16%
Retail	13	5%	45	14%
Manufacturing	15	5%	12	3%
Other	85	30%	50	15%
Total	**285**	**100%**	**332**	**100%**

Callwood Rum Distillery, Tortola

Insolvency Services

The Insolvency Services Division is responsible for the licensing and regulation of insolvency practitioners. The insolvency regime is governed by the Insolvency Act, 2003 and other related subsidiary legislation.

Under the Insolvency regime only licensed insolvency practitioners are eligible to accept appointments as administrator, administrative receiver, interim supervisor, supervisor, provisional liquidator, liquidator (other than in a solvent liquidation procedure) or bankruptcy trustee for insolvency matters.

The Insolvency Services Division currently supervises 17 licensed insolvency practitioners.

The Division issued 3 new licenses during 2009. Two of the licensees represent expansions of existing firms while the other represents a new firm that has chosen to set up practice the BVI.

Supervision and Interaction

In 2009, the Division, on behalf of the Commission, consented to the appointment of 56 overseas practitioners. These practitioners were appointed jointly with locally licensed practitioners in accordance with the Insolvency Act. Overseas practitioners may be appointed jointly with BVI practitioners to mitigate the risk in asset recovery in the jurisdiction in which such assets are located. In such cases the joint appointee must possess similar qualifications from a recognised jurisdiction as required locally in order to be appointed.

During the year, the Insolvency Liaison Committee was reconstituted under the chairmanship of the Ag. Director, Insolvency Services. The Committee includes private industry practitioners, representatives from the BVI Bar Association and the Attorney General's Chambers and the staff of the Insolvency Services Division. Among the key items on the committee's agenda were the issues of training of staff, receipt of up-to-date Insolvency Decisions on the Eastern Caribbean Court Website, and expectations of the On-site inspections.

In November, 2009 the inaugural meeting of the local Recovery and Insolvency Specialists Association (RISA) was held. This body is linked to INSOL International which a worldwide federation of national associations for accountants and lawyers who specialise in turnaround and insolvency.

On-site Inspections/Enforcement Actions

The Division conducted three On-site inspections of its Insolvency Practitioners in 2009. The aim of these inspections was to review particular areas of the practitioner's operations, in keeping with the Commission's adopted risk based monitoring approach, and to determine whether the insolvency work was being carried out in accordance with statutory and regulatory requirements.

As a result of breaches identified during these On-site inspections, the Division submitted five matters to the Enforcement Committee for possible enforcement actions.

Staff/Training

In 2009 the Division and the Commission were represented through attendance and participation at several international insolvency events including:

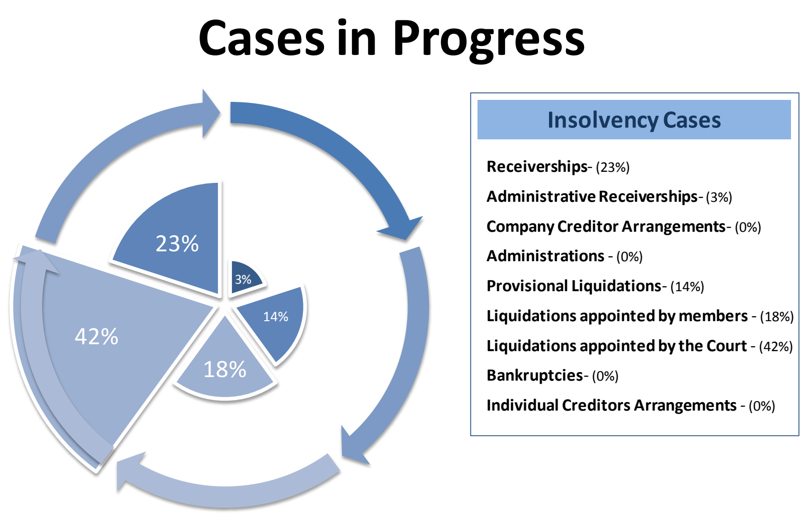
- the Eighth World Congress of INSOL held in Vancouver, Canada. This conference was attended by senior insolvency practitioners, lawyers, regulators, judges and academics.

- the International Association of Insolvency Regulators' (IAIR) Annual General Meeting and Conference in Johannesburg, South Africa. This was a Regulator centered conference which provided an opportunity for Regulators around the world to share their experiences.

2009 Statistical Analysis

The Annual Returns that must be submitted to the Division provide industry statistics on the number of insolvency cases brought forward from previous years, cases opened and closed in a given year and the number of cases going forward to the following year, along with the jurisdictions from which new cases were drawn.

CASE TYPE	B/F	OPENED	CLOSED	IN PROGRESS
Receiverships	78	7	27	58
Admin Receiverships	5	3	0	8
Company Creditor Arrangements	1	1	1	1
Administrations	0	0	0	0
Provisional liquidations	1	7	5	3
Liquidations – appointed by members	16	31	7	40
Liquidators – appointed by Court	94	45	39	100
Bankruptcies	0	0	0	0
Individual Creditors Arrangements	0	0	0	0
Totals	**195**	**94**	**79**	**210**



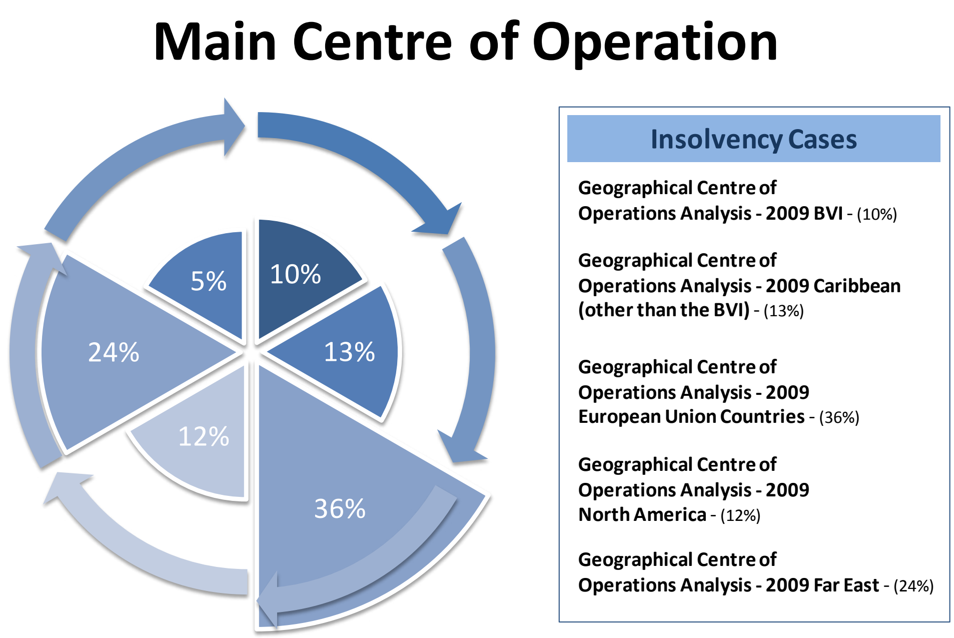
At 31 December, 2009 the statistical summary of cases by classification for the year showed that the territory began the year with 195 cases being brought forward (in progress). During the year 94 cases were opened and 79 cases were closed leaving 210 cases in progress at year end. This case load was handled by 13 insolvency practitioners and the Official Receiver.

In 2009 there were 94 cases opened compared to 100 cases in 2008. This reflected a reduction of 6 cases from the previous year. There was a net increase of 15 cases in progress at end of 2009.

The pie chart illustrates the cases in progress at the end of 2009 which consisted of Court appointed liquidations 42% of total cases, Members appointed liquidations 18%, Provisional liquidations 14%, Receiverships 23% and Administrative Receiverships 3%. Company Creditors Arrangements and Administrations continue to have no activity.

Annual Insolvency Practitioners Returns Summary of Main Centre of Operations for new Cases January 1, 2009 - December 31, 2009

BVI	Caribbean (other than the BVI)	European Union Countries	North America	Far East	Rest of the world	Totals
9	12	34	11	23	5	94



Analysis of the centres of operation from which new cases were drawn in 2009 shows that 36% of all new cases originated from European Union countries, and 24% from countries in the Far East. These two areas cover 60% or 3/5 of all cases undertaken in the Territory. Caribbean countries (other than the BVI) and North America accounted for 12% and 11% respectively, while the remaining 15% of cases originated from the BVI and the rest of the world.

Due to the current economic climate, the Division anticipates there will be growth in insolvency type cases occurring in the private sector. Many of the appointments made to handle such cases will be by way of joint appointments with overseas practitioners. The Division also anticipates that there will be, for the first time, an increase in local companies being put into compulsory liquidation by creditors.

Looking forward, the Division anticipates that Part XVIII of the Insolvency Act, the UNCITRAL provision, will be brought into force along with other provisions that address the Director Disqualification Regime.

The Baths, Virgin Gorda

Registry of Corporate Affairs

The Registry of Corporate Affairs (the Registry) administers the BVI Business Companies Act, the Partnership Act, the Trade Marks Act, the Registration of UK Patents Act and the registration of United Kingdom Trade Marks. The Division is responsible for ensuring that entities doing business in and from within the Territory are duly registered and that the Register of Companies is properly maintained.

Sector Overview

On 1 January, 2009, by operation of law, all local companies on the Register of Companies that did not voluntarily re-register under the BVI Business Companies Act prior to that date were automatically re-registered under the Act. These companies were assigned new company numbers and are now governed by the BVI Business Companies Act in accordance with the transitional provisions found in Part VI of Schedule 2 of the Act. As such, one of the key features is that these companies are required to appoint a licensed registered agent before any other activity in relation to filings can take place.

There was a significant decline in BVI Business Company incorporations in 2009 when compared to 2008, which is believed to be a direct result of the global economic downturn. Overall incorporations decreased by 32% with the biggest declines taking place in quarters one and three. The exception to this decrease was recognised in Q4 in which a 33% increase was reported above Q4 of 2008.

Because the Companies Act (Cap 285) was repealed, the incorporation figures for 2009 represent companies carrying on business with residents of the BVI and with non residents.

Incorporations and Registrations

	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Total 2009
BVI Business Companies	12,307	9,871	13,368	11,931	47,477
Limited Partnerships	14	24	10	17	65
Total	**12,321**	**9,895**	**13,378**	**11,948**	**47,542**

Incorporations and Registrations

Total Registrations	2009	2008	% Change
BVI Business Companies	47,477	61,716	(23.1)
Limited Partnerships	65	114	(43.0)
Trade Marks Local	207	177	14.5
Trade Marks UK	81	108	(25.0)

Post Incorporations

Overall, the Registry experienced a 23% decline in the number of companies listed on the Register of Companies during 2009 due to the significant reduction in new incorporations, and an increase in dissolved companies as well as companies being struck off the Register for non-payment of annual fees.

At the end of 2009, the total number of dissolved companies was 164,225, and of the 982,367 companies registered, 460,609 remained active.

No new legislation was introduced for the Registry during 2009 and no amendments to the existing legislation were made. During the year, a policy directive was issued to address the issue of charitable organisations seeking registration in the BVI. The policy related specifically to those charitable organisations whose main place of operation is outside of the territory. In keeping with the Commission's efforts to properly address public interest concerns affecting the integrity and reputation of the financial services industry, the directive was issued to inform the public that only charitable organisations being established to carry on business from within the territory would be approved for incorporation.

During the first quarter of 2009 the Fiduciary and Registry Liaison Committee was formed to serve as a liaison between the industry and the Commission and to discuss fiduciary and company management regulatory and registry developments, policies and practices. The committee's remit includes advising the Commission on any matter referred to it by the Commission, or on its own, and reporting on matters recommended to the Commission on any matter relating to fiduciary and company management business as it sees fit.

During 2009, the internal processing procedures of the Intellectual Property Department were also reviewed. In anticipation of new Intellectual Property Legislation, no major changes were made; however, a few changes were implemented to allow for efficiency, storing and retrieving of information, and for the printing of certificates and Gazette notices.

Staffing

At the end of 2009 the Registry bade farewell to the Deputy Registrar Mr. Allington Hodge who retired at the end of the year after providing years of service to the Commission and the prior Financial Services Department.

Non-Supervisory Divisions

St. Phillips Anglican Church, Tortola

Legal and Enforcement Division

The Legal and Enforcement Division provides ongoing legal support to the Commission's regulatory divisions, the Managing Director and the Board of Commissioners. The Division also executes requests for assistance from foreign regulatory and law enforcement authorities and takes conduct of enforcement action against regulated persons that act in violation of the regulatory and anti-money laundering laws. The Division is responsible for ensuring that the Commission's international cooperation policies and practices comply with the BVI laws. The Division also represents the Commission before the BVI courts and the Financial Services Appeal Board.

Sector Overview

In 2009, 243 cases were referred to the Division for advice. A majority of the cases related to apparent contraventions of the regulatory laws and sought recommendations for appropriate enforcement action. In 2009, 195 cases were referred to the Enforcement Committee. Administrative penalties were imposed in 30 cases and warning letters were issued in 28. Directives were issued in six cases, liquidators appointed in three cases and an administrator appointed in one case. Five of the directives required the suspension of a specified activity such as the subscription, redemption, or payment of management fees. A majority of the penalties were imposed in the insurance sector for failure to submit audited financial statements within the time frame prescribed by law. The second largest number of penalties was imposed in the trust and corporate service providers sector for the failure to seek approval for the appointment of directors and senior officers.

Requests for Assistance

One of the Division's responsibilities is to coordinate and execute requests for assistance by foreign regulatory and law enforcement authorities. The Division also makes requests for assistance to foreign regulatory authorities where assistance is required for the performance of the Commission's regulatory functions. When the Commission receives a request for assistance from a foreign regulatory or law enforcement authority it is categorised as a formal request. In most cases, the formal requests that the Commission receives are from foreign regulatory authorities and the requests usually seek information to facilitate the conduct of due diligence inquiries or investigations into breaches of foreign regulatory laws. For the year 2009 the Division received ninety-nine (99) formal requests from foreign regulatory authorities. In the overwhelming majority of cases, the requested assistance was granted within a reasonable time frame. The assistance comprised the provision of legal and beneficial ownership information and transaction records.

The Division also receives inquiries, complaints and reports relating to BVI companies from private individuals. Where such complaints or reports raise matters of regulatory concern or reputational risk to the Territory the Division conducts preliminary investigations before referring the matter to the Enforcement Committee and/or any relevant regulatory, law enforcement or intelligence agency. For the year 2009, the Division received one hundred and five (105) reports and inquiries that led to investigations and referrals to external agencies.

Pursuant to the Memorandum of Understanding (MOU) between the Financial Investigation Agency (FIA) and the Commission, the Commission refers matters relating to allegations of fraud and money laundering schemes

to the FIA. During the year 2009 sixteen (16) matters were referred to the FIA under the MOU. The cases related to companies which were alleged to be involved in tax avoidance/evasion, banking corruption, investment fraud, insider trading and money laundering. There were three (3) matters referred by the FIA to the Commission pursuant to the MOU. The Commission filed 11 Suspicious Activity Reports (SARs) with the FIA relating to cases of suspected fraud and money laundering.

Newly introduced or significantly changed legislation, policies etc

The Financial Services Commission (Amendment) Act, 2009 (the 2009 Act) broadened the scope of the Commission's enforcement powers by giving the Commission power to take enforcement action against persons carrying on unauthorised financial services business, persons failing to The 2009 Act also introduced provisions that allow the Commission to impose fines on a licensee's authorised or registered agent in circumstances where a contravention by a licensee was due wholly or in part to the default of the authorised or registered agent. In the past, the Commission was constrained to exercise forbearance in such cases as its remit in enforcement matters did not extend to service providers who had failed in their obligations to licensees. The amendments in the 2009 Act have addressed this concern and have thereby strengthened the regulatory regime.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Formal Requests	7	10	9	14	6	8	7	7	7	8	13	3	99
Informal Requests	3	6	6	2	5	11	7	2	3	6	11	9	71
Investigations **	1	3	3	8	7	13	11	15	4	17	12	11	105
Information share to FIA under MOU	-	1	1	-	-	-	5	-	2	-	5	2	16
Information share from FIA under MOU	-	-	1	-	1	-	-	1	-	-	-	-	3
Information share with counterpart regulatory authorities	-	-	-	-	-	-	10	2	2	1	-	-	15
Reports filed with RVIPF	-	-	-	-	4	-	-	1	-	-	3	1	9
SAR's filed with FIA	2	-	1	2	-	-	-	2	1	1	2	-	11
Total	**13**	**20**	**21**	**26**	**23**	**32**	**40**	**30**	**19**	**33**	**46**	**26**	**329**

***Investigations:-*
At 31st December 2009, some 11 cases remained open and under investigation.

Regulatory and Enforcement Action

The Division provides advice on appropriate enforcement action to address regulatory breaches and similar concerns. Decisions on appropriate enforcement action are ultimately made by the Enforcement Committee (EC) and the Division is responsible for communicating the decisions of the EC and keeping the EC and the Board abreast of developments in this regard.

During the year 2009, 243 matters were referred to the Division for advice. A breakdown of the regulatory divisions and other agencies from which the requests were received is highlighted in the chart below.

Regulatory Division/ Agency	Total No. of Matters Referred in 2009
Administration	18
Investment Business	52
Banks and Fiduciary Services	72
Insurance	59
Insolvency	13
Finance Division	2
Corporate Registry	26
Policy Research & Statistics	0
Attorney General - Governor's Office	1
Total	243

High Court and Court of Appeal Proceedings

The Division represents the Commission in civil proceedings in the High Court. These generally comprise applications in respect of the Commission's decisions on enforcement action and applications made under the BVI Business Companies Act, 2004 (the BVIBC Act). In 2009 the Commission applied to the Court for an order to appoint administrators to take over and manage the holder of a Class 1 trust licence. The application was based on the findings of a compliance inspection of the company in which serious concerns with the management of the company were identified. The Commission decided that the management of the company should be entrusted to a responsible third party until the company appointed a management team that the Commission considered to be fit and proper and implemented effective internal controls and procedures.

In 2009 the Commission also applied to the Court for an order appointing liquidators of three companies that were licensed to carry on insurance business. The companies were subject to detailed investigations by the Commission which revealed concerns with the legitimacy of their schemes and a history of poor internal controls. Based on the findings of the investigations, the Commission formed the opinion that the companies no longer satisfied its fit and proper criteria and applied to the Court to wind up the companies on the ground that it was just and equitable to do so.

In 2009 the Division represented the Commission/ Registrar of Corporate Affairs in 32 applications under the BVIBC Act. These applications involved revocations of dissolution, terminations of liquidation of companies and the restoration of the companies to the register of companies and applications for an order for an amendment to a company's memorandum or articles to have a resolution take effect from a date earlier than the date of filing of the amendment. Upon making the orders sought on the applications, the Court awarded legal costs to the Commission and, where appropriate, the payment of outstanding fees and penalties to the Registrar of Corporate Affairs.

Developing Trends and Observations

The Commission's decisions are subject to appeal to the Financial Services Appeal Board and to judicial review by the Courts in cases where the decisions are alleged to be unreasonable, outside the scope of the Commission's powers or otherwise unfair (in breach of natural justice). The Commission must therefore ensure that its decisions and procedures can withstand the highest level of scrutiny and that fundamental principles of fairness are observed at all times. To achieve this objective, the Commission must develop and implement appropriate procedures and provide ongoing training so that staff members are aware of the Commission's obligations in this regard. The Division stands ready to assist in developing a training programme and in providing the required training.

In 2009 the Commission formally saw the commencement of operations of the enforcement section of the Legal and Enforcement Division.

The establishment of the Enforcement section is an invaluable resource to the Commission. It has improved the pace at which the Division is able to investigate complaints and reports and enhanced the Commission's resources for providing intelligence and company monitoring reports.

The Division has also progressed the Commission's application to become a signatory to the IAIS MMoU. The IAIS Validation team is engaged in reviewing the application and the Division has provided extensive reports on the Commission's international cooperation regime to facilitate this process.

Virgin Island Folk Museum, Tortola

Policy, Research and Statistics

The Policy Research and Statistics Division functions as the strategic intelligence and policy development unit of the Commission. The Division is responsible for monitoring international regulatory and legislative developments, developing regulatory policies, researching topics related to the financial services industry, producing industry statistics and taking the lead in all anti-money laundering and terrorist financing matters. The Division is also responsible for in-house training and development aimed at institutional strengthening. In addition, the Division researches and develops position papers with respect to enquiries conducted in relation to the Territory's financial services sector.

Sector Overview

As part of the Commission's policy to continually review current legislation relating to or affecting the financial services industry and consider emerging international standards of supervision and compliance, the Division, in cooperation with the Attorney General's Chambers, developed the following legislation during the course of 2009:

Anti-money Laundering (Amendment) Regulations 2009
Proceeds of Criminal Conduct (Amendment) Act, 2009
Financial Services Commission (Amendment) Act, 2009;
Criminal Justice (International Cooperation) (Amendment of Schedule 2) Order, 2009
Insurance Regulations, 2009
Financial Services (Approved Forms Publication) Regulations, 2009
Proliferation Financing (Prohibition) Act, 2009
Securities and Investment Business Act, 2009

The Division also continued its review of the Territory's AML/CFT regime to ensure continued compliance with the FATF 40+9 Recommendations and to address the areas that were found to be deficient during the CFATF's 2008 Mutual Evaluation of the Territory. This exercise necessitated amendments to the Proceeds of Criminal Conduct Act, 1997, the Anti-money Laundering Regulations, 2008 and the Anti-money Laundering and Terrorist Financing Code of Practice, 2008 and the enactment of the Criminal Justice (International Cooperation) (Amendment of Schedule 2) Order and the Securities and Investment Business Act.

In 2009, the UK government sanctioned an independent review of British Offshore Financial Centres. The aim of this review, also known as the Foot review, was to identify current and future risks (and mitigation strategies) to the Overseas Territories/Crown Dependencies' long term financial services sector. The Division took the lead in compiling the information required to accurately respond to the review which focused on the financial supervision and transparency of the Territory, the Territory's financial crisis management and resolution arrangements, international cooperation arrangements, the importance of the various sectors of the industry, as well as the current pressures and challenges faced by the Commission as regulator. The review also looked into the effect of the global economy and its effects on the territory as a financial centre, the implications of international initiatives being advocated or developed, and the Territory's effort to ensure compliance with established international standards.

Also during 2009, the FATF established its International Cooperation Review Group (ICRG) as a mechanism to identify jurisdictions that had not complied with its established AML/CFT Recommendations. The ICRG mapped out the core and key 40+9 Recommendations with which all jurisdictions must comply and determined that jurisdictions that were not compliant or largely compliant with ten or more of these Recommendations would be automatically considered for prima facie review of their AML/CFT regimes.

The BVI had the opportunity to review the Procedures of the ICRG and to take note of the amendments that were effected to the Procedures during the International Cooperation Review Group's (ICRG) meeting held in Paris on 12-13 May, 2009. This meeting was attended by the Director, Policy Research and Statistics who provided a comprehensive written response to the seven ICRG factors to be considered in the prima facie review of jurisdictions.

As a result of the high level of compliance by the BVI as reflected in its CFATF report which placed it in the second highest tier globally (scoring 14 out of 16 core and key Recommendations – the highest score being 15), the BVI did not automatically qualify to be considered for such review.

Supervisory Report

As part of its mandate to develop regulatory policies for the Commission, the Division developed, approved and revised various guidelines, Codes and Orders addressing a wide range of regulatory and supervisory matters:

- Guidelines for the Approved Persons Regime,
- Financial Services Commission's Approved Forms and Related Guidelines, and
- Guidelines and Operating Procedures of the Licensing and Supervisory Committee of the BVI Financial Services Commission.

Also developed and approved during 2009 were:

- the Regulatory Code, 2009,
- the Anti-money Laundering and Terrorist Financing (Amendment) Code of Practice, 2009,
- the Anti-money Laundering and Terrorist Financing (Amendment) (No. 2) Code of Practice, 2009,
- Financial Services (Prudential and Statistical Returns) Order, 2009, and
- Financial Services (Recognised Custodians) Order, 2009.

In 2009, in light of the global financial meltdown, the Commission established a Crisis Management Group (CMG), under the Chairmanship of the Director, Policy Research and Statistics, to consider, among other things, what steps could or should be taken, either alone or in concert with the Government (or with the FS private sector licensees/service providers) to minimise the exposure of the FSC and the BVI generally to any similar related publicity concerning FSC licensees. This included making an assessment of any reputational risk that the Commission and/or the BVI generally may face in the context of its financial services industry and how best an appropriate response may be shaped in such an event.

The CMG also explored the global initiatives undertaken by the G20, European Union, International Monetary Fund, Financial Stability Board and other regional and international standard-setting institutions, including initiatives emanating from the UK in relation to the BVI, as a response to the fraudulent financial schemes and other criminal activities in an effort to establish whether such fraudulent financial schemes and other criminal activities had any nexus to the BVI. The CMG now forms a permanent feature of the Commission.

The G20 Communique on stabilising the global financial markets and the calls for tighter regulation and enhanced standards culminated in reviews by IOSCO of securities regulations, the FATF through the establishment of working groups to review the 40 +9 Recommendations and the Basel Committee on Banking Supervision which embarked on a review of existing prudential standards for banking regulation that is currently ongoing.

The Division keeping in tune with these international developments carried out its own in-house reviews throughout the year, some of which remain ongoing. These reviews were based on the recommendations emanating from these various international reviews. With respect to IOSCO, many of the recommendations have been taken into account in the new Securities and Investment Business Bill which is scheduled to be enacted in early 2010.

In March, the Director attended the Anti-money Laundering Forum (AMLP) in London, following which the Proliferation Financing (Prohibition) Act was conceived, drafted and subsequently enacted by the House of Assembly. He also participated, as part of the CFATF's delegation, in the FATF's review of the ICRG processes and procedures which were finalised in June, and presented a paper at the Cambridge Symposium on Economic Crime in September 2009.

Outlook for 2010

The Division anticipates that 2010 will be even more demanding as there are various legislative and regulatory amendments planned including amendments to the Banks and Trust Companies Act, 1990, the Company Management Act, 1990, and the Regulatory Code, 2009.

The International Monetary Fund is also scheduled to conduct a Financial Sector Assessment (FSAP) of the Territory in early 2010. This assessment will be the first of its kind for the Territory as the last assessment carried out by the IMF was done under its Offshore Financial Centre (OFC) assessment programme. While the OFC assessment was based on standards and best practice, the FSAP review will not only report on the Territory's observance of standards and codes, but will also assess the Territory's ability to cope with various external shocks. Data collection and review of all documents to be submitted for this review will be the responsibility of the Division.

Also in 2010, the Commission, through the Division, intends to establish a working group to review the existing Intellectual and Industrial Property laws of the Territory with a view to reforming the regime.

The Copper Mine, Virgin Gorda

Corporate Services

The Corporate Services Division functions as the Operations arm of the Commission and is comprised of several business units including finance, information technology, general administration, facilities and corporate communications.

In 2009 the Corporate Services Division continued its objectives and responsibilities to provide operational support to other divisions of the Commission and to address matters geared at improving the efficiency of operations

Finance

During 2009 at the request of the Board, the Financial Controller and the Commission's Investment Advisory Committee established Investment accounts to house regulatory deposits made by applicable licensees and to accommodate surplus funds that comprise the Commission's long term reserves. The funds have been placed with a recognised investment advisor in a manner consistent with the Board's approved investment strategy and policy.

Corporate Communications

The Corporate Communications unit continued to provide leadership in communications by ensuring that the local industry and the international regulatory community are fully seized of all Commission initiatives, new and revised policies and guidance through media relations and other outreach efforts. The unit also continued to produce the Commission's quarterly meet the regular forum which provides an opportunity for formal dialogue with industry practitioners. Similarly Corporate Communications continued to insure adequate reach by the Commission in all its written and electronic communication of information through the publication and dissemination of material through the website including the quarterly statistical bulletin. Coordinating the availability and appearances of senior managers and directors to facilitate media requests for interviews and invited comment were also part of the unit's 2009 activities.

Internal efforts for Commission wide training were also supported and coordinated by the unit in conjunction with the Policy, Research and Statistics Division.

The Commission's representation at key industry events locally and internationally was also supported by the division through the review and approval of key presentation, material for delivery including speeches and presentations.

Information Technology

2009 saw the culmination of a huge effort to complete, test and have certified the Commission's redundant data operations systems. These systems are a critical component of the Commission's businesses continuity plan to ensure continued operations and access to records and information in the face of adverse operating conditions. The Commission's flagship application VIRRGIN was also reviewed and assessed by a special team as part of the Commission's 2009 financial audit. The review found no significant discrepancies or failures with the application, which handles critical aspects of the Registry of Corporate Affairs' operations, including revenue collections.

As the commission strives to improve efficiency and effectiveness as a regulator, the use of technology remains critical to ensure target service standards are achieved. To this end, the Information Technology Department, both infrastructure and application development continue to increase the Commission's automation and reliance on technology to the Commission.

In 2009 the Department introduced a new intranet platform to aid the accessibility of information to employees and the efficiency of internal communications generally. The division also developed and launched a new web-based application for filing of mutual fund returns in support of the Investment Business Division. The web-based application, MFAR operates in a secure environment and facilitates a more efficient filing of annual returns by BVI Mutual funds.

The Division, through the Director, represents the Commission on the Government sponsored Team BVI which is a group of stakeholders dedicated to the continued recognition of the BVI as a premier financial services centre. Team BVI is coordinated by the International Finance Centre and the Director and staff of the division, including members of the ROCA, participated in local GO BVI Training. The series was aimed at demystifying financial services products and the industry to senior civil servants who are not otherwise formally exposed to its workings.

The division was also pleased to provide the introduction of video conferencing facilities to accommodate the Commission's external Commissioner who otherwise must travel to the BVI monthly. the video conference facility is housed at the BVI House in London.

Sir Olva Georges Plaza, Tortola

Human Resources

The main objective of the Human Resources Department (HRD) is to fulfil the organisational needs of the Commission through the recruitment, development and retention of high performing employees, and to meet the needs of the Commission's staff.

Employee Profile

During 2009, the HRD continued its mission to promote fair and equitable treatment of all employees and to administer an impartial disciplinary process. The Department also continued to administer an attractive compensation and benefits plan and to provide relevant information on all HR-related matters.

Employee Profile: 2009

New Recruits	2
Regular Full-time Employees (at the end of 2009)	124
Contract Employees (at the end of)	4
Summer Interns	10
Separations	8
Retiree(s)	1

Employee Profile

At the end of 2009 the Commission's staff count was 130 as it experienced its lowest number of new hires. Other staff changes remained moderate however, and it is heartening to note that the turnover rate has remained negligible. As a result the Commission has been able to retain a promising staff, thus ensuring a healthy future for the organisation.

Through its annual summer employment programme, the Commission employed 10 college/university students who were assigned to various divisions during the months of July and August. This exposure to the work of the Commission allowed these students to gain first-hand experience in the regulation and supervision of the financial services sector.

Professional Development/Training

In 2009 more than 40% of the Commission's employees attended or participated in local, regional and international meetings, workshops, symposiums and conferences held by such international organisations as OGCISS, IOSCO, CFATF, OSFI, OGBS, IAIS and IAIR. These training and development opportunities were aligned with the goals of individual divisions as well as the goals of the Commission.

During the last quarter of 2009 a three-month external secondment was taken up and successfully completed by one employee, while two employees embarked on full-time study leave, one in the area of finance, and the other with a focus on law, during the course of the year. The Commission also provided continued support to members of staff who were previously enrolled in institutions of higher learning, locally and overseas, as well as other professional, qualification courses.

Several members of staff who were pursuing private studies with the Charter Management Institute in conjunction with the H. Lavity Stoutt Community College graduated with Diplomas in Management, and one staff member attained an Executive Diploma from the same institution.

Accomplishments

The Department successfully engaged a new counsellor for the Commission's Employee Assistance Programme (EAP). The counsellor remains easily accessible to staff and has held various sessions with individual employees, where appropriate, since becoming engaged by the Commission.

The Commission, through the approval of the Board of Commissioners did, provide medical insurance benefits for employees with over 2 years tenure.

The Human Resources Department partnered with the Ministry of Health and Social Development in organising and presenting an informative discussion to the staff on the H1N1 pandemic. The Department also coordinated with Colonial Insurance (BVI) Limited and MASA to conduct educational sessions on the Commission's medical health benefits insurance scheme and available air ambulance services.

As part of the Commission's employees appreciation initiatives, the Department, in conjunction with the Managing Director's Office, hosted its annual Children's Christmas Party which was enjoyed by all. The day included face painting, a visit by Santa who brought gifts for all the children and an aggressive round of musical chairs.

Trends and Observations/Future Goals

The HRD hopes to finalise and implement the revised job evaluation and compensation system during the course of 2010. Additionally, staff will be notified and updated on legislative changes as they relate to the proposed new Labour Code once it is enacted, and the employee manual will be updated accordingly.

The HR function continues to be transformed by business globalisation and technology. In 2010, the HRD hopes to make HR-related information more readily available to staff electronically. It also expects that over time sound electronic systems and processes for all HR functions will be developed in order to enhance the efficiency of the Department. The Department also anticipates introducing new and improved policies that would better support and build the desired organisational culture within the Commission.

Financial Statements

Sunrise at The Copper Mine, Virgin Gorda

BRITISH VIRGIN ISLANDS
FINANCIAL SERVICES COMMISSION

Audited Financial Statements

For The Year Ended December 31, 2009

BRITISH VIRGIN ISLANDS
FINANCIAL SERVICES COMMISSION

Audited Financial Statements

For The Year Ended December 31, 2009

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

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For The Year Ended December 31, 2009

Commission Directory
For The Year Ended December 31, 2009

BOARD OF COMMISSIONERS

Mr. Robin Gaul	Chairman
Mr. Colin O'Neal	Deputy Chairman
Ms. Eleanor Smith	Commissioner
Mr. Phillip Fenty	Commissioner
Mr. Martin Fuggle	Commissioner
Mr. E. Walwyn Brewley	Commissioner
Mr. Robert Mathavious	Managing Director, ex officio Commissioner

REGISTERED OFFICE

P.O. Box 418
Pasea Estate
Road Town, Tortola
British Virgin Islands

COMMISSION SECRETARY

Ms. Annet Mactavious

INDEPENDENT AUDITORS

BDO Limited
P.O. Box 34
Sea Meadow House
Tobacco Wharf
Road Town, Tortola
British Virgin Islands

Tel: (284) 494 3783
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British Virgin Islands

Independent Auditors' Report

To the Board of Commissioners
British Virgin Islands Financial Services Commission
Tortola, British Virgin Islands

We have audited the accompanying financial statements of British Virgin Islands Financial Services Commission (the "Commission"), which comprise of the statement of statement of financial position as at December 31, 2009 and the related statements of comprehensive income, changes in reserves, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and the fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We have conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making these risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate to the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statement.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Commission as of December 31, 2009 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

BDO Limited

Tortola, British Virgin Islands
July 27, 2010

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Statement of Financial Position
As at December 31, 2009

	Notes	2009	2008
ASSETS			
Non-current assets			
Fixed assets	3,4	1,501,358	3,269,896
VIRRGIN project under development	4	386,401	386,401
		1,887,759	3,656,297
Current assets			
Regulatory deposits	5	8,096,053	8,152,796
Cash and cash equivalents	6	21,441,496	16,966,935
Other receivables and deposits		103,368	25,894
		29,640,917	25,145,625
TOTAL ASSETS		US$ 31,528,676	US$ 28,801,922
RESERVES AND LIABILITIES			
Capital reserves			
Contributed capital	7	3,993,900	3,993,900
Property, plant & equipment reserve	7	1,887,759	3,656,297
Total capital reserves		5,881,659	7,650,197
Revenue reserves			
Training reserve	7	400,000	400,000
Loan revolving reserve	7	165,000	165,000
Future capital expansion reserve	7	7,500,000	5,500,000
Refunds reserve	7	50,000	50,000
Enforcement reserve	7	2,000,000	2,000,000
Contingency reserve	7	897,030	976,646
Total revenue reserves		11,012,030	9,091,646
Total reserves		16,893,689	16,741,843
Current liabilities			
Trade and other payables	8	864,778	999,184
Deposits on account	9	1,674,156	2,058,099
Distribution payable to Government	10	4,000,000	850,000
Regulatory deposits from licensed entities	5	8,096,053	8,152,796
Total liabilities		14,634,987	12,060,079
TOTAL RESERVES AND LIABILITIES		US$ 31,528,676	US$28,801,922

Signed on behalf of the Commission on July 27, 2010

Chairman *Managing Director*

The accompanying notes form an integral part of these financial statements

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Statement of Comprehensive Income
For The Year Ended December 31, 2009

	Notes	2009	2008
INCOME			
Fees collected on behalf of the Government	6	184,911,781	184,263,616
Less: Fees due to the Government	6	(164,696,384)	(164,921,256)
Fees retained by the Commission		20,215,397	19,342,360
Other income		178,143	163,350
Interest income		219,093	171,998
TOTAL INCOME		20,612,633	19,677,708
EXPENSES			
Advertising		2,280	3,004
Conferences and seminars		132,879	215,564
Contributions		79,027	24,026
Depreciation		2,125,358	2,720,241
Financial Investigations Agency funding		500,000	350,869
Insurance		67,019	67,144
Licenses and fees		42,985	63,232
Literature and reference		114,343	89,280
Maintenance and hire		330,750	371,770
Memberships and subscriptions		45,453	50,629
Miscellaneous		3,510	26,524
Office expenses		258,031	327,613
Professional services		1,137,360	2,245,216
Public relations		74,042	61,493
Refunds		-	5,550
Rent and lease		902,572	938,748
Staff costs	11,15	9,056,420	8,626,586
Travel and subsistence		733,852	830,342
Telephone and communications		639,947	715,611
Utilities		214,959	270,430
TOTAL EXPENSES		16,460,787	18,003,872
SURPLUS BEFORE GOVERNMENT DISTRIBUTION		4,151,846	1,673,836
Distribution to Government	10	(4,000,000)	(850,000)
SURPLUS FOR THE YEAR		US$ 151,846	US$ 823,836

The accompanying notes form an integral part of these financial statements

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Statement of Changes in Reserves
For The Year Ended December 31, 2009

	Opening balance	Surplus for the year	Transfers	Closing balance
Year ended December 31, 2009:				
Surplus for the year	-	151,846	(151,846)	-
Contributed capital reserve	3,993,900	-	-	3,993,900
Property, plant & equipment reserve	3,656,297	-	(1,768,538)	1,887,759
Training reserve	400,000	-	-	400,000
Loan revolving reserve	165,000	-	-	165,000
Future capital expenditure reserve	5,500,000	-	2,000,000	7,500,000
Refunds & drawbacks reserve	50,000	-	-	50,000
Enforcement reserve	2,000,000	-	-	2,000,000
Contingency reserve	976,646	-	(79,616)	897,030
	US$ 16,741,843	US$ 151,846	US$ -	US$ 16,893,689
Year ended December 31, 2008:				
Surplus for the year	-	823,836	(823,836)	-
Contributed capital reserve	3,993,900	-	-	3,993,900
Property, plant & equipment reserve	4,865,812	-	(1,209,515)	3,656,297
Training reserve	400,000	-	-	400,000
Loan revolving reserve	165,000	-	-	165,000
Future capital expenditure reserve	3,500,000	-	2,000,000	5,500,000
Refunds & drawbacks reserve	50,000	-	-	50,000
Enforcement reserve	2,000,000	-	-	2,000,000
Contingency reserve	943,295	-	33,351	976,646
	US$ 15,918,007	US$ 823,836	US$ -	US$ 16,741,843

The accompanying notes form an integral part of these financial statements

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Statement of Cash Flows
For The Year Ended December 31, 2009

	2009	2008
CASH FLOW FROM OPERATING ACTIVITIES		
Surplus for the year	151,846	823,836
Adjustment to reconcile net surplus to net cash from operating activities before working capital changes:		
Depreciation	2,125,358	2,720,241
Operating surplus before working capital changes	2,277,204	3,544,077
(Increase) decrease in other receivables and deposits	(77,474)	35,651
Decrease in trade and other payables	(134,406)	(450,230)
Decrease in deposits on account	(383,943)	(18,643)
Increase (decrease) in distribution payable to Government	3,150,000	(450,000)
Net cash generated from operations	4,831,381	2,660,855
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of fixed assets-net	(356,820)	(1,510,726)
Net cash used in investing activities	(356,820)	(1,510,726)
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,474,561	1,150,129
CASH AND CASH EQUIVALENTS		
At beginning of year	16,966,935	15,816,806
At end of year	US$ 21,441,496	US$ 16,966,935

The accompanying notes form an integral part of these financial statements

1. Organization and Objectives

The British Virgin Islands Financial Services Commission (the "Commission") was established under the Financial Services Commission Act, 2001 (the "Act") on December 31, 2001. The Act established the Commission as an autonomous regulatory authority responsible for the regulation, supervision and inspection of all financial services in and from within the British Virgin Islands. Such services include insurance, banking, insolvency, fiduciary business, company management, mutual funds business as well as the registration of companies, limited partnerships, intellectual property and ships. The registered office of the Commission is located at Pasea Estate, Road Town, Tortola, British Virgin Islands.

The Commission oversees all regulatory responsibilities previously handled by the Government of the British Virgin Islands (the "Government") through the Financial Services Department with the additional responsibilities of facilitating public understanding of the financial services system and its products, policing the perimeter of regulated activity, reducing financial crime and preventing market abuse.

2. Significant Accounting Policies

(a) Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards, which comprise standards issued or adopted by the International Accounting Standards Board and interpretations issued by its Standing Interpretations Committee. They have been prepared under the historical costs convention and are expressed in U.S. dollars.

(i) Standards, amendments and interpretations to existing standards effective January 1, 2009 and relevant to the Commission

IAS 1 (revised), Presentation of financial statements. The revised standard requires an entity to present, in a statement of changes in equity, all owner changes in equity. All non-owner changes in equity (ie comprehensive income) are required to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income are not permitted to be presented in the statement of changes in equity. An entity is also required to present a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when the entity applies an accounting policy retrospectively or makes a retrospective restatement, as defined in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, or when the entity reclassifies items in the financial statements. IAS 1 requires an entity to disclose reclassification adjustments and income tax relating to each component of other comprehensive income. Reclassification adjustments are the amounts reclassified to profit or loss in the current period that were previously recognised in other comprehensive income. IAS 1 requires the presentation of dividends recognised as distributions to owners and related amounts per share in the statement of changes in equity or in the notes. Dividends are distributions to owners in their capacity as owners and the statement of changes in equity presents all owner changes in equity. The Commission has applied IAS 1 (revised) from January 1, 2009, and has elected to present solely a statement of comprehensive income. The adoption of this revised standard has not resulted in a significant change to the presentation of the Commission's statement of comprehensive income, as the Commission has no elements of other comprehensive income.

2. Significant Accounting Policies (Cont'd)

(a) Basis of Preparation (cont'd)

(i) Standards, amendments and interpretations to existing standards effective January 1, 2009 and relevant to the Commission (continued)

Improvements to IFRSs. Issued in May 2008, the improvements contain numerous amendments to IFRS, which are considered non-urgent but necessary. The improvements result in accounting changes for presentation, recognition or measurement purposes; or they are terminology or editorial changes only. These improvements have no significant impact on the Commission's accounting practice and are mainly effective from January 1, 2009.

(ii) Standards, amendments and interpretations to existing standards in issue but not yet effective and relevant to the Commission

- **Improvements to IFRSs**. Issued in April 2009, the improvements contain numerous amendments to IFRS, which are considered non-urgent but necessary. The improvements result in accounting changes for presentation, recognition or measurement purposes; or they are terminology or editorial changes only. These improvements have so significant impact in the Commission accounting practice and are mostly effective from January 1, 2010.
- **IAS 24 (revised),** *Related Party Disclosures.* The revision clarifies the definition of related parties (effective from January 1, 2011).
- **IFRS 9,** *Financial Instruments.* This new standard completes the first part of a three-part project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The classification of financial instruments will be based on how an entity manages its financial instruments and the contractual cash flows. IFRS 9 will also permit a single impairment method. As a result, this new standard will increase comparability, enhance the ability of the users to understand the accounting of financial instruments and reduce the complexity.

Management has not yet assessed the possible impact that application of the new standards, amendments and interpretations listed above will have on the Commission's financial statements in the period of initial application.

Other standards, amendments and interpretations effective from January 1, 2009 or in issue but not yet effective were issued but are not listed here. Management considered these as not relevant to the Commission and their application would have no impact on the Commission's accounting policies.

2. Significant Accounting Policies (Cont'd)

(b) Fixed Assets

Fixed Assets are stated at historical cost less accumulated depreciation. Depreciation is calculated on the straight-line method to write off the cost of each asset over their estimated useful life as follows:

Computer software and equipment	3 years	Motor vehicles	5 years
Office equipment	5 years	Leasehold improvements	5 years
Leasehold land	63 years		

(c) VIRRGIN project under development

Costs incurred on the Virtual Integrated Registry and Regulatory General Information Network ("VIRRGIN") project are recognized as intangible assets to the extent that such expenditure is expected to generate future economic benefits. Development costs for each phase, including licensing costs that have been capitalized, are transferred to fixed assets when each phase of project is completed. Depreciation will be charged on the costs of each phase as each phase is brought into use. Maintenance and support costs relating to the VIRRGIN project are expensed in the period to which they relate.

(d) Regulated Deposits From Licensed Entities

These deposits are carried at cost and consist of current deposits held at commercial banks and U.S Treasury Bills with maturity dates of one year or less.

(e) Cash and Cash Equivalents

For the purpose of the cash flow statement, cash and cash equivalents consist of current deposits held with commercial banks with maturity dates of three months or less.

(f) Revenue Recognition

Fees and commission income are recognised upon approval of the transaction by the Commission. Interest income and expenses are recognised on an accrual basis.

(g) Taxation

In accordance with Section 28 of the Act, the Commission is exempt from the payment of taxes on its income and operations.

(h) Foreign currency translation

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Assets and liabilities are translated at the exchange rate in effect at the balance sheet date.

2. Significant Accounting Policies (Cont'd)

(i) Leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

(j) Pension Plan

The Commission's pension plan obligations are recognised on the accrual basis. Past service contributions were recognized when paid.

(k) Financial Instruments

Financial instruments carried on the balance sheet include cash and cash equivalents, regulatory deposits, other receivables, trade and other payables, deposits on account, and regulatory deposits from licensed entities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

(l) Use of estimates

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Fixed Assets

	Leasehold Land	Motor Vehicles	Furniture & Equipment	Computers & Software	Leasehold Improvements	Total
Year ended December 31, 2008:						
Opening net book value	123,811	57,701	391,785	3,388,870	517,244	4,479,411
Additions	-	98,799	235,139	1,186,057	5,195	1,525,190
Disposal	-	(14,464)	-	-	-	(14,464)
Depreciation	(2,063)	(33,216)	(222,730)	(2,157,829)	(304,403)	(2,720,241)
Net book value	US$ 121,748	US$ 108,820	US$ 404,194	US$ 2,417,098	US$ 218,036	US$ 3,269,896
Year ended December 31, 2009:						
Opening net book value	121,748	108,820	404,194	2,417,098	218,036	3,269,896
Additions	-	-	98,326	243,253	15,241	356,820
Depreciation	(2,065)	(31,900)	(183,341)	(1,752,258)	(155,794)	(2,125,358)
Net book value	US$ 119,683	US$ 76,920	US$ 319,179	US$ 908,093	US$ 77,483	US$ 1,501,358
As at December 31, 2009:						
Cost	130,000	159,503	2,019,093	8,204,501	2,027,823	12,540,920
Accumulated depreciation	(10,317)	(82,583)	(1,699,914)	(7,296,408)	(1,950,340)	(11,039,562)
Net book value	US$ 119,683	US$ 76,920	US$ 319,179	US$ 908,093	US$ 77,483	US$ 1,501,358

4. VIRRGIN Project Under Development

As of December 31, 2009, the Commission has an existing contract with Singapore Computer Systems Limited relating to the development of an internet-based information system featuring electronic filing of documents called Virtual Integrated Registry and Regulatory General Information Network (“VIRRGIN”).

VIRRGIN will be completed in three phases of development, each of which will be released separately. The VIRRGIN project costs to be capitalized will include (a) registry engine license; (b) implementation and development costs for Phases I, II and III; other additional consultancy and software implementation charges; and airfares, accommodation and other travel expenses incurred relating to the implementation of the project. Cost relating to Phase I and II of VIRRGIN have been capitalized as Computer and Software as part of Fixed assets (see Note 3). The cost of US$ 386,401 (2008: US$ 386,401) relates to the uncompleted Phase III which is expected to be finished by December 31, 2010. The estimated costs to completion of the project, excluding any additional costs, are S$1,161,304 (equivalent to US$799,677) (2008: US$ 805,364).

During the year ended December 31, 2009, the Commission incurred additional costs of US$ Nil (2008: US$51,415) relating to licensing and for development and implementation of Phase II project. Additional cost from various subcontractors was also incurred and capitalized that relates to the overall VIRRGIN project amounting to US$36,641 as of December 31, 2009 (2008: US$147,506).

5. Regulatory Deposits From Licensed Entities

By statute, certain entities licensed to operate in the financial services sector within the British Virgin Islands are required to place a deposit with the Commission. The Commission has undertaken to hold these amounts in a designated interest-bearing account and distributes interest thereon to the licensees on an semi-annual basis. The deposits are refundable upon surrender of the licence.

6. Cash and Cash Equivalents

	2009	2008
Cash held in Government Trust Account	3,097,024	3,096,924
Payable to Government	(1,296,951)	(963,781)
Net cash held in Government Trust Account	1,800,073	2,133,143
Cash in operating account	19,402,124	14,596,920
Cash in insolvency account	239,299	236,872
Total cash and cash equivalents	US$ 21,441,496	US$ 16,966,935

6. Cash and Cash Equivalents (continued)

Fees collected on behalf of the Government are paid into a trust account maintained jointly in the name of the Commission and the Government. Prior to the commencement of the Commission's financial year, the Government's Cabinet ("Cabinet") determines the percentage of fees collected on their behalf that is to be remitted to them, with the Commission retaining the balance. For the year ended December 31, 2009, the Commission retained 10.5% of revenue up to the projected revenue stream and thereafter, the Commission retained 7.5% of any revenue in excess of the projected revenue stream. This resulted in cash of US$ 1,296,951 (2008: US$963,781) being held on behalf of the Government as at December 31, 2009.

7. Reserves

In accordance with Section 26 of the Act, the surplus for the year is allocated to capital and revenue reserve accounts at the discretion of the Commission. The capital and revenue reserves established include:

Capital reserves

(i) Contributed capital represents an initial transfer of capital from the Government of the British Virgin Islands on the establishment of the Commission. It represented approximately 3 months of operating expenses.
(ii) Property, plant, and equipment reserve reflects the investment into property, plant and equipment to date, less amortisation;

Revenue reserves

(i) Training reserve for long term training/ study leave of staff;
(ii) Loan revolving reserve to facilitate staff loans (personal, medical, etc.) as the Act requires employees transferred from Government at the inception of the Commission to be no less well off than they were with Government;
(iii) Future capital expansion reserve to partly finance the future securing of property, constructing and equipping the Commission's own building;
(iv) Refunds reserve to provide cash for making refunds when necessary;
(v) Enforcement reserve to establish a fund to address enforcement expenses as they arise;
(vi) Contingency reserve to establish a fund in the event of unforeseen circumstances.

8. Trade and Other Payables

	2009	2008
Accounts payable and accrued expenses	200,500	314,501
Insolvency surplus reserve	234,649	234,649
Deferred revenue	233,644	235,994
Employee deductions and benefits payable	195,985	214,040
	US$ 864,778	US$ 999,184

8. Trade and Other Payables (continued)

Pursuant to the Insolvency Rules 2005, the insolvency surplus reserve pertains to monies representing unclaimed assets received from liquidators or bankruptcy trustees after the completion of a liquidation or bankruptcy. Funds are paid out of the reserve to any person the Commission is satisfied is entitled to make a claim with respect to the insolvency proceedings for which the monies were paid into the reserve.

Deferred revenue pertains to fees collected by the Official Receiver, held by the Commission for safekeeping, pending administrative arrangements between the Government and the Commission, including whether the benefit of these funds will accrue to the Commission.

9. Deposits on Account

In 2006, the Commission introduced a new internet based information system (VIRRGIN) that allows companies to administer transactions online. As a result of this development, companies are required to deposit amounts with the Commission in advance of effecting an online transaction. As at December 31, 2009 the balance on this account amounted to US$1,674,156 (2008: US$2,058,099).

10. Distribution Payable to Government

On July 27, 2010, the Board of Commissioners approved a distribution to Government of US$4,000,000(2008: US$850,000) from surplus earned by the Commission during the year ended December 31, 2009.

11. Staff Costs

	2009	2008
Wages and salaries	6,951,415	6,655,879
Allowances and benefits	1,578,757	1,418,273
Employment costs	186,758	232,965
Payroll taxes	339,490	319,469
	US$ 9,056,420	US$ 8,626,586

The average number of full time employees in 2009 was 141(2008: 137).

During the year ended December 31, 2009, the Commission paid US$ 1,006,012 (2008: US$784,038) for current service costs toward a defined contribution pension plan (the “Plan”), which has been included in allowances and benefits.

12. Related Party Transactions

The Government’s Financial Secretary and Accountant General along with the Chairman of the Board of Commissioners and the Managing Director of the Commission are signatories to a joint account maintained in the names of the Government and the Commission referred to as the Government Trust Account as per section 19 (1) and (7) of the Act. (See note 6).

13. Commitments and Contingencies

Commitments

As explained in note 4, the Commission is contracted with Singapore Computer Systems Limited to design and implement the VIRRGIN project. The contracted cost to completion of the design and implementation of the project is S$1,161,304 equivalent to US$ 799,627 (2008: US$805,364) as at December 31, 2009, plus maintenance and support costs of S$931,399 (equivalent to US$662,877) as at December 31, 2009 (2008: S$ 1,202,939 equivalent to US$834,238).

The Commission currently occupies various properties in accordance with the terms of annual operating lease agreements and is committed to making payments on these leases as agreed in the future.

The future aggregate minimum lease payments under non-cancellable leases are as follows:

2010	849,200
2011	482,300
2012	453,600
	US$ 1,785,100

As at December 31, 2009, the Commission has unpaid vacation days owing to its employees totalling US$570,149(2008: US$$539,555).

14. Financial Risk Management

Financial risk factors

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

Risk management is carried out by management under policies approved by the Board of Commissioners. The management identifies, evaluates and hedges financial risks in close co-operation with the Board of Commissioners. The board provides guidance for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Financial assets of the Commission include cash and cash equivalents, regulatory deposits, other receivables and deposits. Financial liabilities include trade and other payables, deposits on account, and regulatory deposits from licensed entities.

14. Financial Risk Management (continued)

Financial risk factors (continued)

(a) Market risk

(i) Foreign exchange risk

The Commission is exposed to foreign currency risk on the agreement to supply develop, implement and commission the VIRRGIN project (note 4). The contracted costs for the project are in Singapore Dollars (S$). As at December 31, 2009, the foreign exchange rate was US$ 0.71170 (2008: US$ 0. 69350) per S$, with the average exchange rate for the year ended December 31, 2009 being US$ 0.68856 (2008: US$ 0.70769) per S$. Had the Singapore Dollar foreign exchange rate increased or decreased by 1% (2008: 1%) with all other variables remaining constant, the overall costs to complete the project, including maintenance/support costs, would change by US$ 23,642 (2008: US$33,549).

At balance sheet date, the Company had liabilities in foreign currency of:

	2009	2008
GBP	£13,173	£ -
S$	S$ -	S$ 81,141

As at December 31, 2009 the average exchange of US$ to GBP for the year then ended is 0.64115 while the year end exchange rate of US$ to GBP is 0.62790.

(ii) Cash flow and fair value rate risk

The Commission has no significant concentrations of interest rate or fair value risk. The Commission does not enter into credit transactions for its services and as at December 31, 2009 it is not exposed to adversities of fluctuating interest rates. In addition, it did not own any illiquid assets.

(b) Credit risk

Credit risk arises from regulatory deposit, cash and cash equivalents, other receivables and deposits. These financial assets are held with financial institutions with an investment grade credit rating. Other receivables include travel expense advances and unsecured loans extended to various employees of the Commission. The extent of the Commission's exposure to credit risk in respect of these financial assets approximate the carrying values as recorded in the Commission's balance sheet.

The Commission's management assesses the credit risk through placement of cash on short term money market placements, interest bearing deposits and U.S Treasury Bills and effective and efficient collection policies.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents to meet its current operating requirements. The Commission is not exposed to significant liquidity risk as it maintains sufficient cash and cash equivalents to meet its current and foreseeable future obligations.

14. Financial Risk Management (continued)

Financial risk factors (continued)

(c) Liquidity risk (continued)

The table below analyses the Commission's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undisclosed cash flow. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	On Demand	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
At 31 December 2009					
Trade and other payables		864,778	-	-	864,778
Deposit on account	1,674,156		-	-	1,674,156
Distribution Payable to Government	-	4,000,000	-	-	4,000,000
Regulatory deposits	8,096,053	-	-	-	8,096,053
At 31 December 2008					
Trade and other payables		999,184	-	-	999,184
Deposit on account	2,058,099	-	-	-	2,058,099
Distribution Payable to Government	-	850,000	-	-	850,000
Regulatory deposits	8,152,796		-	-	8,152,796

15. Defined Contribution Pension Plan

During the year ended December 31, 2005, a defined contribution pension scheme (the "Plan") was setup to provide retirement benefits for all established employees, which is administered by Trustees appointed by the Commission. Under the Plan, the Commission has an obligation limited to 15% of the participants' basic annual salary, with the participants contributing a minimum of 5%. A participant's interest in the Commission's contributions commences to vest after 7 years employment and is fully vested after 10 years.

Glossary of Terms

AML	*Anti-Money Laundering*
ARA	*Association of Registered Agents (BVI)*
ASBA	*Association of Supervisors of Banks of the Americas*
BIS	*Bank for International Settlements*
CARTAC	*Caribbean Regional Technical Assistance Centre*
CDB	*Caribbean Development Bank*
CFATF	*Caribbean Financial Action Task Force*
CFT	*Combating the Financing of Terrorism*
CGBS	*Caribbean Group of Banking Supervisors*
CIMA	*Cayman Islands Monetary Authority*
CSP	*Corporate Service Provider*
ECCB	*Eastern Caribbean Central Bank*
ECLAC	*Economic Commission for Latin America and Caribbean*
Egmont Group	*Informal Group of FIUs (International Cooperation)*
EU	*European Union*
EUSD	*European Union Savings Tax Directive*
FATF	*Financial Action Task Force*
FCO	*Foreign and Commonwealth Office*
FIA	*Financial Investigation Agency (BVI)*
FIRST	*Financial Sector Reform and Strengthening (FIRST) Initiative*
FIUs	*Financial Intelligence Units*
FRB	*Federal Reserve Bank*
FSA	*Financial Services Authority (UK Regulator)*
FSC	*Financial Services Commission*
FSF	*Financial Stability Forum*
FSLAC	*Financial Services Legislation Advisory Committee (BVI)*
IAIR	*International Association of Insolvency Regulators*
IAIS	*International Association of Insurance Supervisors*
IBC	*International Business Company*

Glossary of Terms (Cont'd)

ICA	*International Compliance Association*
ICSA	*Institute of Chartered Secretaries and Administration*
IFC	*International Finance Centre (BVI)*
IMF	*International Monetary Fund*
IOSCO	*International Organisation of Securities Commissions*
ITIO	*International Tax and Investment Organisation*
JALTFAC	*Joint Anti-Money Laundering and Terrorist Financing Advisory Committee*
KYC	*Know Your Customer*
LSC	*Licensing and Supervisory Committee (BVI)*
MLAT	*Mutual Legal Assistance (in Criminal Matters) Treaty*
MLRO	*Money Laundering Reporting Officer*
MOF	*Ministry of Finance (BVI)*
MOU	*Memorandum of Understanding*
NGOs	*Non-Governmental Organisations*
NPOs	*Non-Profit Organisations*
OECD	*Organisation of Economic Co-operation and Development*
OFC	*Offshore Financial Centre*
OGBS	*Offshore Group of Banking Supervisors*
OGIS	*Offshore Group of Insurance Supervisors*
OR	*Official Receiver (BVI)*
PEP	*Politically Exposed Person*
SAR	*Suspicious Activity Report*
SEC	*Securities and Exchange Commission*
SIBA	*Securities and Investment Business Act (BVI)*
STEP	*Society of Trust and Estate Practitioners*
STR	*Suspicious Transaction Report*
TIEA	*Tax Information Exchange Agreement*
MmOU	*Multi Lateral Memorandum of Understanding*

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