

Annual Report

2013





The British Virgin Islands Financial Services Commission

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## 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 interest of the 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 confidentiality of legitimate business transactions

## We Pledge

*Vigilance* – to remain keenly alert in our regulation and supervision of the financial services industry to protect and enhance the BVI's reputation and integrity as a leading destination for legitimate cross-border business

*Integrity* – to always endeavour to do the right thing, recalling the values and principles of the FSC in every action and decision

*Accountability* – to be responsible for addressing the financial needs and concerns of the business community

*Leadership* – to aspire to lead the industry with innovative, flexible legislation, deliver high quality service and maintain a clear vision of where we are going

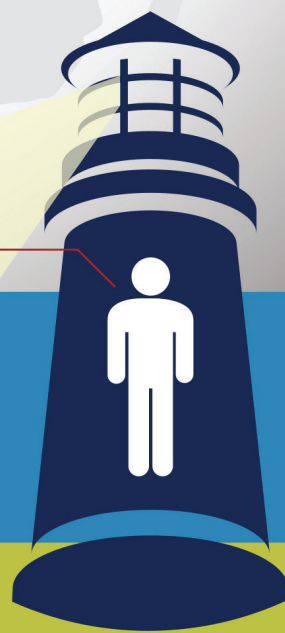
# Strategic Aims

- 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 entries 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

# Our Logo: *The Lighthouse*



Just as a lighthouse provides terrestrial travellers of today with the same sense of hope and re-assurance that it provided mariners years ago, the Commission's logo bears testimony to the Commission's dedication to upholding standards befitting a premier international finance centre.



It is symbolic of our commitment to preserving the safety and soundness of the BVI's financial services system so as to maintain the confidence of clients doing business from and within the BVI.

# CHAIRMAN'S STATEMENT



The financial results for 2013 are broadly in line with those budgeted, with total fees collected on behalf of Government exceeding **\$208million** and net payments to Government exceeding **\$184 million**.

I am pleased to report to the Government and people of the British Virgin Islands through the Honourable Premier and Minister of Finance as to the activities of the Commission during 2013.

The financial results for 2013 are broadly in line with those budgeted, with total fees collected on behalf of Government exceeding \$208 million and net payments to Government exceeding \$184 million. The Commission's operational costs have again been held in check, and this permits a distribution to Government out of available surplus.

Against this positive result we must weigh the continuing pressures on the Territory and the offshore world generally. Pressures that continue to impact the financial services sector include calls for increased transparency in operations, UK pressures for the introduction of a central registry of beneficial owners for companies and trusts, and for compliance with FATF recommendations, US FATCA and similar legislation to be introduced by other countries. Those pressures, combined with continuing negative publicity that international financial centres are subjected to, adversely affect the attractiveness of the Territory's financial services products. This type of negative publicity also has the potential to increase the scope and

breadth of compliance and reporting procedures for the Commission and Government alike. I take pleasure each year in commending the staff of the Commission for their hard work and dedication in the performance of their duties, and our more senior personnel for providing exemplary service as ambassadors for the Territory in their many presentations made at and participation in conferences and seminars at the regional and international level. Particular mention must be made this year of the efforts of both the Commission's Deputy Managing Director, Corporate Services and the Director of Policy, Research and Statistics who, together with the support of their very able teams have respectively spearheaded the establishment of BVI House Asia in Hong Kong and chaired the CFATF for the year November 2012 thru 2013.

In accordance with section 27 of the Financial Services Commission Act, I present this report on the operations and activities of the Commission for 2013, together with the enclosed auditor's report and accompanying financial statements.

*Robin Gaul*  
Chairman

# Board of Commissioners

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**Mr. Robin Gaul**  
*Chairman*



**Mr. Colin O'Neal**  
*Deputy Chairman*



**Mr. Phillip Fenty**



**Mr. E. Walwyn Brewley**



**Ms. Eleanor Smith**



**Mr. Robert Mathavious**  
*Managing Director*



**Mr. Martin Fuggle**  
*External Commissioner*



**Mr. James Wadham**

**The Board of Commissioners** is the Commission's governing and policy-setting body and meets at least once every month. Board meetings are presided over by the Chairman and in his absence the Deputy Chairman. The Board comprises the Managing Director/CEO as an ex-officio member and not fewer than six or more than nine other Commissioners, two of whom must be from outside the Territory with a financial services background as legislated for by the Financial Services Commission Act, 2001.

Following an amendment to the Financial Services Commission Act, an additional external Commissioner was appointed by Cabinet in February, 2012. The newest member of the Board of Commissioners is Mr. James Wadham. Mr. Wadham who is based in Hong Kong brings to the Commission a wealth of knowledge in banking, trustee and corporate services are insurance from a long career in financial services.



# MANAGING DIRECTOR'S STATEMENT



As a responsible and transparent integrated regulator, we have, therefore, spared no efforts in 2013 to enhance the reputation of the BVI as a well-regulated, top-tier financial centre in which to transact international business.

This report sets out the priorities of the BVI Financial Services Commission and highlights the key actions and strategic efforts we have undertaken in 2013 to meet our statutory objectives of safeguarding the stability, soundness, competitiveness and integrity of the BVI's financial services industry.

At a glance, the Commission's activities for 2013 have been focused on:

- Developing more effective relationships with domestic and external regulatory bodies;
- Further training of staff to meet the constantly changing and more complex demands of the evolving global regulatory landscape;
- Conducting more onsite compliance inspections of licensees to ensure adherence to best practices and legal obligations;
- Initiating more open dialogue with licensees, stakeholders and partners, including the Government of the BVI;
- Reforming FSC rules and procedures to strengthen the regulatory framework and rectify gaps identified in our supervisory and AML/CFT modalities;
- Enhancing enforcement and intervention actions where appropriate to address

supervisory concerns; and

- Expanding our Money Matters public education and financial literacy programme.

To place our activities in context, the prolonged global financial crisis has continued this year to spur regulatory change of unprecedented scope and pace. The emerging global environment is ever more demanding in terms of the number of cross-cutting and cross-border initiatives, the detail of what is now required of international financial centres everywhere and the extension of extra-territorial regulation by G8 countries and the institutions and organisations they control.

All this presents a complex challenge for governments, industry participants and regulators the world over, and the BVI is no exception. Overall, growth this year was modest. The jurisdiction encountered challenges and setbacks in the OECD Global Forum's Phase II Peer Review process and was the subject of intense, international media scrutiny as a result of the unfortunate compromising of two of our licensed service providers' records and systems.

Nonetheless, it is generally agreed that the BVI has managed the crisis better and is emerging

from it healthier than a number of jurisdictions. A good deal of the credit for this must go to my staff at the Commission. It is now generally accepted that the behaviour and approach of national regulators influence international perceptions of a jurisdiction more than ever before.

Maintaining an appropriate response to challenging international expectations is a constant preoccupation for us. The Commission has long maintained that effective regulation is good for everyone. It does not deter good business but attracts it. The best businesses want to be in the best regarded places and investors want to be confident that a jurisdiction has a balanced approach that encourages enterprise.

As a responsible and transparent integrated regulator, we have, therefore, spared no efforts in 2013 to enhance the reputation of the BVI as a well-regulated, top-tier financial centre in which to transact international business. We have continued to ensure that our Territory adheres to relevant international standards by operating an objective, efficient and effective 'right touch' regime, taking a proportionate and pragmatic risk-based approach appropriate to BVI circumstances. We have striven to be responsive to requests for international cooperation and exchange of information from overseas regulatory counterparts and other international bodies.

We have also pursued the exercise this year of taking a long hard look at all aspects of our work. Operational costs have been curtailed, customer service improved and information technology used judiciously, and we remain well resourced.

Our belief is that an effective regulator can be a force for the greater good. Going forward, we will continue to advise the Government of the Virgin Islands on the legislation required to strengthen and safeguard the industry. We will further upgrade existing regulations and codes, improve supervisory methodologies and practices and enhance our cooperation arrangements with both domestic and foreign supervisory authorities, regulators and standard setters.

We will also pursue our long-established policy of seeking to make the BVI's voice heard wherever matters of significance to our financial services industry are being discussed. Consistent engagement with international regulatory bodies is essential to ensuring that our 'right touch' regime is robust and internationally compliant.

We are thus actively involved with a wide range of international regulatory groups and associations, including the 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 Financial Crime Information Network (FIN-NET).

We are also active in special working groups of the Financial Action Task Force (FATF), regional colleges of regulators and all Overseas Territory's Regulators meetings. And we work closely with BVI competent authorities in particular the Financial Investigation Agency (FIA) and the International Tax Authority (ITA) in ensuring that the jurisdiction complies with its international cooperation obligations.

Today more than ever, being seen to be compliant is an essential part of staying competitive because with compliance comes international respectability, and with respectability comes new opportunity for the financial sector to trade, source and do business with persons outside the BVI. Looking ahead, the urgency now is to ensure by our collective resolve that the BVI remains a compliant, transparent, cooperative, competitive, vibrant and clean financial services centre, and that we up our game to meet the changing dynamic.

The Commission has a commitment to consulting with BVI industry before implementing regulatory changes in order to ensure better informed legislation and policy formation. We have held

extensive consultations with public and private stakeholders throughout the year on all proposals for policy and legislative change. We also boosted industry dialogue through our quarterly 'Meet the Regulator' meetings, seminars and workshops on AML/CFT.

In order to ensure high performance standards in the financial services sector, the Commission, which is committed to capacity development and talent building, continues to subsidise the Financial Services Institute at HLSCC to deliver a wide range of benchmarked, industry-related training in professional qualifications and skills.

I should like to express my profound gratitude to those industry practitioners and organisations, including the Society of Trust and Estate Practitioners, the Association of Registered Agents, the Mutual Fund Practitioners Association, the Association of Insurance Managers and the BVI Bar Association, who have continued to give freely of their time and expertise in contributing ideas and serving on committees, taskforces and liaison groups. Their contributions are vital in strengthening the BVI industry's value proposition and our Territory's competitiveness.

I must also extend sincere thanks to all our partners in the Government of the Virgin Islands for their cooperation and teamwork in addressing the challenges that have confronted the BVI financial services industry in 2013: the House of Assembly, the Cabinet Office, the Premier's Office, the Ministry of Finance, the Attorney General's Chambers, the FIA, the ITA and the International Finance Centre. It is the combined commitment, hard work and dedication of these that has ensured that, despite all the challenges we have faced, the BVI has maintained its position in 2013 as one of the world's leading financial services centres.

I wish to publicly express my gratitude and that of the entire Financial Services Commission to the Chairman and members of the Board of Commissioners for their steadfast support and invaluable counsel and guidance. Without

the concerted efforts of the Board and of the Commission's dedicated staff, we would not have been able to address effectively the myriad of challenges and tests which confronted us.

This report of our work in 2013 is a testament to the high quality of our staff and to their energy, flexibility, dedication, focus, hard work and commitment. I feel privileged to lead such a talented and competent team.

*Robert Mathavious*  
Managing Director/CEO

# Organisational Profiles

Cabinet

Board of Commissioners

Robin Gaul (Chairman), Colin O'Neal (Deputy Chairman), E. Walwyn Brewley, Phillip



**Kenneth Baker**

Deputy Managing Director, Regulation

**Banking and Fiduciary Services Division**

**Director:**  
Kenneth Baker

**Deputy Director: Banking**  
Michelle Georges

**Deputy Director: Fiduciary**  
Simone Martin

**Insolvency Services Division**

**Director:**

David Abednego

**Deputy Director:**  
Shakuntala Yamraj

**Insurance Division**

**Director:**

Stanley Dawson

**Deputy Director:**  
Trevecca Hodge

**Investment Business Division**

**Director:**

Brodrick Penn

**Deputy Director:**  
Glenford Malone



**Robert Mathavious**

Managing Director/CEO



**Cherno Jallow, QC**

Policy, Research and Statistics Division

**Policy, Research and Statistics Division**

**Director:**  
Cherno Jallow, QC

**Deputy Director:**  
M. Alva McCall



**Annet Mactavious**

Human Resources Division

**Human Resources Division**

**Director:**  
Annet Mactavious

**Deputy Director:**  
Carolin Romney-Peters

p Fenty, Eleanor Smith, Martin Fuggle, OBE, James Wadham

**Board Secretary**  
**Annet Mactavious**



**Jennifer Potter-Questelles**

Deputy Managing Director, Corporate Services

**FSC (HK) Ltd**

**Corporate Services  
Division**

**Director:**  
Jennifer Potter-Questelles

**Finance**

**Financial Comptroller:**  
Sheldon Scatliffe

**Registry of Corporate  
Affairs**

**Director:**  
Myrna Herbert

**Deputy Director:**  
Lydia Cline-Parsons



**Dawn Smith**

Legal and Enforcement Division

**Legal and Enforcement  
Division**

**Director:**  
Dawn Smith

**Deputy Director, Legal:**  
Lynette Ramoutar

**Deputy Director, Enforcement:**  
Gary Wilson

## Executive Management Team

**Robert Mathavious**  
Managing Director/CEO

**Jennifer Potter-Questelles**  
Deputy Managing Director,  
Corporate Services

**Kenneth Baker**  
Deputy Managing Director,  
Regulation

**Dawn Smith**  
Director, Legal and Enforcement  
Legal Counsel

**Cherno Jallow, QC**  
Director, Policy, Research and Statistics

**Annet Mactavious**  
Director, Human Resources  
Secretary, Board of Commissioners



01

REGULATION AND  
**SUPERVISION**

## Licensing and Supervisory Committee

The primary mandates of the Commission include supervising and regulating licensees in accordance with financial services legislation, to receive, review and determine applications for licensing and to monitor compliance by licensees. Authorisation of entities and persons to conduct financial services business in the BVI, on-going supervision of licensed financial services providers are the remit of the Commission's Licensing and Supervisory Committee (LSC). The LSC is created by the Financial Services Commission Act (FSCA) as the authorisation and licensing arm of the Commission. The LSC functions as a college of regulators, comprised of the Managing Director, Deputy Managing Directors, Supervisory area Directors and Directors of Legal and Enforcement and Policy, Research and Statistics. The LSC is guided by its published Guidelines and Operating Procedures and most of its decisions may be appealed through the process covered in Part VI of the FSCA concerning the Financial Services Appeal Board.

In 2013 the Commission's Regulatory/Supervisory divisions submitted 1785 matters for deliberation or the general attention of the LSC. The most active division appearing before the LSC was the Investment Business Division with over 1,000 submissions during the year.

The LSC also considered and deliberated general issues of regulation and supervision of financial

services entities including the independence of directors, investor complaints against investment business licensees, the number of director appointments undertaken by individuals approved by the Commission in that capacity, professional indemnity insurance coverage for licensees and regulated persons and investment guidelines for assets held on behalf of regulated entities.

In compliance with the provisions of the FSCA, refusals by the LSC for matters other than the grant of a licence were forwarded to the Board of Commissioners for its information. 7 matters were refused by the LSC during 2013. Refusals were in the areas of issuance of a licensee or certificate grant of an exemption, and grant of an appointment to act.

## Enforcement Committee

Effective enforcement of the provisions and obligations of financial services legislation is an essential tool of the Commission. The objective of enforcement is jointly to assess and confirm compliance and to mete out consequences and penalties for contravention. The FSCA creates the Enforcement Committee as the second statutory committee of the Commission. The EC comprises the Managing Director as Chairman, the two Deputy Managing Directors and the Directors of Legal and Enforcement and Policy, Research and Statistics. Like the LSC, the EC is guided by its published Guidelines and Operating Procedures which are based on guiding principles of

transparency. Succinctly, the EC is charged with monitoring compliance by persons authorised under various pieces of financial services legislation, issuing advisories to the public and commencing action against persons conducting unauthorised financial services business.

157 matters were brought before the EC this year. The number of cases before the EC was lower than the 190

2013 Licensing and Supervisory Committee					
	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Total
<b>BFS</b>	149	94	94	132	469
<b>IB</b>	370	280	299	161	1110
<b>IS</b>	10	4	2	0	16
<b>IN</b>	81	28	47	32	188
<b>LE</b>	1	0	1	0	2



matters deliberated in 2012. A large number of enforcement cases during the year were the result of compliance inspections undertaken by the Compliance Inspection Unit. The EC deliberated 66 compliance inspection matters during the year. Penalties assessed by the EC for legislative contraventions, particularly for contraventions of the Territory's anti-money and terrorist financing legislation, resulted in a sharp increase in the amount collected in relation to administrative penalties. 2013 saw over US\$600,000 in penalties assessed, mainly for AML/CFT failings.

The Commission as a result of EC decisions issued 17 Advisory Warnings to the public during the period. Advisory Warnings are most routinely issued where the Commission identifies a need to alert the financial services industry and the public of entities who falsely hold themselves out as being registered and or licensed in the BVI to conduct some regulated financial services activity.

## 2013 Enforcement Committee

	Total
<b>Enforcement Cases Before EC</b>	<b>157</b>
<b>Administrative Penalty:</b>	<b>24</b>
Advisory Warning	17
Appoint Examiner/ Qualified Person	2
Appoint Liquidator	1
Cease and Desist Order	13
Directive	2
Public Statement	5
Revoke or Cancel Certificate or License	13
<b>Total</b>	<b>180</b>

While the number of Advisory Warnings issued in 2013 is some 18 less than in 2012, the advisories issued in 2013 involved a larger number of complainants. The Commission continues to

monitor and address the issue of a large number of entities with no nexus to the BVI who claim to be incorporated or authorised here.

For compliance inspection matters before the EC, in 25 cases the inspection resulted in EC ordering a follow up inspection at a later date.

In addition to the on-going desk based supervision that an entity regulated by the Commission is subject to, the Commission employs the use of its Compliance Inspection Programme to assess the compliance culture of its licensees.

Through the compliance inspection programme, the Commission identifies areas of risk in the licensees operations, common areas of non-compliance within regulated sectors and rates the consequential impact on the jurisdiction of repeated or routine non-compliance. Specially trained regulatory staff undertake the compliance inspections at the business premises of the licensees. The Commission has conducted these on-site compliance inspections for almost 10 years and has been able to identify and address areas of weakness for example in internal controls and client risk rating. The Commission plans routine compliance inspections on the basis of information from its risk assessment framework which assigns a risk rating to each licensee. Other triggers from desk-based supervision may invoke inspection of a specific licensee or class of licensee or prompt the Commission to launch thematic or focused inspections to check for compliance in specific areas.

The Commission conducted 7 inspections in 2013 and they were restricted to entities supervised by the Fiduciary Services division including trust licensees, company managers and authorised custodians.

02

BANKING AND  
FIDUCIARY SERVICES



# BANKING AND FIDUCIARY SERVICES

The Banking Unit regulates the above referenced financial services providers primarily under the FSCA, the Banks and Trust Companies Act, 1990 (BTCA), the Financing and Money Services Act, 2009 (FSMA) and the Regulatory Code, 2009. As at the end of 2013, the BVI's banking sector was comprised of seven licensed banks: five commercial, one restricted and one government owned entity.

The Commission continues to specifically monitor growth, asset quality, profitability, liquidity and capitalisation of all licensed financial institutions.

Offsite and onsite monitoring of the banks' activities continue as the Commission engages licence-holders regularly to encourage consistent and frequent communication on performance of the sector.

BVI commercial banks are adequately capitalised well over the regulatory requirement of 12% Tier I capital with the average Tier I Capital to Risk Weighted Asset Ratio reported at 33%.

The BVI's banking sector remains consistently stable. Asset size of the sector decreased compared to the \$2.5 billion recorded in Q4 2012. Year on Year (YoY) retained earnings decreased 9% due to a 16% or \$3 million increase in Non-Interest Expenses.

The average Non-Performing Loans to Capital ratio at 29% is down compared to 39% in Q4 2012.

YoY non-performing loans are down 14% from \$50 million. Total Deposits declined 4% year on year Shareholders' Equity decreased 4%.

The banks continue to report liquidity levels that appear adequate for sustaining operations.

<b>Table 1.1</b> (Ratio in percentages)	<b>Q4</b> <b>2013</b>	<b>Q3</b> <b>2013</b>	<b>Q4</b> <b>2012</b>
<b>Capital Position</b>			
<i>Risk Asset Ratio</i>	<b>32.96</b>	<b>33.39</b>	<b>32.56</b>
<b>Liquidity</b>			
<i>Cash to Total Deposits</i>	<b>37.87</b>	<b>37.04</b>	<b>37.01</b>
<i>Loan-to-deposit ratio</i>	<b>81.69</b>	<b>91.81</b>	<b>90.49</b>
<b>Profitability</b>			
<i>Int. Margin to gross income</i>	<b>87.19</b>	<b>89.28</b>	<b>89.46</b>
<i>Return on Assets</i>	<b>1.66</b>	<b>1.63</b>	<b>1.63</b>
<i>Return on Equity</i>	<b>21.23</b>	<b>22.61</b>	<b>21.96</b>
<b>Loan Book</b>			
<i>NPLs to total loans</i>	<b>5.19</b>	<b>3.34</b>	<b>4.61</b>
<i>NPLs to Capital</i>	<b>29.25</b>	<b>28.07</b>	<b>38.61</b>
<b>Deposit Concentration</b>			
<i>10 largest deposits as % of deposits</i>	<b>36.82</b>	<b>34.57</b>	<b>32.85</b>
<i>Demands deposits as % of deposits</i>	<b>34.35</b>	<b>30.80</b>	<b>33.14</b>
<i>Related deposits as % of deposits</i>	<b>0.32</b>	<b>0.31</b>	<b>0.52</b>
<b>Loan Concentration</b>			
<i>10 largest deposits as % of Loans</i>	<b>21.72</b>	<b>20.56</b>	<b>19.96</b>
<i>Demands deposits as % of Loans</i>	<b>109.37</b>	<b>106.59</b>	<b>90.49</b>
<i>Related deposits as % of Loans</i>	<b>103.86</b>	<b>95.30</b>	<b>71.65</b>

## Summary Indicators

- Liquidity remains stable and comparable to previous quarters.
- Loans as a percentage of Deposits show a decrease QoQ and YoY at 82%.
- Loans as a percentage of Total Assets decreased to 63% but remain comparable to historic trends.

## Balance Sheet

### Aggregate Balance Sheet

Table 1.2 below provides a balance sheet summary showing recent trends in the banking sector.

	Q4 2013	Q3 2013	Q2 2013	Q1 2013
<b>Assets</b>				
<i>Cash</i>	973.1	920.1	1059.2	1015.2
<i>Loans &amp; Advances</i>	1320.4	1324.7	1354.6	1367.6
<i>Investments</i>	1.4	1.3	1.5	1.6
<i>Other Assets</i>	95.3	91.5	107.2	99.9
<b>Total Assets Liabilities</b>	<b>2390.3</b>	<b>2337.8</b>	<b>2522.5</b>	<b>2484.3</b>
<b>Deposits</b>				
<i>LTD</i>	140.4	144.7	181.7	145.2
<i>Acc. Liab.</i>	6.7	6.5	10.1	6.3
<i>Other Liab.</i>	24.0	39.0	32.9	57.7
<i>Loss Reserve</i>	1.8	1.3	1.6	2.4
<b>Total Liabilities</b>	<b>1962.5</b>	<b>1903.3</b>	<b>2102.4</b>	<b>2020.8</b>
<b>Shareholders Equity</b>	<b>427.8</b>	<b>434.4</b>	<b>420.2</b>	<b>463.5</b>
<b>Total Liab. &amp; S. Equity</b>	<b>2390.3</b>	<b>2337.8</b>	<b>2522.5</b>	<b>2484.3</b>

## Liquidity

Table 1.3 shows the liquidity condition of the banking sector over the last four quarters.

	Q4 2013	Q3 2013	Q2 2013	Q1 2013
<b>Liq. Assets to Total Assets</b>	<b>29.31</b>	<b>28.25</b>	<b>29.33</b>	<b>28.90</b>
<b>Liq. Assets to Total Deposits</b>	<b>37.87</b>	<b>37.04</b>	<b>38.82</b>	<b>38.45</b>
<b>Loans-to-Deposits</b>	<b>81.69</b>	<b>91.81</b>	<b>86.27</b>	<b>85.45</b>
<b>Loans-to-Assets</b>	<b>62.57</b>	<b>68.44</b>	<b>66.83</b>	<b>63.82</b>

- Liquidity remains stable and comparable to previous quarters.
- Loans as a percentage of Deposits show a decrease QoQ and YoY at 82%.
- Loans as a percentage of Total Assets decreased to 63% but remain comparable to historic trends.

The Commission, with the technical assistance of Caribbean Regional Technical Assistance Centre (CARTAC) and the Basel Implementation Working Group<sup>1</sup>, is in possession of a draft implementation plan which will be customised for the use of the Territory in preparing for full implementation of Basel II. The Commission plans to engage the local banking sector's licensees on the planned integration strategy for Basel II. Early in 2014, the Commission will address a meeting of the BVI Bankers Association to discuss integration of the international standard to the banking supervision framework in the region and present a draft implementation roadmap. The Commission anticipates that the first stages of the Basel II implementation will occur in mid 2015.

<sup>1</sup>participating members of the Caribbean Group of Banking Supervisors

03

INVESTMENT  
BUSINESS



# INVESTMENT BUSINESS

Since the introduction of the Securities and Investment Business Act, 2010 (SIBA), the Commission's Investment Business Division has concentrated on administering the vast offerings in the legislation and on supervising the large number of licensees; some new, some transitioned from the former Mutual Funds legislation<sup>1</sup>. In addition to the principal legislation, the division oversees the compliance with, and supervision of entities regulated by provisions in the Mutual Funds Regulations, the Public Fund Code and the Regulatory Code.

With a single event, the introduction of the Approved Investment Managers (AIM) Regime, the division's activities saw major changes in 2013. In late 2012 the Commission introduced the regime as a further alternative with a lighter regulatory application. The Commission's risk-based approach to the AIM regime is proving popular with a large number of entities and operations whose business activities fit the criteria for this category of licensing. As a result of the growing attractiveness of this regulatory carve out; the division recorded a large number of new licensees. This niche area may have been at the expense of traditionally regulated business including investment business and the managing of mutual funds in Category 3B under SIBA.

The absence of notable growth in the traditionally regulated areas does not appear to have impacted the overall size of the Investment Business portfolio as the net number of Investment Business licensees remains unchanged going back three periods to 2010.

The division allocated significant resources to completing and implementing procedures and guidance for internal processing of applications relating to dealing in investments. On the heels

of solidifying the procedural infrastructure, the division progressed a number of complex licence applications for these category one and category two business entities who engage in dealing in investments and arranging deals in investments, respectively. A total of 28 Approved Investment Managers have been approved by the Commission since the concept was introduced late in 2012. During the year, an amendment was effected to the AIM regulations which made the regime even more attractive to a larger segment of the Investment Business sector. The amendment essentially permits managers certified under the regime to manage and provide advice to funds that are not BVI domiciled funds. The foreign funds must be domiciled in BVI recognised jurisdictions that bear the characteristics of BVI private, professional and close-end funds.

During the course of the year, the Division was able to progress a number complex licence applications that require licensing under Category 1 (Dealing in Investments) and Category 2 (Arranging Deals in Investments), as the Division has implemented procedures and developed standards for licensing these entities. A few applicants withdrew applications for licensing due to their inability to meet the standards developed and implemented by the Commission.

## Authorised Representatives

The concept of the Authorised Representative was first introduced by the Commission with the introduction of SIBA in 2010. The Commission, pursuant to section 64 of SIBA may confer certification on a recognised functionary including a BVI business company, limited partnership or an individual ordinarily resident in the Territory. All SIBA licensees and funds are required to appoint a certified Authorised Representative.

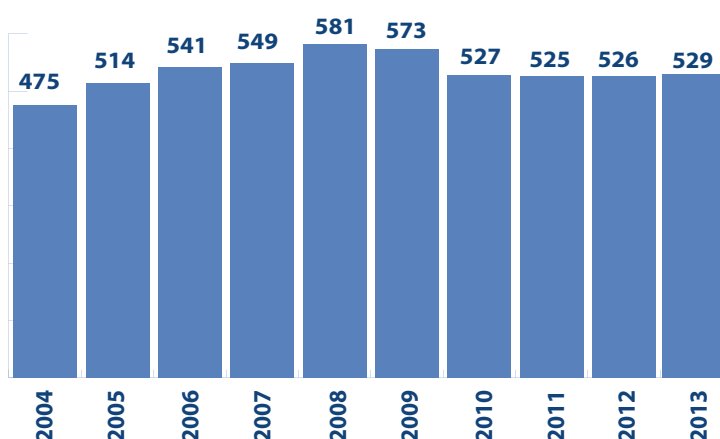
<sup>1</sup>Virgin Islands Mutual Funds Act, 1996 now repealed

The main responsibilities of the functionary are to act as the main intermediary between the licensee or fund and the Commission. This would include responsibilities for submitting payment for regulatory fees and ensuring that statutory filings and other required documents are provided to the Commission as expected. The Authorised Representative is also tasked with accepting service of notices and other documents on behalf of the licensee or funds he acts for and importantly to maintain records as prescribed in the Regulatory Code or Mutual Funds Regulations as applicable. The number of Authorised Representatives approved under SIBA remained at 46 at the close of 2013. The Commission saw the initial wave of entities and persons to be certified as Authorised Representatives in 2011 and in 2013 did not approve any new Authorised Representatives. The Commission estimates compliance with the requirement to appoint an Authorised Representatives at about 85%.

The total number of BVI funds on the Commission's register showed no growth during 2013. For the period, fund cancellations were primarily reported as due to restructuring or simply the desire of the funds' controllers.

## Active IB Licensees

The rate of fund cancellations has slowed from the levels



reported in 2012 and the division anticipates that the number of funds seeking cancellation will continue to decrease.

Although voluntary fund cancellations continued to outpace new fund recognitions and registrations under SIBA, the division has recorded an increase in new applications for mutual fund registration and recognition. This increase in new application filings signals some renewed interest in BVI mutual fund entities and correlates with the improving global economy.

During the year, the Commission granted foreign fund recognition to five funds. This recognition approval allows the entities which are not domiciled in the BVI to operate as mutual funds within the jurisdiction. In order to adequately regulate this addition to the sector, the Commission intends to shortly propose amendments to the Mutual Funds Regulations to

	2009	2010	2011	2012	2013
<b>Licence Applicants</b>	<b>33</b>	<b>91</b>	<b>47</b>	<b>39</b>	<b>28</b>
<b>Licensees Granted</b>	<b>32</b>	<b>22</b>	<b>37</b>	<b>35</b>	<b>29</b>
<b>Licensees Cancelled</b>	<b>40</b>	<b>68</b>	<b>39</b>	<b>34</b>	<b>26</b>
<b>Licensees Liquidated</b>	<b>3</b>	<b>4</b>	<b>12</b>	<b>2</b>	<b>9</b>
<b>Active Licensees</b>	<b>573</b>	<b>527</b>	<b>525</b>	<b>526</b>	<b>529</b>

address the regulation of foreign funds.

The rate of decline in mutual fund cancellations and increase in mutual fund recognitions can be seen in Figure 2 below.

During the year, the Commission also granted its first foreign fund recognitions to five Cayman Islands entities to operate as mutual funds within the jurisdiction. The Division intends to propose amendments to the Mutual Funds Regulations, 2010 to include provisions for the regulation of foreign funds.

	Q1 2013	Q2 2013	Q3 2013	Q4 2013
Approved Investment Manager Applications	4	10	11	9
Approved Investment Manager Approvals Granted	5	6	8	9
Approved Investment Managers Cancelled	0	0	0	0
Active Approved Investment Managers	5	11	19	28

As customary, the annual recognition, registration and licence fees accounted for the majority of the Division's revenue, as 82% of the revenue was earned from annual fees. The majority of these fees were collected in Quarter 2 of the year.

The Division noted a decline in revenue generation for the year 2013 from figures recorded in 2011 and 2012. This Division speculates that this decline is due to the Division's attempts to collect all outstanding annual fees in the prior years, along with the decline in the mutual funds industry.

During the year the Division progressed a number of applications which were approved by the Licensing and Supervisory Committee. Table 10 below provides details of LSC approvals for the Division for the year, exclusive of Licensing, Certifications, Registrations, Liquidations and Cancellations, already accounted for in previous tables.



04

INSURANCE



# INSURANCE

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Cancellations due both to the liquidation of entities and re-domiciliation to other jurisdictions, resulted in the Territory's captive industry recording negative growth in 2013. Five new captive insurers were granted licences during the year and an additional nine new applications were received late in 2013 for continued processing into 2014.

The division fielded numerous enquiries from potential applicants and licensees seeking information on the requirements for being licensed to conduct insurance business under the laws of the Virgin Islands. Coupled with this general surge in expressions of interest, the division notes in particular a number of enquiries from parties that do not appear to have a nexus to BVI which generally is a requirement to be issued a licence.

One of the key tasks for the division during the course of the year was the finalization of an approved form for the execution of obligations regarding the establishment of a domestic business trust which is required for specified foreign insurers.

Prior to the end of the year, the division recorded two senior appointment confirmations; Mr. Stanley A. Dawson, Sr., and Ms. Trevecca Hodge were confirmed to the posts of Director and Deputy Director Insurance, respectively.

All specified foreign insurers are required to comply with the requirements concerning the domestic business trust which are outlined in the Insurance Act, 2008 by the end of April 2014 and the Commission anticipates full compliance. Foreign insurers that are not in compliance at that time will be subject to the Commission's enforcement mechanisms.

The Commission granted on request, an exemption from the requirements of licensing under the Insurance Act to nine foreign insurers.

Typically these exemptions are sought by and granted to insurers who are providing insurance that is not readily available in the territory. The coverage usually includes special coverage for unique operations or business activities or in amounts not available.

In addition to new applications for licensing or exemptions, the Insurance division continues to process a large number of post-licensing transactions for current licensees. These transactions are generally related to changes in ownership structure and requests for cancellations.

Another key task for the division this year was addressing the supervisory challenges presented by licensees. Some of the challenges were related to complex group structures especially where intra-group transactions affected the solvency and capital adequacy of the Commission's licensee. The Commission initiated enforcement action against an insurance entity during the year for various breaches of the Insurance Act. The licensee was further subject to the appointment of an examiner late in the year as part of the enforcement proceedings. The Commission continues to investigate the activities of the licensee.

To further promote the requirements and benefits of regulatory compliance, the insurance division convened a meeting early in the first quarter of 2013 with insurance managers and intermediaries. The objective of the meeting was to discuss compliance officers and their role in regulatory compliance of the licensee.

Having administered the Insurance Act for a [couple of years], during 2013 the Insurance Division commenced the internal process required to effect recommended amendments to the act by the House of Assembly. Both the Act and related Insurance Regulations are expected to be

amended to strengthen supervisory powers as well as respond to market needs for different business activities. The division anticipates the inclusion of a new category of licence for 'pure captives' with differentiated and risk-based supervisory and regulatory approach. Changes to the Regulatory Code which supports and enhances the supervisory modus for the conduct of insurance business will also require amending to enable this revised approach. Formal risk scoring of insurance sector licensees will continue in 2014 as the division assesses the remainder of entities in its supervisory portfolio.

On the domestic market side, the Commission progressed licence applications for two new insurers. The domestic insurance market continues to remain adequately serviced and from all indications potential new entrants are surveying the market to assess feasibility of entry. At the close of 2013 the number of licensed domestic insurers was recorded as 36 a slight increase from the end of the prior year. There were no cancellations of licences held by domestic insurers during the year.

The Division recorded a total of nineteen (19) Insurance Agents, four (4) Insurance Brokers, fourteen (14) Insurance Managers and five (5) Loss Adjusters licensed at the end of 2013.

In 2013, the Insurance Division made a total of twenty-eight (28) regulatory inquiries. The inquiries were generally related to confirming the regulatory standing of licensees both for new applicants and ongoing supervision of current licensees. The Division received and processed nine incoming regulatory enquiries.

In addition to the processing of new applications for licensing and the handling of routine post licensing activities, the staff of the division was engaged in analyzing financial statements

as part of the required annual returns of licensees. Other activities that demanded the division's attention included the review and initial assessment of suspected contraventions of the Act. Contraventions were discovered across the spectrum of licensees including insurers and intermediaries which include insurance agents and insurance brokers. As administration and usage of the insurance legislation beds down, the Division envisages that contraventions will continue to decline as familiarization with the provisions of the legislation increases moving forward.

The Captive Insurance Advisory Council (CIAC), a trade association active in the Territory's insurance sector, continued to have meetings quarterly in 2013. During fourth quarter the role of Chairman became vacant when the current Chair relocated to another jurisdiction. The CIAC is comprised of members who are representatives of the insurance industry, accounting and legal profession/industry. Discussions at the 2013 meetings included the further development of the captive insurance industry including addressing market needs and the regulatory regime.

Externally, the insurance division also participated in sessions at the CICA and ASHRM events during the year. The division partnered with colleagues from the International Finance Centre, the government department charged with promoting the Territory's financial services products to deliver information sessions to industry at the events.

In conjunction with the office of the principal financial examiner, the Insurance Division continued to advance the development of a platform for the receipt and analysis of prudential returns by insurance sector licensees. Additional development efforts and a introduction of the returns to licensees is anticipated in 2014.

### Captive Insurers Financial Statistics

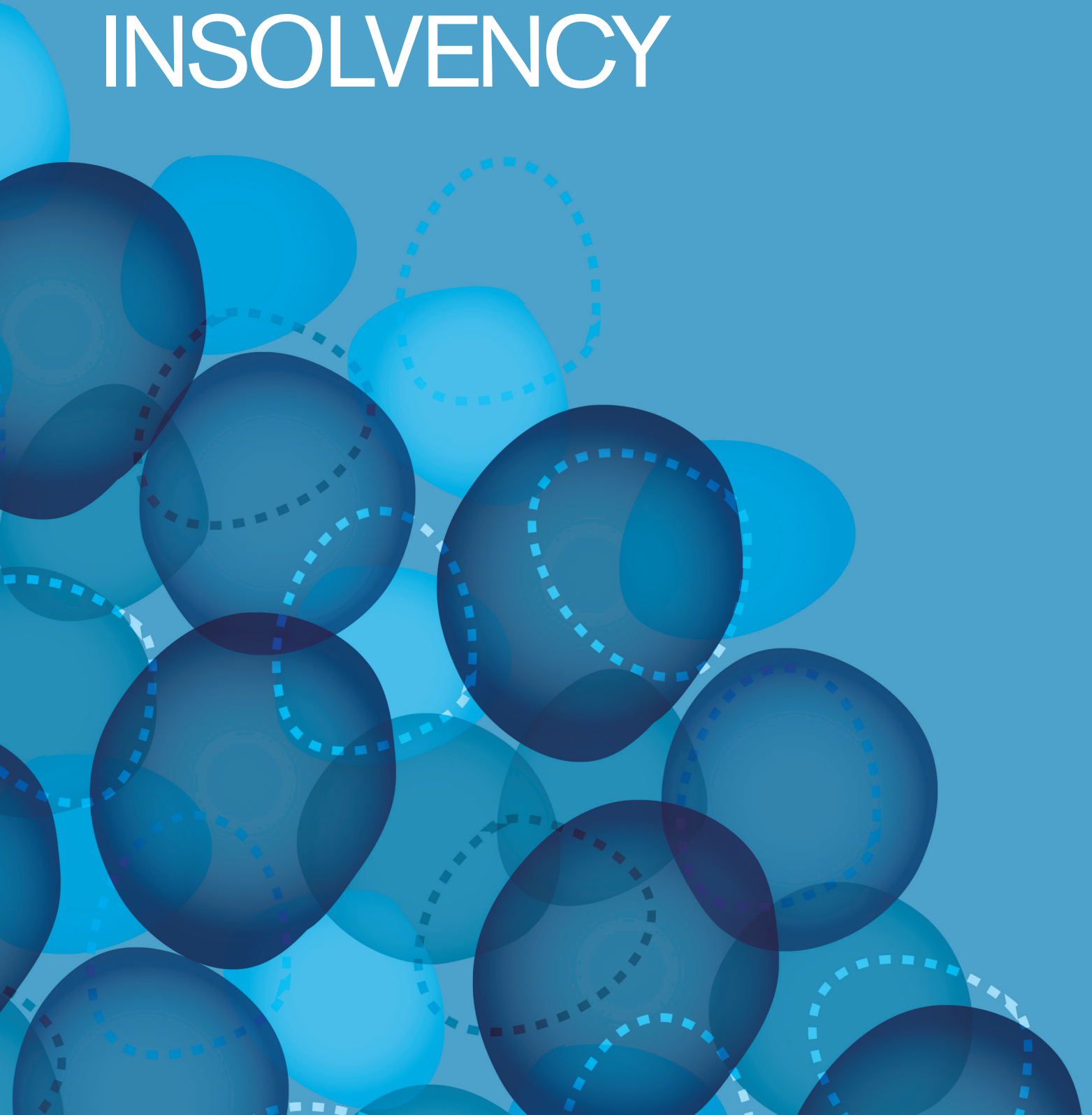
Data extracted from the audited financial statements submitted to the Commission for financial year end 2012 showed the following totals:

<b>Gross Written Premiums</b>	<b>\$330,039,570</b>
<b>Net Written Premiums</b>	<b>\$357,175,381</b>
<b>Claims Incurred</b>	<b>\$141,414,090</b>
<b>Net Written Premiums</b>	<b>\$357,175,381</b>
<b>Underwriting Result</b>	<b>\$69,854,615</b>
<b>Gross Assets</b>	<b>\$2,272,879,925</b>
<b>Allowable Assets</b>	<b>\$1,504,453,554</b>
<b>Net Worth</b>	<b>\$1,293,087,963</b>

In fulfillment of its obligation to stay current with relevant international initiatives and standards of best business practice, the division continues to review applicable standards, principles and issue papers of the International Association of Insurance Supervisors (IAIS).

# 05

## INSOLVENCY



# INSOLVENCY

The insolvency regime regulating and supervising the activities of Insolvency Practitioners licensed to conduct business in the Territory is now in its 10th year. The list of licensed practitioners now stands at twenty five; the highest since the introduction of the regime. Insolvency proceedings are administered under the principal legislation the Insolvency Act of 2003.

There appears to be some transiency in the locally based insolvency practices as during the year the division attended to requests for new applications for licences from practitioners at already established firms as opposed to entirely new entrants to the market. One of the key provisions of the regime is the residency requirement which requires practitioners to be resident in the Territory in order to hold a valid and compliant licence.

The Insolvency Services Division welcomed the opportunity during the year to attend professional development presentations staged by local firms. The local trade association, the Restructuring and Insolvency Specialists Association (RISA) was active during the year and staff of the division attended its presentations. Key presentations were focused on illustrating the range of experience available at locally active firms for handling complex, cross-border insolvency issues.

The presentation afforded the division the opportunity to contemplate just how the Insolvency Act is being used and examples of its practical application. The presentations and case studies were illustrative in understanding the global impact that the legislation is having related most certainly to the popularity of the BVI business company. Other RISA presentations included providing global (US, UK and Asia) perspectives on assistance to offshore insolvency officeholders. The talks also covered the English legal framework and universalism versus freedom of contract. Practitioners also shared their expertise on US



Chapter 15 case write-up and summary, as well shared general information on global restructuring and bankruptcy.

The Division still faces challenges in processing licence applications due to incomplete information at the time of submission. Most frequently missing are reports of good standing from prior regulators which results in applications remaining outstanding for long periods.

Internationally, UNCITRAL has been progressing its attempt to provide better working definitions to the model law. In the UK, the British Government is contemplating new proposals aimed at boosting trust and transparency in British business. In the area of Insolvency, the proposals aim to have the information on company ownership (directors) at a Central Registry be more robust and transparent. The new proposals also seek to have stricter proof of identity requirements for those registering new business at Companies House. Companies will be obligated to list all directors howsoever described at Companies House; for example advisors, and shadow directors. There are also proposals for the Courts to make compensatory awards against directors.

Also in the UK, the English Court sought to set out guidelines to be used in applying the balance sheet test for insolvency under the UK Insolvency Act. In *BNY Corporate Trustee Services Limited and others v Eurosail UK 2007-3BL PLC UKSC 28 (Eurosail)* the UK Supreme Court ruled that statutory balance sheet of a company provides only a starting point when assessing balance sheet insolvency, and that a careful analysis and valuation of the company's actual position, taking into account its prospective and contingent liabilities has to be undertaken. The burden of proof is on the person claiming that the company is balance sheet insolvent. That person has to satisfy the court that on the balance of probabilities the company had insufficient assets to be able to meet all of its liabilities, including prospective and contingent liabilities.

In the New Year, the Commission is keen on maintaining close contact with licensed practitioners to ensure an increasing level of compliance with regulatory legislation and related best practices. Areas of interest to the Commission to improve the efficiency of the regime include reiterating exit and surrender of licence procedures. We anticipate addressing this deficiency through the publication of additional policy and guidance material to supplement what is prescribed in the legislation. The aim is to further sensitize practitioners to the inefficiencies and dangers of improperly exiting an active practice in an effort to avoid cases in progress being negatively impacted.

The Eastern Caribbean Court of Appeal in *Somers Dublin Ltd. Et al v Monarch Pointe Fund Ltd, HCVAP 2011/040 (Monarch Pointe)* ordered that redeemed members enjoy priority ahead of continuing members but may only be paid after all claims by unsecured creditors have been discharged in full. The redeemed members must be paid before any surplus is ascertained, from which the continuing members may be paid. Monarch Pointe now settles the issue of how a liquidator is to distribute assets in a liquidation. The Court decision forces directors of funds to be

proactive when a fund encounters challenges that affect its liquidity.

Internationally, countries are streamlining insolvency and foreclosure procedures as a way of addressing their current economic situations. The European Union is proposing a law aimed at preventing debtors from moving their assets around Europe to avoid creditors. Germany introduced a debt for equity swap remedy and established a preliminary creditor's committee. The USA and UK are creating Government programs that allow increased access to credit assisting businesses and individuals in the residential housing market and construction industry given the impact on real estate.

The European Commission has also been active with proposed amendments to the European Regulation of Insolvency Proceedings. These amendments have been geared towards encouraging the adoption of more liberal insolvency regimes to stimulate economies and improve the economic outlook. These proposed amendments include second chances for entrepreneurs in bona fide bankruptcies, conditions for opening insolvency proceedings, national legal framework for restructuring plans, directors' duties and liability, professional disqualification, avoidance actions and other scenarios.

The 9th World Congress of INSOL International held May 19 - 22nd at the Hague was attended by the Director. A key session during the conference dealt with Harmonisation of Insolvency Laws and was led by Jenny Clift, the author of the UNCITRAL Model Law. Harmonization is aimed at finding consensus in defining insolvency and insolvency proceedings. Some delegates opposed attempting to harmonize areas of law that are substantive to a jurisdiction. It was acknowledged that harmonization would not be easy; the definition needs to address differences in jurisdictions not simply try to eliminate those differences. As a compromise, the suggestion is to start with simple issues having minor political or policy nexus.

The UNCITRAL Working Group V has commenced the process of coming up with consistent interpretation of problematic terms found in the model law such as Centre of Main Interest (COMI). It was acknowledged that the COMI may not always coincide with the place of the debtors' registration and where this is the case the COMI will be determined by other factors. These factors would be identified by creditors who deal with the debtor. Principal factors to be considered include a location that is readily accessible by creditors and third parties, a location where the management, central administration or operation takes place and the location is one where the debtors' principal assets or operations are found.

### Onsite Inspections/ Enforcement Actions

No Insolvency Practitioners were subject to compliance inspections during 2013. The full first round of inspections of the practices of insolvency practitioners was completed in back in 2012 and no urgent needs for inspection were identified during this year. Consistent with the Commission's risk-based schedule, some IPs will be due for inspection in 2015 on the 3-year cycle for low-risk licensees in this area.

### Future Outlook

As issues of universalism and territorialism continue to surface in cross border cases, the BVI insolvency sector will continue to face pressure in the international arena. Claimants bringing action against a BVI entity will have to always be advised that they may have to bring con-current foreign proceedings in order to protect their interests and liquidators will continue to face uncertainty of whether a BVI Court Order will be recognized at face value in some foreign jurisdictions.

Part XVIII of the Insolvency Act on the books for the last 10 years, there is a need to determine the next step. Will the section be enacted, modified or repealed? IF the model law or some version is not included in the BVI legislation, it is possible

that BVI Practitioners may experience difficulties in trying to have their BVI Court Orders recognized elsewhere. It is foreseeable in many foreign jurisdictions that courts may decide that there being no reciprocity in BVI for an action that starts in their jurisdiction, recognizing a BVI Order at home and in turn their Order not being recognize in BVI provides opportunity for their citizens and businesses to be discriminated against.

### Insolvency Services by Numbers

4 new insolvency licences were granted in 2013. 2 applications were made to the Commission for the voluntary revocation of IP licences; 1 was processed to completion and the other remained in progress at the year end.

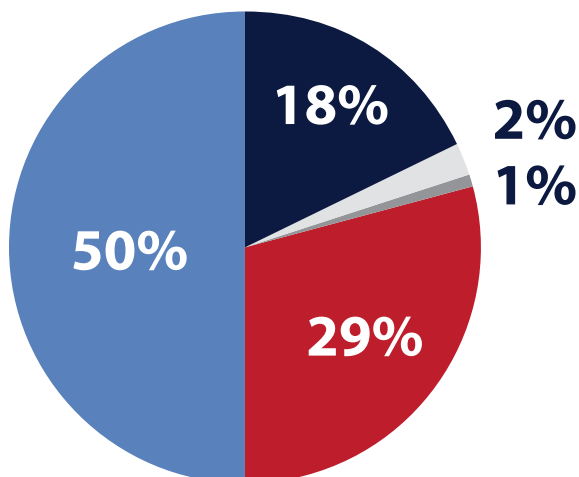
### Annual Returns

BVI-licensed IPs are required to file an Annual Return yearly with the Commission. The returns provide the division with industry statistics on the number of insolvency cases in progress and brought forward from previous years, new cases opened, closed cases and cases transferred to or from the jurisdiction in a given year. The returns also provide useful information on the source of cases by identifying the jurisdictions globally where new cases originated. The returns are submitted each year as required by the legislation and the Commission recorded 92% compliance in 2013.

As at 31 December 2013, the statistical summary of cases by classification for the year showed that the territory began the year with 234 cases in progress. During the year, 89 cases were opened an increase of 54 over 2012. During the year 30 cases were concluded, which is almost the same as the Commission recorded in progress at the end of the year; an increase from 238 the previous year. This case load was distributed across 22 of the 25 Insolvency Practitioners and the Official Receiver.



Annual Insolvency Practitioners Returns Summary  
of Classification of Cases  
January 1, 2013 - December 31, 2013



These figures are based on the Annual Returns submitted by Insolvency Practitioners.

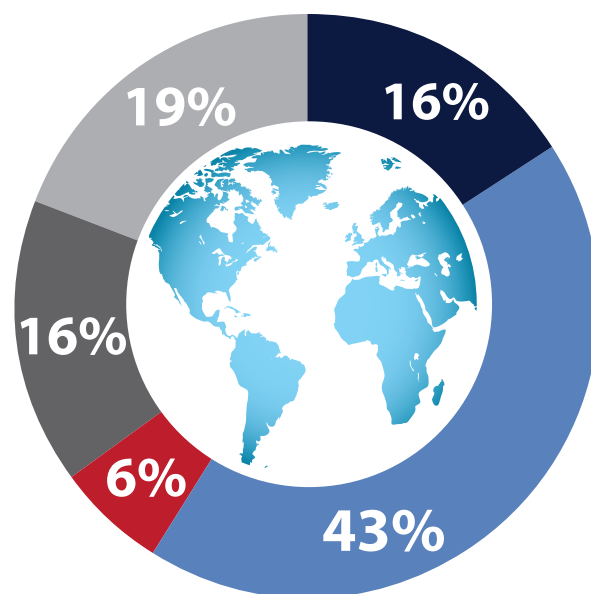
Liquidation cases that were heard by the Court account for approximately 50% of the total cases which is typical. Receiverships have increased slightly, up from 14% last year to 18%. Liquidations commenced by members were 29% of cases, and Company Creditors Arrangements were 1%, both areas remain unchanged from the previous year.

Administrative Receiverships involving all or substantially all assets of a company accounted for 2%. Provisional Liquidators went down from 1%

the previous year to 0% this year. Bankruptcies, Individual Creditors and Administrations remain inactive.

European Union countries accounted for 43% of the new cases measured by centre of operations. BVI and the Far East accounted for 16%, North America accounted for 6% and other 19% represents centres of operations in the rest of the world. There was an increase from the previous year in cases from the European Union Countries, and a slight increase in the BVI and Far East cases, but the Caribbean (Other than BVI) showed

no new cases. Cases with centres of operations in European Union member countries remain the most popular; a trend which continued from previous year reporting.



### Overseas Joint Appointments

In 2013, the Commission consented to the appointment of 18 overseas insolvency practitioners. Overseas practitioners which are defined as non-resident and not specifically licensed by the Commission, may be appointed jointly with BVI licensed practitioners to mitigate the risk in asset recovery in the jurisdictions where assets are located. In these cases the joint appointee must, according to BVI law, possess similar professional qualifications from a recognized jurisdiction in order to be appointed. The overseas joint appointments for 2013 were the result mainly of requests coming from Hong Kong (12), Vietnam (2), the United Kingdom (3) and the Cayman Islands (1). The Division in consenting to the requests was satisfied that the proposed overseas practitioners had properly given their consent to act, and that they had sufficient qualifications and adequate professional indemnity insurance to perform their functions properly.

## Office of the Official Receiver

### Revenue

The revenue contribution from the Insolvency Services Division was \$ 75,600.00 in 2013. The revenue recorded surpassed the projected revenue despite some areas falling short of the budgeted amounts.

During 2013, the Division operated usual and approved staff complement of five. The Director, Deputy Director, Case Officer, Legal Assistant and Administrative Assistant have been able to effectively handle the obligations and responsibilities of the division.

### Training

External training for division personnel continues to be important to ensuring that the division is able to keep pace with regulatory best practices and global industry trends. The Division's staff during the course of the year attended various seminars and training in an effort to keep up to date with regulatory practices and industry trends. Staff of the division participated in the Commission's regulator training during the first quarter where they were able to get additional perspective and refreshers on the role of the Commission, its powers and the importance of confidentiality.

The Commission was represented at the Annual Offshore Alert Conference held in Miami, Florida USA during the second quarter. The division's representative gained an understanding of key constraints affecting businesses (AML/ KYC process, Asset Protection, Double Tax Agreements and Information Exchange), and was able to participate in discussions on some of the current matters facing the international financial centers generally, like FATCA and FATF revised recommendations.

The Commission regularly attends and participates in the Insol Conference held in the Hague during the second quarter. Attendance provided the opportunity participate in discussions on topical issues affecting the Insolvency and Restructuring sector. The conference also offered insight into the approaches of other jurisdictions with regards to competition and what Judges are looking for and concerned about in order to assist practitioners in cross borders cases.

The International Association of Insolvency Regulators (IAIR) Annual Conference was held in Scotland in the third quarter. Attendance provided the opportunity to meet with other insolvency regulators and to get updates on progress and studies conducted. Fruitful discussions were also concluded on the ongoing regulation of insolvency practitioners, cross border cooperation and bankruptcy and alternate solutions.

The Insolvency Surplus Account (ISA) is described in the Insolvency Rules, 2005 Section 327. The balance at the end of 2013 is \$339,684.23 which includes interest earned for the year of \$1,499.26. There were no disbursements or any receipts for the year other than accrued interest.

06

REGISTRY OF  
**CORPORATE AFFAIRS**



# REGISTRY OF CORPORATE AFFAIRS

The Registry of Corporate Affairs (the Registry) is responsible for administering the BVI Business Companies Act, 2004 (the BC Act), the Partnership Act, the Trade Marks Act, the Registration of United Kingdom Patents Act and the Registration of United Kingdom Trade Marks Act. The primary function of the Registry of Corporate Affairs is to register entities as domiciled in and doing business in and from within the Territory. In addition to activities concerned with maintaining the Register of Companies, the Registry ensures that Limited Partnerships, Trade Marks and Patents are maintained.

It is the responsibility of the Registrar of Corporate Affairs (the Registrar) to ensure that all transactions filed under the governing legislation are filed in accordance with the requirements of the legislation.

Maintaining public registers and achieving integrity and accuracy of the information is an ongoing objective for the Registrar and her over 50 member team.

The BVI BC continues to be the Territory's most well known and used financial services product. Since the introduction of the Act in 2004 over

[insert number of incorporations since 2004] new business companies have been formed.

The Registry remains one of the most active companies' registries globally

for the incorporation of international companies. Even with very little recorded growth as compared with new incorporation in 2012, a total of 53,329 new business companies were incorporated in the BVI in 2013. The distribution of new incorporations activity remained seasonal with the highest number being recorded in January of each year.

## Registration by Company Type

	Total
No. of Companies Limited by Shares	53,266
No. of Segregated Portfolio Companies	16
No. of Restricted purpose Companies	4
No. of Unlimited Companies	32
No. of Companies limited by Guarantee	49
No. of Foreign Companies	32

Of the year's total new incorporations 320 companies incorporated with the intent of trading or operating in the BVI.

Table 3 shows the registrations for 2013 by the company types allowed by the BC Act. Companies limited by shares continue to be the most popular BVI corporate offering; it is the direct predecessor of the popular BVI International Business Company (IBC) which was replaced by the BVI Business Companies Act, 2004. Other company types were introduced by the BC Act and are used for specific

During 2013,  
**7,310**

new companies elected to use provisions available in the BC Act to include a foreign character name as part of their registration.

purposes. Annual fee renewals for 2013 totaled 422,020. The retention or renewal rate is within the range of the previous years and reflects an increase above the past four years.

Foreign companies which are incorporated in another jurisdiction may register to establish

a place of business in the BVI by following the governing provisions in the BC Act. As is usually the case, the four foreign companies registered in 2013 are insurance companies who have registered to do business in the Virgin Islands. Limited Partnerships have been formed and maintained by the Registrar of Corporate Affairs since the introduction of the Partnership Act in 1996. The number of Limited partnerships' registrations reached 1000 in July, 2013. The registry typically adds an average of 75 new limited partnerships each year. The year ended with a total of 1042 limited partnerships on the register.

Trade mark registrations maintain a steady pace and the Registry is preparing for the eventual coming into force of the new and modern trade mark legislation which it is anticipated will result in an increase in trade mark registrations. Due to the global popularity of the BVI BC, searches of the companies register is one of the top transactions conducted at the Registry. In

2013 over 1,855 search requests were filled with over 7,000 of those being requested by persons who contacted the Registry directly from outside the Territory.

The Registry continues its efforts to improve the service it delivers to registered agents, legal and insolvency practitioners and the general public. In October the ROCA launched on-line electronic companies search function. The function facilitates on-line processing of requests for searches of the companies register and electronic delivery of the search results using VIRRGIN, the Registry's information system. As expected the on-line search function is very popular and allows users to search the Register remotely and to get real time results. To facilitate the over 200 daily requests for on-line company searches, the Registry digitizes older company files on demand, when a request for the contents of the file is received. Approximately 475,000 companies were incorporated after the introduction of VIRRGIN in late 2006. They are already digital and are available immediately.

The Commission introduced a formal internal training course for senior officers within the Registry in 2013. This course was designed to address succession planning and need for increased capacity objectives and comprised training on provisions of the BC Act and general Registry procedures. After successful completion of this course five members of staff were promoted to senior positions to increase approval capacity for filings.

The Registry's success and utilisation is largely due to the flexibility of the legislation. Even with its robust, user friendly provisions, the registration model requires intermittent monitoring and amendment. The BVI Business Companies (Restricted Company

### 2013 Quarterly Incorporations and Registrations

Type of Entity	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Total
<b>BVI Business Companies</b>	<b>16,666</b>	<b>12,478</b>	<b>12,809</b>	<b>11,376</b>	<b>53,329</b>
<b>Limited Partnership</b>	<b>15</b>	<b>16</b>	<b>23</b>	<b>24</b>	<b>78</b>

### Total Registrations (2010-2013)

Type of Entity	2010	2011	2012	2013
<b>BVI Business Companies</b>	<b>59,623</b>	<b>64,729</b>	<b>64,062</b>	<b>53,329</b>
<b>Limited Partnerships</b>	<b>72</b>	<b>68</b>	<b>89</b>	<b>78</b>
<b>Trademarks (Local)</b>	<b>192</b>	<b>205</b>	<b>111</b>	<b>192</b>
<b>Trademarks (UK)</b>	<b>88</b>	<b>68</b>	<b>115</b>	<b>55</b>

Names) Notice, 2013 was passed by the House of Assembly in August, 2013. The notice requires approval by the Commission for the use of words published in the list of restricted words as part of a company's name. The restricted words list includes words associated with regulated financial services activity to ensure that their use is properly authorized, to protect the public, and to prevent misuse. The BVI Business Companies (Amendment of Schedules) order of 2013 is also an amendment to the legislation governing business companies and prescribes an amended registration fee structure for Private Trust Companies (PTCs).

The Trade Marks Act 2013 was enacted in the House of Assembly and gazetted in May 2013; the Act is expected to be brought into force in 2014. The intent is that the Act will repeal and replace the current trade marks legislation, Trade Marks Act (Cap 158) and will make new provisions for the registration and protection of trademarks, the institution of legal proceedings in trade mark issues and other matters relevant to intellectual and industrial property as they relate to trademarks and connected matters.

The Trade Marks legislation introduces new requirements that were not included in the previous Act including a requirement for the appointment of a registered trademark agent for applications for registration and the payment of renewal fees. The new Trade Marks Act also gives the Registrar additional powers which include the power to make amendments to the register to achieve consistency with the new classifications, the power to hear proceedings, the power to summon witnesses for a hearing, the power to award costs and the power to appear

before the Court.

In an effort to improve the service delivery and to meet the expectations of the user base, the Commission issued guidance notes for the Continuation of Foreign Companies under section 180 of the BC Act in October, 2013. These guidance notes were published to provide guidance to filers and to clarify the requirements and documents that are acceptable to the Registrar. The guidance seeks to ensure that the Registrar is able to be convinced that a company is not disqualified from continuing into the Virgin Islands on application.

Post Incorporations Transactions				
Post Incorporations	2010	2011	2012	2013
Requests for Certificates of Good Standings	49,933	50,518	52,978	59,247
Notice of Completion of Liquidations	7,782	6,567	6,458	7,531
Notice of Appointment of Liquidator	7,212	6,491	6,436	7,776
Request for Certifications	7,167	7,263	7,266	7,908
Notice of Change of Registered Agent	7,435	7,639	6,447	10,477
Application for Registration of Charge	7,459	8,769	8,120	8,723
Notice of Election to Dissaply Part IV (of BC Act)	2,340	932	670	865
Amendment to Memorandum & Articles of Association	4,173	3,851	3,743	3,602
Change of Company Name	3,612	3,338	3,216	3,175
Notice of Change in Number of Shares	1,817	1,904	1,573	1,611
Request for Register Directors & Members	1,590	1,751	1,356	1,767
Notice of Continuation Out of the Virgin Islands	581	315	207	402
Requests for Special Certificates Directors & Members	746	834	701	891

# NON-SUPERVISORY DIVISIONS

07

LEGAL AND  
**ENFORCEMENT**





## LEGAL AND ENFORCEMENT

The Legal and Enforcement Division provides ongoing legal support to the Commission and all of its internal divisions, the Managing Director and the Board of Commissioners. Separately, the Legal and Enforcement units that comprise the division have related but segregated portfolios.

The Legal Unit advises on a wide range of matters and provides leadership in enforcement action that involves proceedings in court or before the Financial Services Appeals Board. It also executes international cooperation obligations on behalf of the Commission.

The division welcomed new leadership early in 2013 with the recruitment of Ms. Dawn J. Smith as Director and General Counsel. Ms. Smith continued to be supported in the division by the Deputy Directors and other members of the 11 person team.

One of the new Director's first initiatives was the expansion and restructuring of the enforcement unit to better address the needs and objectives of the Commission in a changing regulatory and international cooperation environment.

The Enforcement Unit conducts investigations into issues of non-compliance with regulatory and anti-money laundering legislation and started 234 investigations during the year.

The Commission received 96 international cooperation requests from January to December 2013. Ninety (90%) per cent of the requests were made under the International Organization of Securities Commissions' (IOSCO) Multi-lateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information.

88% of the 76 new litigation matters in 2013 were applications involving the Registrar of Corporate Affairs. These were mainly applications to restore dissolved companies to the Register. Other matters included applications for the amendment

of memorandum and articles of association and the termination of voluntary liquidations. The Commission also continues to address a number of matters in litigation involving current licensees. More than 150 requests for legal advice came to the Division from internal divisions. These involved mainly breaches of financial services legislation and compliance inspections. Non-regulatory/supervisory legal advice was sought from the division relating to the Registry of Corporate Affairs and the Commission's general operations including contract negotiation and rights, leases and human resources matters.

The Division was able during the first half of the year to successfully implement and integrate a fully automated practice, office and document management tool for more efficient operations. The single software solution provides additional capabilities for the division in calendar management, reporting and case and contact management.

### 2013 Legal & Enforcement

	Total
Formal Requests	84
Informal Requests	10
Enforcement Investigations**	234
Information to share to FIA under MOU	3
Information to share to FIA under MOU	1
Information share to counterpart regulatory authorities	6
Information share to counterpart regulatory authorities	2
Reports filed with RVIPF	8
SAR's filed with FIA	14
<b>Total</b>	<b>362</b>

Coupled with the introduction of new software capabilities, the division improved its resourcing through staff training and professional development that covered areas such as enforcement of regulatory laws, regulatory affairs, conducting investigations and information security.

08

POLICY, RESEARCH  
AND **STATISTICS**



# POLICY, RESEARCH AND STATISTICS

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The mandate of the Policy Research and Statistics Division includes monitoring international regulatory and legislative developments, developing regulatory policies, researching topics related to the financial services industry and producing industry statistics. The Division takes the lead in all anti-money laundering and terrorist financing related matters including the planning and execution of in-house training and development aimed at institutional strengthening.

## Sector Overview

### Caribbean Financial Action Task Force (CFATF)

Throughout 2013 with the Director, Policy Research and Statistics representing the Territory as Chair of the Caribbean Financial Action Task Force (CFATF) the Division provided support for the work of the CFATF and particularly in relation to matters involving the CFATF Steering Group led by the Chair. Among the most notable achievements as Chair was the removal of CFATF from monitoring by the FATF, which it was previously subject to, increasing member participation in CFATF Working Groups, ensuring the organisation produced a balanced budget and establishment of both a Budget and Audit Committee and a Human Resources Committee to more efficiently oversee the general and financial management of the organisation.

At the November, 2013 Plenary meeting in Nassau, Bahamas, FATF President Vladimir Nechaev recognised the accomplishments of the CFATF by stating that “at this meeting, I am able to state without a doubt that CFATF should now be perceived as one of the best in its class”.

## Legislative Developments

In its efforts to ensure that Virgin Islands financial services legislation keeps pace with the needs of market participants and practitioners, and to ensure that the industry is being served by the most modern legislative regime, the Commission recommended several legislative amendments to the Attorney Generals Chambers for review and onward transmission to Cabinet and the House of Assembly for enactment.

## Regulatory Developments

Part of the Division’s mandate is to prepare guidelines to aid both the FSC and the industry in understanding the regulatory requirements laid out in the relevant financial services legislation and provide guidance on established regulatory policies. In 2013, the Division prepared an amendment to the Guidelines for the Approved Persons Regime. The amendment was designed to allow the Commission to satisfy itself that persons applying for approval as senior officers will have sufficient time and resources to carry out their designated functions. Applicants, therefore, are now required to indicate the number of directorships held (for both regulated and non-regulated entities) at the time of submission of an application seeking the Commission’s approval for appointment as a Director.

The Commission also introduced Guidelines for Authorised Representatives under the SIBA which provided a framework for the structured governance of the current Authorised Representative regime. The Guidelines also outline the key elements required to fulfil the duties of an Authorised Representative including requirements in relation to resources, reporting mechanisms, independence of the Authorised Representative, as well as the criteria necessary to qualify to act as an Authorised Representative

which include domicile and residency considerations.

## Statistics

The FSC's Statistical Bulletin is one mechanism by which the Commission communicates the activities and standings of the different sectors of the Virgin Islands' financial services industry. This bulletin is a compilation of key statistical indicators recorded by each regulatory Division and used to track the performance of each sector of the industry. The statistical bulletin also includes data related to regulatory enforcement and international cooperation matters.

In addition to statistics compiled internally, the Division also acts as the central repository for AML/CFT statistics reported, as required, by the members of the Inter-governmental Committee on AML/CFT Matters. These statistics are maintained to monitor activity in the Territory that impact compliance with the FATF's International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation to ensure that the Territory maintains compliant.

The Division is also the Commission's centre of excellence for formulating responses to all surveys and questionnaires submitted by regional and international bodies in relation to the Territory's financial services sector in conjunction with relevant regulatory Divisions.

## Inter-governmental Committee on AML/CFT Matters

The Inter-governmental Committee on AML/CFT Matters (IGC) promotes cooperation between law enforcement and regulatory authorities in the fight against money laundering and terrorist financing. It is an inter-agency committee established under section 50 of the Anti-money Laundering and

Terrorist Financing Code of Practice, 2008 (the "Code"). The IGC meets once a quarter to share information on activities which might have AML/CFT implications for the Territory. Its primary focus is to deliberate on how best to coordinate efforts to effectively combat financial crime and provide a mechanism for members to update the body on AML/CFT matters of interest encountered.

The IGC comprises representatives of the Commission as Chairman, Attorney General's Chambers, Office of the Director of Public Prosecutions, Ministry of Finance, Royal Virgin Islands Police Force, HM Customs Department, Immigration Department, VI Shipping Registry, BVI Airports Authority, Trade and Consumer Affairs Department, Financial Investigation Agency, BVI Post, NPO Registration Board and BVI Ports Authority.

The Division is responsible for coordinating the activities of the Committee, and for the collection and analysis of AML/CFT statistics submitted by its members which is essential to ensuring compliance with the FATF's Revised Recommendations.

## Joint Anti-money Laundering and Terrorist Financing Advisory Committee

The Joint Anti-money Laundering and Terrorist Financing Advisory Committee (JALTFAC) is a body comprised of representatives of legal, financial, regulatory and law enforcement authorities and private sector entities and professionals with a stake in AML/CFT matters, and is established under section 27A of the Proceeds of Criminal Conduct Act, 1997. Coordination of the activities of this Committee, including implementation of all decisions made, is the responsibility of the Division.

With the finalisation of the FATF Methodology

in February 2013, JALTFAC has turned its focus to the upcoming Fourth Round of CFATF Mutual Evaluations scheduled to begin in 2015. The Methodology outlines how countries will be evaluated using the Revised FATF Recommendations and how countries will be measured for compliance with these Recommendations. In order to ensure proper understanding of these requirements JALTFAC commenced the process of educating its members on the Revised Recommendations and the use of the Methodology in the fourth quarter of 2013. This process is scheduled to continue into the first quarter of 2014.

JALTFAC also continues to focus its attention on examining the monitoring and supervision of Designated Non-financial Businesses and Professions (DNFBPs,) and Non-profit Organisations, which is now the responsibility of the Financial Investigation Agency (FIA). Supervision of these sectors by the FIA has now brought the Territory into compliance with the relevant Recommendations.

In December 2013, members of JALTFAC met with representatives of HM Treasury during their visit to the Territory to discuss the issue of beneficial ownership and the maintenance of a central registry; this being a central part of UK Prime Minister Cameron's G8 agenda. The matter is currently the subject of public consultation being conducted by the Government.

### **Focus Group on the Development of New Legislation on Arbitration**

Having been established in 2011, the Focus Group on the Development of New Legislation on Arbitration (AFG) has been charged with the responsibility of reviewing and revising the BVI's existing arbitration laws and advising on appropriate new legislation to take into account

current and emerging standards in arbitration law. This work is coordinated by the Division. In 2013 the AFG finalised proposals for the new Arbitration Act which was subsequently submitted to Government for consideration and enactment by the House of Assembly.

The new Arbitration Act was passed by the House of assembly on 17 December, 2013. In addition to the enactment of the new Act, the AFG expended considerable effort to advocate and push for New York Convention being extended to the Territory. Extension of this Convention will allow for full implementation of the new Arbitration Act. The AFG has now turned its focus on the establishment of the BVI International Arbitration Centre and the development of the necessary subsidiary legislation in order to place the Virgin Islands in a prime position to take advantage of the growing need for a centre of excellence to manage and administer commercial dispute proceedings.

**Intellectual and Industrial Property Focus Group**  
Similar to the AFG, the IIP Focus Group is charged with the responsibility of reviewing and revising the BVI's existing IIP Laws. In 2013, the Focus Group was able to finalise the Trade Marks Act which was subsequently enacted by the House of Assembly on 30 April, 2013. Since that time the Focus Group has drafted the Trade Marks Rules which were distributed for public consultation and are currently in the process of being finalised. Once the Trade Marks legislation is complete the Focus Group intends to turn its focus on the development of new Copyright legislation. The work of the Focus Group is chaired and coordinated by the Division.

## AML/CFT Training

Section 47 of the Anti-money Laundering and Terrorist Financing Code of Practice requires training on AML/CFT matters to be conducted on an annual basis. The focus of the Division's 2013 training on AML/CFT was the staff of the Registry of Corporate Affairs and new Commission employees who joined after delivery of the 2012 AML/CFT seminar. The FSC's regulatory staff receives regular and continuing training and exposure to AML/CFT concepts and matters and the Division felt it important to ensure that all other staff were sensitised to the basic concepts of AML/CFT. The programme now in its fifth year was designed to provide background on the emergence of the international AML/CFT framework and included a review of key AML/CFT terminology, the roles of the FSC and FIA, the current AML/CFT legislative framework, the BVIs international cooperation obligations, the types of institutions that are vulnerable to ML/TF activities and how the jurisdiction's AML/CFT regime is evaluated. At the end of the programme participants were tested on their knowledge of the information presented during the training programme.

## Policy Support to the Government

In 2013, the Policy, Research and Statistics Division, acting on behalf of the Commission, provided policy guidance to the Government with respect to the UK's new initiative on Tax, Trade and Transparency. The Director of the Division was directly involved in developing policy papers in relation to beneficial ownership issues as they affect the financial services industry. This culminated in the development of a public consultation paper on beneficial ownership which would provide the basis on which the Government decides the approach to adopt on the issue of beneficial ownership.

## 2014 Outlook

The Division will continue to support the work of the IIP Focus Group to ensure the development of additional legislation to address other aspects of intellectual and industrial property law. It is also envisioned that with the passage of the Arbitration Act, 2013 the AFG will continue to lay the foundation for the establishment of the BVI as an international arbitration centre and that the Division will continue to support the AFG in this effort.

The Division will also continue to monitor the international arena for regulatory and legislative developments related to, or that may have a significant impact on the Territory's financial services industry; developing regulatory policies where necessary. It will also continue to work with all Divisions to develop new policies relevant to their work, and to effect reforms wherever considered necessary.

A major focus for 2014 will be on the conduct of the Territory's first National Risk Assessment (NRA). In preparation for the Fourth Round of Mutual Evaluations countries are required to identify, assess and understand their ML/TF risks, apply sufficient resources to ensure risks are effectively mitigated, and ensure their AML/CFT regimes adequately address identified high risk areas. In order to address this requirement the Division will assist in coordinating the conduct of the NRA which will encompass the assessment of a wide cross-section of the Territory's key business sectors' policies and procedures as they relate to ML/TF to ensure the relevant risks are identified and sufficiently addressed to meet the requirements of the Revised Recommendations and ensure the Territory's AML/CFT regime remains robust.

Additionally, the legislative reform that began in 2013 will continue to ensure the Territory's AML/CFT laws are in compliance with the new standards and to ensure the BVI is ready for its Fourth Round Mutual Evaluation in 2017.



09

CORPORATE  
SERVICES



## CORPORATE SERVICES

Supporting the infrastructure needs of an efficient regulator is the primary responsibility of the Corporate Services Division. The active role of the division is to provide complementary and critical services to the regulatory and supervisory divisions to enable them to give adequate attention to the Commission's core function, regulating financial services licensees and authorised persons. Corporate Services comprises finance, facilities, information technology, operations and corporate communications.

Daily functioning sees the Corporate Services Division implementing and administering operations policies designed to protect the Commission's physical and financial assets, premises, reputation, data, information and records.

### Facilities

The physical work environment is critical to being able to efficiently meet the Commission's key objectives. In support of these objectives, the Facilities Unit manages the physical infrastructure and systems including climate control, utilities, fleet management and storage and archives. To this end, during the year the Facilities Coordinator completed certification in Business Continuity Management. As a key member of the business continuity and crisis management teams, this was critical training towards ensuring excellence and mitigating environmental risks that could negatively impact the organisation.

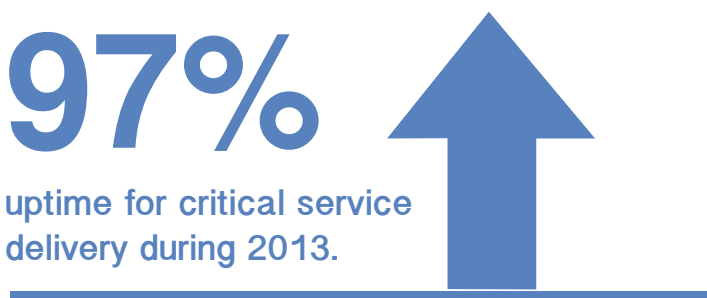
Physical space for expanding operations to meet regulatory objectives continues to be a challenge for the Commission. To alleviate this situation in the medium to long term, the Commission entered negotiations with a property owner in hopes of acquiring additional property.

Establishing a remote physical location is inherently challenging and establishing a remote

location thousands of miles away and across a 12 hour time zone difference is ever more complicated. The Commission continued efforts towards acquiring a space for operations in the Far East which required site visits and vendor engagement and management by joint teams from Facilities and IT.

### Information Technology

The Commission relies heavily on the availability of its IT infrastructure to support critical business functions. With over 150 employees, maintaining key IT services like network access, email and document management is paramount.



VIRRRGIN, the Commission's proprietary, online application for users of the Registry of Corporate Affairs continued to provide needed capacity as a critical enterprise software application. VIRRRGIN's uptime in 2013 was again close to 100%.

During 2013 the Commission introduced additional security features to certificate issued by the Registry of Corporate Affairs. This project, a collaboration between the IT and Operations Units, improved both the use of technology and service delivery in processing.

The IT team was also engaged in completing an expansion and upgrade of the technology infrastructure to support the anticipated VIRRRGIN 3 application which we expect to introduce next

year and in preparation for the more immediate Commission's representative office in Asia.

## Corporate Communications

The Corporate Communications Unit is the Commission's nerve centre for media engagement and relations, publications and formal engagement of stakeholders. During the year, the unit hosted several events on behalf of the Commission including training, both internal and external, industry meet the regulator meetings and the annual Board of Commissioners' December holiday cocktail reception. The Corporate Communications team also maintains the Commission's internal and external web presence and leads messaging using various communications methods and modes. The head of the unit was the second Commission employee to complete business continuity certification during the year putting the formal expertise within the Commission at two. In events hosting and management, the Corporate Communications team spearheaded the Commission's hosting of training for over 40 attendees regulators primarily for UK Overseas Territories Regulators. The 4-day event was the first in a series designed by OT regulators to share technical regulatory experience.

The Commission also hosted a compliance conference in conjunction with the Caribbean Action Task Force (CFATF). The conference attracted attendees from local industry and regulatory agencies. At the conclusion the Commission donated the net proceeds from the conference registration to CFATF, a special one-time donation of US\$40,000.

The DMD, Corporate Services headed a planning team visit to Hong Kong for vendor and site inspections and review. The cross unit planning team included facilities and IT with necessary support from the Finance Department among others.

## FSC Representative Office (Asia)

In September the Government and the Commission formally opened the representative office in Hong Kong, BVI House Asia. The office is a partnership between the Government and the Commission and realises the Commission's long desire to establish a Far East presence. Both Deputy Managing Directors represented the Commission at the opening of BVI House Asia and while in Hong Kong paid courtesy calls on regional regulators and regulated persons.

## Financial Highlights

The Finance Division bears responsibility for the integrity of financial reporting to executive management and the Board of Commissioners. It is the division's remit to ensure that the Commission's operations are conducted in a manner consistent and compliant with approved financial policies, principles of good governance and accepted best business practices. Key deliverables of the division include monthly management reports on revenue, expenditure, cash flow and the performance of investments.

The Board's finance and investment sub-committee oversees the budget compilation process and then the proposed annual revenue and expenditure budget is approved by the full board before presentations and discussion with Cabinet as required by the FSCA.

The Commission maintains over US\$8 million in regulatory deposits which are held in respect of licensees and invested in accordance with a Board approved investment policy. For the period ending 31 December, 2013, the Commission recorded revenues of 207.7 million from regular business operations on behalf of the Government. The revenue fell just short of budget projections by 0.3%.

Full audited financial statements produced by the Commission's auditors are included in this report.

# 10

## HUMAN RESOURCES



# HUMAN RESOURCES

Developing professional regulatory and operations support staff is a key objective of the Commission's Human Resources Division. During the year, the HR Division provided a number of training and professional development opportunities. These opportunities enabled the Commission to further develop key talent in fulfilment of its objectives as an effective, well resourced financial services regulator. The Human Resources Division in addition to supporting the training and development needs of the Commission also provide services and support to management and to all employees from recruitment to retirement or separation. The division's activities during 2013 included recruitment, compensation and benefits administration and management, training and general employee relations.

## Staffing

To ensure that the Commission continues to attract and retain key talent in pursuit of its high standards of excellence, the Division managed the recruitment of employees for fifteen new and replacement positions during the year. Over half of the vacant positions were filled by transfers or promotions of existing Commission employees. The Division oversees recruitment including interviewing and testing, background checks, selection and eventual evaluation of support, administrative, professional and management employees. The Commission now operates a full time staff complement of 156 employees distributed across five categories or levels.

Since its inception, the Commission has enjoyed a relatively low rate of employee turnover which allows it to realise the full benefits of training and retention of historic institutional knowledge. Separation from the Commission in 2013 was 2%.

In addition to regular full-time employees, the Commission in 2013 again operated its summer internship programme for university students.

Division/Department	Employees
<b>BFSD</b>	<b>20</b>
<b>Corporate Services*</b>	<b>14</b>
<b>Finance</b>	<b>5</b>
<b>HR</b>	<b>4</b>
<b>Information Technology</b>	<b>11</b>
<b>Insolvency</b>	<b>5</b>
<b>Insurance</b>	<b>10</b>
<b>Investment Business</b>	<b>18</b>
<b>Legal &amp; Enforcement</b>	<b>10</b>
<b>MD's Office</b>	<b>5</b>
<b>PRSD</b>	<b>5</b>
<b>ROCA</b>	<b>40</b>
<b>Total</b>	<b>148</b>

## Employees by Years of Service

<b>10+</b>	<b>49</b>
<b>8 - 9</b>	<b>16</b>
<b>6 - 7</b>	<b>27</b>
<b>4 - 5</b>	<b>17</b>
<b>&lt;4</b>	<b>39</b>
<b>Total</b>	<b>148</b>

Through the internship programme, the Commission hosted over fifteen interns for periods of up to 2 months. Interns complete a formal exit survey to provide feedback on the quality of the work experience. The summer programme has proven popular and the Commission routinely receives a large number of applicants for summer positions including from students looking for a repeat opportunity. The interns assist with project

work including special initiatives, data collection and analysis, file reviews, research and report writing.

#### Total Departures

Category	Total
Management	1
Non Management	5
<b>Total</b>	<b>6</b>

## Compensation and Benefits Administration

Following the performance management appraisal process, all full-time employees who are no longer on employment probation were awarded a salary adjustment. The Commission is committed to rewarding excellence in performance and initiative and approved 19 internal promotions during the year.

### Benefits

During the year the Commission's group health insurance plan was due for renewal and we were successful in negotiating a freeze of existing premiums for the direct benefit of employees as over 95% of employees have opted in to the health care plan.

Although the Commission's relatively young demographic means few eligible pensioners, the Commission did process pension related account changes for some employees who separated from the Commission in 2013. Current employee participation in the plan is about 95%<sup>1</sup>.

The Human Resources Division responded to a number of benefits-related questions received some of which were related to eligibility for early

retirement. An Early Retirement Programme/Policy is being developed to provide attractive options for employees who may be at or nearing full vesting in the plan and have a desire to retire before the usual age of 65.

## Training and Development

Over 45 employees participated in management and leadership training with an intense 5-day specialty course on Regulatory Affairs. The certificate course was commissioned specifically to improve the skills of current employees to support succession planning objectives. In addition 10 employees pursued financial services related professional designations with STEP and ICA as well as professional designations in business continuity, business analysis and project management. Approximately 15 employees also completed certificate courses through the Chartered Institute of Arbitrators.

Course Title	#of Employees
Supervision of TCSP's	30
Certificate in Regulatory Affairs	50
International Arbitration	15
Business Continuity Management	3
STEP	1
International Diploma in Compliance	9
International Trust Management	1
Trust Investment and Financial Appraisal	1
Leadership Skills	5
Project Management	1
IOSCO Enforcement Training	1
Internet Intelligence	1

<sup>1</sup>Contract workers may not be eligible based on the terms of their individual contracts

The Commission also welcomed back to full-time employment an earlier scholarship study leave recipient. The employee successfully completed an undergraduate Bachelors degree in Finance.

## Employee Relations

In support of employees who have successfully battled cancer and in memory of those employees we have lost to the disease, the Commission once again organised what has become an annual walk during October to commemorate (breast) cancer awareness. Another more general walk in support of heart health and general fitness was also organised by the HR department and enjoyed the support and participation of a large number of employees.

## Future Goals

The Human Resources Division has undertaken a review of its needs to evaluate the acquisition of a pensions management database. Improving the infrastructure will provide pension plan participants with more up to date information on account balances and other information. The Division will also focus on developing a competency framework for all roles at the Commission to, among other things, better assess the effectiveness of individual performance.

# FINANCIAL **STATEMENTS**



**BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION****Commission Directory**

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**BOARD OF COMMISSIONERS**

Mr. Robin Gaul	Chairman
Mr. Colin O'Neal	Deputy Chairman
Ms. Eleanor Smith	Commissioner
Mr. Phillip Fenty	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**

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



Tel: (284) 494 3783  
Fax: (284) 494 2220  
www.bdo.vg

PO Box 34  
Sea Meadow House  
Tobacco Wharf  
Road Town  
Tortola VG1110  
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 the British Virgin Islands Financial Services Commission (the "Commission"), which comprise of the statement of financial position as at December 31, 2013, 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 fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control 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 from 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 those 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 in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Commission as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Tortola, British Virgin Islands

## BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Statement of Financial Position  
As at December 31, 2013  
Expressed in United States Dollars

	Notes	2013	2012
<b>ASSETS</b>			
<b>Non-current assets</b>			
Fixed assets	3	862,661	1,256,885
VIRRGIN project under development	4	386,401	386,401
		1,249,062	1,643,286
<b>Current assets</b>			
Regulatory deposits	5	8,329,811	8,098,747
Cash and cash equivalents	6	16,492,369	15,412,535
Time deposits	7	5,065,266	5,038,887
Financial assets at fair value through profit or loss	8	2,997,205	2,951,369
Other receivables and deposits	9	440,327	569,716
		33,324,978	32,071,254
<b>TOTAL ASSETS</b>		<b>\$34,574,040</b>	<b>\$33,714,540</b>
<b>RESERVES AND LIABILITIES</b>			
<b>Capital reserves</b>			
Contributed capital	10	3,993,900	3,993,900
Property & equipment reserve	10	1,249,062	1,643,286
<b>Total capital reserves</b>		<b>5,242,962</b>	<b>5,637,186</b>
<b>Revenue reserves</b>			
Training reserve	10	400,000	400,000
Loan revolving reserve	10	165,000	165,000
Future capital expansion reserve	10	10,000,000	8,500,000
Refunds reserve	10	50,000	50,000
Enforcement reserve	10	2,000,000	2,000,000
Contingency reserve	10	1,361,625	1,377,512
<b>Total revenue reserves</b>		<b>13,976,625</b>	<b>12,492,512</b>
<b>Total reserves</b>		<b>19,219,587</b>	<b>18,129,698</b>
<b>Current liabilities</b>			
Trade and other payables	11	2,413,628	2,261,551
Deposits on account	12	2,111,014	2,224,544
Distribution payable to Government	13	2,500,000	3,000,000
Regulatory deposits from licensed entities	5	8,329,811	8,098,747
<b>Total liabilities</b>		<b>15,354,453</b>	<b>15,584,842</b>
<b>TOTAL RESERVES AND LIABILITIES</b>		<b>\$34,574,040</b>	<b>\$33,714,540</b>

Signed on behalf of the Commission on \_\_\_\_\_

\_\_\_\_\_  
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, 2013 Expressed in United States Dollars

	Notes	2013	2012
<b>INCOME</b>			
Fees collected on behalf of the Government	6	207,718,468	204,755,396
Less: Fees due to the Government	6	(184,592,176)	(182,010,807)
Fees retained by the Commission		23,126,292	22,744,589
Other income	14	779,170	98,141
Interest income		158,432	244,465
Net changes in fair value on financial assets at fair value through profit or loss	8	(112,250)	(21,442)
<b>TOTAL INCOME</b>		<b>23,951,643</b>	<b>23,065,753</b>
<b>EXPENSES</b>			
Advertising		18,728	10,861
BVI House Asia Funding		588,891	-
Conferences and seminars		122,768	397,233
Contributions		161,365	129,332
Depreciation	3	808,390	939,042
Financial Investigations Agency Funding		500,000	500,000
Insurance		63,319	82,330
Licenses and fees		56,657	59,882
Literature and reference		143,914	100,342
Maintenance and hire		527,558	400,965
Memberships and subscriptions		68,804	92,681
Miscellaneous		5,237	15,573
Office expenses		232,087	245,814
Professional services		1,362,004	1,454,264
Public relations		14,936	10,779
Rent and lease		972,789	973,641
Staff costs	15	12,790,043	12,071,943
Travel and subsistence		1,032,091	953,786
Telephone and communications		624,166	654,366
Utilities		268,007	271,429
<b>TOTAL EXPENSES</b>		<b>20,361,754</b>	<b>19,364,263</b>
<b>SURPLUS BEFORE GOVERNMENT DISTRIBUTION</b>		<b>3,589,889</b>	<b>3,701,490</b>
Distribution to Government	13	(2,500,000)	(3,000,000)
<b>SURPLUS FOR THE YEAR</b>		<b>\$ 1,089,889</b>	<b>\$ 701,490</b>

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, 2013  
Expressed in United States Dollars

	Opening balance	Surplus for the year	Transfers	Closing balance
2013:				
Surplus for the year	-	1,089,889	(1,089,889)	-
Contributed capital	3,993,900	-	-	3,993,900
Property & equipment reserve	1,643,286	-	(394,224)	1,249,062
Training reserve	400,000	-	-	400,000
Loan revolving reserve	165,000	-	-	165,000
Future capital expansion reserve	8,500,000	-	1,500,000	10,000,000
Refunds & drawbacks reserve	50,000	-	-	50,000
Enforcement reserve	2,000,000	-	-	2,000,000
Contingency reserve	1,377,512	-	(15,887)	1,361,625
	<b>\$ 18,129,698</b>	<b>\$1,089,889</b>	<b>\$ -</b>	<b>19,219,587</b>
2012:				
Surplus for the year	-	701,490	(701,490)	-
Contributed capital	3,993,900	-	-	3,993,900
Property & equipment reserve	1,660,361	-	(17,075)	1,643,286
Training reserve	400,000	-	-	400,000
Loan revolving reserve	165,000	-	-	165,000
Future capital expansion reserve	8,500,000	-	-	8,500,000
Refunds & drawbacks reserve	50,000	-	-	50,000
Enforcement reserve	2,000,000	-	-	2,000,000
Contingency reserve	658,947	-	718,565	1,377,512
	<b>\$ 17,428,208</b>	<b>\$701,490</b>	<b>\$ -</b>	<b>\$ 18,129,698</b>

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, 2013 Expressed in United States Dollars

	2013	2012
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Surplus for the year	1,089,889	701,490
Adjustment to reconcile net surplus to net cash from operating activities before working capital changes:		
Depreciation	808,390	939,042
Interest income	(158,432)	(244,465)
Net changes in fair value on financial assets at fair value through profit or loss	112,250	21,442
Operating surplus before working capital changes	1,852,097	1,417,509
Decrease (increase) in other receivables and deposits	120,568	(86,588)
Increase in trade and other payables	152,076	390,743
(Decrease) increase in deposits on account	(113,530)	381,562
Decrease in distribution payable to Government	(500,000)	(3,000,000)
Net cash from (used in) generated from operations	1,511,211	(896,774)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Increase in time deposits-net	(26,379)	(18,852)
Purchase of financial assets at fair value through profit and loss-net	(162,105)	(78,904)
Acquisition of fixed assets-net	(414,166)	(921,967)
Interest received	171,272	239,345
Net cash used in investing activities	(431,377)	(780,378)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>1,079,834</b>	<b>(1,677,152)</b>
<b>CASH AND CASH EQUIVALENTS</b>		
At beginning of year	15,412,535	17,089,687
At end of year	<b>\$ 16,492,369</b>	<b>\$ 15,412,535</b>

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

# BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

## Notes to the Financial Statements For The Year Ended December 31, 2013 Expressed in United States Dollars

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### 1. ORGANISATION 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 and intellectual property. 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. ACCOUNTING POLICIES

#### 2.1 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 cost convention (with the exception of the revaluation of financial assets at fair value through profit or loss) and are expressed in United States (“US”) dollars.

#### 2.2 Standards, amendments and interpretations to existing standards effective January 1, 2011 and relevant to the Commission

- **Improvements to IFRSs.** Issued in May 2010, 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 in the Commission’s accounting practice.
- **IAS 24 (revised), *Related Party Disclosures*.** The revision clarifies the definition of related parties.

The application of the above mentioned amendments had no significant effect on the current period or any prior period. None of the other new standards, interpretations and amendments effective for the first time from January 1, 2011, have had a material effect on the financial statements.

#### 2.3 Standards, amendments and interpretations to existing standards in issue but not yet effective and relevant to the Commission

The following new standards, interpretations and amendments, which have not been applied in these financial statements will or may have an effect of the Commission’s future financial statements:

- **IAS 1 (amendment), *Presentation of Financial Statements*.** Amendments to IAS 1 require companies preparing financial statements in accordance with IFRSs to group together items within other comprehensive income (OCI) that may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements (effective for accounting period beginning on or after July 1, 2012).
- **IAS 19 (amendment), *Employee Benefits*.** The amendments will provide investors and other users of financial statements with a much clearer picture of an entity’s obligations resulting from the provision of defined benefit plans and how those obligations will affect its financial position, financial performance and cash flow (effective for accounting period beginning on or after January 1, 2013).

## BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

### Notes to the Financial Statements For The Year Ended December 31, 2013 *Expressed in United States Dollars*

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#### 2. ACCOUNTING POLICIES (Continued)

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

- **IFRS 7 (amendment), Financial Instruments: Disclosures.** The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets, including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period (effective for annual period beginning on or after July 1, 2011). Additional amendments in IFRS 7 will also require disclosure of information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position (effective for annual periods beginning on or after January 1, 2013).

With the amendments to IFRS 9 *Financial Instrument*, entities applying IFRS 9 do not need to restate prior year periods but are required to provide modified disclosures (effective for annual periods beginning on or after January 1, 2015)

- **IFRS 9, Financial Instruments.** Addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch (effective for accounting period beginning on or after January 1, 2015).
- **IAS 32, Financial Instruments: Presentation.** The amendments address inconsistencies in current practice when applying the offsetting criteria. They clarify the meaning of "currently has legally enforceable right of set off" and that some gross settlement systems may be considered equivalent to net settlement (effective for annual periods beginning on or after January 1, 2014)
- **IFRS 13, Fair value measurement.** Aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP (effective for accounting period beginning on or after January 1, 2013).

Other standards, amendments and interpretations effective 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.

The Commission is yet to assess the above mentioned standards, amendments and interpretations full impact on its financial reports and intends to adopt these standards when they become effective.



## BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

### Notes to the Financial Statements For The Year Ended December 31, 2013 *Expressed in United States Dollars*

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#### 2. ACCOUNTING POLICIES (Continued)

##### 2.4 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		

##### 2.5 VIRRGIN project under development

Costs incurred on the Virtual Integrated Registry and Regulatory General Information Network (“VIRRGIN”) project are recognised 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 capitalised, 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.

##### 2.6 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.

##### 2.7 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.

##### 2.8 Time deposits

This category comprises short term placements with maturity dates of more than three months from the placement date. These time deposits are held at amortised cost using the effective interest method.

##### 2.9 Financial asset at fair value through profit and loss

This category comprises investments held long and are designated to be carried in the statement of financial position at fair value with changes in fair value recognised in the statement of comprehensive income within “Unrealised movement on financial assets at fair value through profit or loss”.

Securities that are listed on a stock exchange and are freely transferable shall be valued at their last sales price on the date of determination on the stock exchange which is the principal exchange for such securities, or, if no sales occurred on such day, at the bid price on such exchange at the close of business on such day if held from and at the asked price at the close of business on such day. If sold, securities traded over the counter which are freely transferable, shall be valued at the last sales price on the date of determination, or, if no sales occurred on such day, at the bid price at the close of business on such day if held long and at the asked price at the close of business on such day if held short.

##### 2.10 Fair value hierarchy

IFRS 7 requires certain disclosures which require the classification of financial assets and financial liabilities at fair value through profit or loss to use a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurement. The fair value hierarchy has the following levels:

## BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

### Notes to the Financial Statements For The Year Ended December 31, 2013 *Expressed in United States Dollars*

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#### 2. ACCOUNTING POLICIES (Continued)

##### 2.10 Fair value hierarchy (continued)

- Quoted prices (unadjusted) in active markets for identical financial assets and financial liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the financial assets and the financial liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2);
- Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the financial asset or the financial liability is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement. Financial assets and financial liabilities are classified in their entirety into only one of the three levels.

##### 2.11 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.

##### 2.12 Taxation

In accordance with Section 28 of the Act, the Commission is exempt from the payment of taxes on its income and operations. Certain investment income may be subject to withholding taxes at its source from the country of origin.

##### 2.13 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 statement of comprehensive income. Assets and liabilities are translated at the exchange rate in effect at the date of the financial statements.

##### 2.14 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 statement of comprehensive income on a straight-line basis over the period of the lease.

##### 2.15 Pension plan

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

##### 2.16 Financial instruments

Financial instruments carried on the statement of financial position include cash and cash equivalents, time deposits, financial assets at fair value through profit or loss, regulatory deposits, other receivables and deposits, trade and other payables, deposits on account, distribution payable to Government, and regulatory deposits from licensed entities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

##### 2.17 Use of estimates

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect 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.

## BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements  
For The Year Ended December 31, 2013  
Expressed in United States Dollars

## 3. FIXED ASSETS

As of December 31, 2013:

<u>Cost</u>	<u>Leasehold Land</u>	<u>Motor Vehicles</u>	<u>Furniture &amp; Equipment</u>	<u>Computers &amp; Software</u>	<u>Leasehold Improvements</u>	<u>Total</u>
Cost, opening balance	130,000	159,503	2,292,055	10,464,138	2,221,001	15,266,697
Additions	-	-	113,386	232,276	68,504	414,166
Cost, ending balance	130,000	159,503	2,405,441	10,696,413	2,289,505	15,680,863
<u>Accumulated depreciation</u>						
Accumulated depreciation, opening balance	16,512	159,503	2,106,934	9,634,011	2,092,852	14,009,812
Depreciation	2,063	-	96,935	654,007	55,385	808,390
Accumulated depreciation, ending balance	18,575	159,503	2,203,869	10,288,018	2,148,237	14,818,202
Net book value	\$ 111,425	\$ -	\$ 201,572	\$ 408,395	\$ 141,268	\$ 862,661

## BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements  
For The Year Ended December 31, 2013  
Expressed in United States Dollars

## 3. FIXED ASSETS (Continued)

As of December 31, 2012:

Cost	Leasehold Land	Motor Vehicles	Furniture & Equipment	Computers & Software	Leasehold Improvements	Total
Cost, opening balance	130,000	159,503	2,205,774	9,703,513	2,145,940	14,344,730
Additions	-	-	86,281	760,625	75,061	921,967
Cost, ending balance	130,000	159,503	2,292,055	10,464,138	2,221,001	15,266,697
<b>Accumulated depreciation</b>						
Accumulated depreciation, opening balance	14,447	139,743	1,985,650	8,880,801	2,050,129	13,070,770
Depreciation	2,065	19,760	121,284	753,210	42,723	939,042
Accumulated depreciation, ending balance	16,512	159,503	2,106,934	9,634,011	2,092,852	14,009,812
Net book value	\$ 113,488	\$ -	\$ 185,121	\$ 830,127	\$ 128,149	\$ 1,256,885

## BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

### Notes to the Financial Statements For The Year Ended December 31, 2013 Expressed in United States Dollars

#### 4. VIRRGIN PROJECT UNDER DEVELOPMENT

As of December 31, 2013, the Commission has an existing contract with NCS Pte. Ltd (formerly 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 capitalised 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 capitalised as Computer and Software as part of Fixed assets (see Note 3). The cost of \$386,401 (2012: \$386,401) relates to the uncompleted Phase III which is expected to be finished by December 31, 2014. The estimated costs to completion of the project, excluding any additional costs, are \$51,161,304 (equivalent to \$915,300) (2012: \$948,669).

#### 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 \$2,463,453 (2012: \$1,734,150) and fixed income securities \$5,866,358 (2012: \$6,364,597) and distributes interest thereon to the licensees on a semi-annual basis. The deposits are refundable upon surrender of the licence.

#### 6. CASH AND CASH EQUIVALENTS

	2013	2012
Cash held in Government Trust Account	7,795,698	4,032,130
Payable to Government	(5,725,933)	(1,711,381)
Net cash held in Government Trust Account	2,069,765	2,320,749
Cash in operating accounts	14,082,920	12,753,299
Cash in insolvency account	339,684	338,487
<b>Total cash and cash equivalents</b>	<b>\$ 16,492,369</b>	<b>\$ 15,412,535</b>

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, 2013, the Commission retained 10.5% (2012: 10.5%) of revenue up to the projected revenue stream and thereafter, the Commission retained 7.5% (2012: 7.5%) of any revenue in excess of the projected revenue stream. This resulted in cash of \$5,725,933 (2012: \$1,711,381) being held on behalf of the Government as at December 31, 2013.

## BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

### Notes to the Financial Statements For The Year Ended December 31, 2013 Expressed in United States Dollars

#### 7. TIME DEPOSITS

Represents short term placements with the local depository banks whose maturity dates are between 50 and 486 days from the reporting date (2012: 361 days), and are more than three months from the placement date with an average interest rate of 0.36% (2012: 0.36%).

#### 8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2013	2012
Government and agency securities	1,464,272	1,746,632
Corporate bonds	1,532,933	1,204,736
	<b>\$ 2,997,205</b>	<b>\$ 2,951,369</b>

The government and agency securities and corporate bonds are categorised as Level 2 within the fair value hierarchy.

	2013	2012
Realised losses	(14,891)	(3,500)
Unrealised losses	(97,359)	(17,942)
	<b>(\$ 112,250)</b>	<b>(\$ 21,442)</b>

Net changes in fair value on financial assets at fair value through profit or loss.

#### 9. OTHER RECEIVABLES AND DEPOSITS

	2013	2012
Loan to employees	27,752	30,043
Travel advances	49,872	112,119
Interest receivable	37,096	45,917
Prepaid expenses	325,554	378,753
Miscellaneous receivables	53	2,884
	<b>\$ 440,327</b>	<b>\$ 569,716</b>

#### 10. 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 & equipment reserve reflects the investment into property & equipment to date, less amortisation.

##### *Revenue reserves*

- (i) Training reserve for long term training/ study leave of staff;

## BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

### Notes to the Financial Statements For The Year Ended December 31, 2013 Expressed in United States Dollars

#### 10. RESERVES (Continued)

##### Revenue reserves (continued)

- (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.

#### 11. TRADE AND OTHER PAYABLES

	2013	2012
Accounts payable and accrued expenses	784,078	312,754
Insolvency surplus reserve	327,477	327,477
Deferred revenue	303,501	278,666
Employee deductions and benefits payable	998,572	1,342,654
	<b>\$ 2,413,628</b>	<b>\$ 2,261,551</b>

Employee deductions and benefits payable includes accrued unpaid vacation benefits totalling \$996,746 (2012: \$886,231) payable to the Commission's employees.

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 to make payment 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.

#### 12. 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 funds with the Commission in advance of effecting an online transaction. As at December 31, 2013, the balance on this account amounted to \$2,111,014 (2012: \$2,224,544).

#### 13. DISTRIBUTION PAYABLE TO GOVERNMENT

On September 23, 2014, the Board of Commissioners approved a distribution to Government of \$2,500,000 (2012: \$3,000,000) from surplus earned by the Commission during the year ended December 31, 2013.

#### 14. OTHER INCOME

	2013	2012
Enforcement proceeds	639,000	39,900
Court ordered legal cost receipts	53,300	37,300
Miscellaneous income	86,870	20,941
	<b>\$ 779,170</b>	<b>\$ 98,141</b>

## BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

### Notes to the Financial Statements For The Year Ended December 31, 2013 Expressed in United States Dollars

#### 15. STAFF COSTS

	2013	2012
Wages and salaries	9,555,037	9,064,023
Allowances and benefits	2,169,243	2,284,788
Employment costs	582,423	264,941
Payroll taxes	483,340	458,191
	<b>\$12,790,043</b>	<b>\$12,071,943</b>

The average number of full time employees in 2013 was 161 (2012: 156).

During the year ended December 31, 2013, the Commission paid \$1,204,745 (2012: \$1,245,917) for current service costs toward a defined contribution pension plan (the "Plan"), which has been included in allowances and benefits.

#### 16. 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).

#### 17. COMMITMENTS AND CONTINGENCIES

##### *Commitments*

As explained in Note 4, the Commission is contracted with NCS Pte. Ltd (formerly 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 \$915,300 (2012: \$948,669) as at December 31, 2013, plus maintenance and support costs of S\$931,399 (equivalent to \$734,129) as at December 31, 2013 (2012: S\$931,399 equivalent to \$717,270).

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:

2014	1,102,292
2015	686,492
2016	352,633
2017	-
2018	-
	<u>\$2,141,417</u>

##### *Contingencies*

In the ordinary course of business, the Commission is subject to legal proceedings, claims, disputes and litigation as a result of its role as the regulator of the British Virgin Islands financial services industry. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, the Commission does not believe that such proceedings (including litigation) will have a material effect on its results and financial position.



## BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

### Notes to the Financial Statements For The Year Ended December 31, 2013 Expressed in United States Dollars

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#### 18. FINANCIAL RISK MANAGEMENT

##### *Financial risk factors*

The Commission's activities expose it to a variety of financial risks; market risk (foreign exchange risk, 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 of Commissioners 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, financial assets at fair value through profit or loss, time deposits, regulatory deposits, other receivables and deposits. Financial liabilities include trade and other payables, deposits on account, distribution payable to government and regulatory deposits from licensed entities.

#### 18.1 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, 2013, the foreign exchange rate was \$0.7882 (2012: \$0.8169) per S\$, with the average exchange rate for the year ended December 31, 2013 being \$0.7992 (2012: \$0.8003) per S\$. Had the Singapore dollar foreign exchange rate strengthened against the US dollar by 1% (2012: 1%) with all other variables remaining constant, the overall costs to complete the project, including maintenance/support costs, would increase by \$16,495 (2012: \$20,927). A weakening of 1% in the Singapore dollar against the US dollar, with all other variables held constant, would have an equal but opposite effect.

##### *(ii) Interest rate risk*

###### *Cash flow interest rate risk*

The Commission's exposure to the risk of changes in market interest rates relates primarily to the Commission's cash and cash equivalents and time deposits. As at December 31, 2013 approximately 62% (2012: 61%) of the Commission's assets were held in bank accounts, with floating interest rates.

###### *Cash flow interest rate sensitivity analysis*

With all other variables held constant, given a 25 basis point increase in the market interest rate, the Commission's surplus would increase by \$53,894 (2012: increase by \$51,129). A decrease of 25 basis points in the market interest rate, with all other variables held constant, would decrease the Commission's surplus by an equal amount.

###### *Fair value interest rate risk*

The Commission is exposed to fair value interest rate risk on its financial assets at fair value through profit or loss in government and agency securities and corporate bonds. These government and agency securities and corporate bonds bear fixed rates of interest and the fair value of the bonds are inversely affected by movements in market interest rates. The Commission does not hedge itself against fair value interest rate risk.

## BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

### Notes to the Financial Statements For The Year Ended December 31, 2013 Expressed in United States Dollars

#### 18. FINANCIAL RISK MANAGEMENT (Continued)

##### 18.1 Market risk (continued)

###### (ii) Interest rate risk (continued)

###### Fair value interest rate sensitivity analysis

With all other variables held constant, given a 25 basis point increase in the yield rate of government and agency securities and corporate bonds, the Commission's surplus would decrease by \$31,157 (2012: \$36,236). A decrease of 25 basis points in the yield rate, with all other variables held constant, would increase the Commission's surplus by \$31,894 (2012: \$37,395).

##### 18.2 Credit risk

Credit risk arises from regulatory deposits, cash and cash equivalents, time deposits, other receivables and deposits and its financial assets at fair value through profit or loss. 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 statement of financial position.

The Commission's management addresses credit risk through placement of cash on short term money market placements, financial assets at fair value through profit or loss, interest bearing deposits and U.S Treasury Bills at a variety of regulated BVI and US financial institutions and effective and efficient collection policies.

The Commission's regulatory deposits, cash and cash equivalents (excluding petty cash), time deposits and financial assets at fair value through profit or loss are held by financial institutions with the following rating per Moody's Investors Services.

	2013	2012
Aa1	-	2,723,422
Aa2	2,739,842	2,517,961
Aa3	2,525,922	-
A2	-	10,780,569
B2	1,411,612	1,075,332
Ba2	7,752,386	-
Ba3	15,457,621	14,404,255
	<b>\$ 29,887,383</b>	<b>\$ 31,501,539</b>

##### 18.3 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.

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

## BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements  
For The Year Ended December 31, 2013  
Expressed in United States Dollars

### 18. FINANCIAL RISK MANAGEMENT (Continued)

#### 18.3 Liquidity risk (continued)

	On Demand	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
As at December 31, 2013					
Trade and other payables	996,746	1,418,531			2,415,277
Deposit on account	2,111,017				2,111,017
Distribution payable to Government	-				-
Regulatory deposits	8,329,811				8,329,811
	<b>\$ 11,437,574</b>	<b>\$ 1,418,531</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 12,856,105</b>
As at December 31, 2012					
Trade and other payables	886,231	1,375,321			2,261,552
Deposit on account	2,224,544				2,224,544
Distribution payable to Government	3,000,000				3,000,000
Regulatory deposits	8,098,747				8,098,747
	<b>\$ 14,209,522</b>	<b>\$ 1,375,321</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 15,584,843</b>

### 19. DEFINED CONTRIBUTION PENSION PLAN

The Commission has established a defined contribution pension plan (the "Plan") to provide retirement benefits for all established employees and 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.

### 20. COMPARATIVES

Certain accounts in the comparative financial statement were reclassified to conform to current year presentation.

# INTERNATIONAL REGULATORY CORE PRINCIPLES

## Basel Core Principles

CP 1	<p><b><i>Responsibilities, objectives and powers</i></b></p> <p>An effective system of banking supervision has clear responsibilities and objectives for each authority involved in the supervision of banks and banking groups. A suitable legal framework for banking supervision is in place to provide each responsible authority with the necessary legal powers to authorise banks, conduct ongoing supervision, address compliance with laws and undertake timely corrective actions to address safety and soundness concerns.</p>
CP 2	<p><b><i>Independence, Accountability, resourcing and legal protection for supervisors</i></b></p> <p>The supervisor possesses operational independence, transparent processes, sound governance and adequate resources, and is accountable for the discharge of its duties. The legal framework for banking supervision includes legal protection for the supervisor</p>
CP 3	<p><b><i>Cooperation and collaboration</i></b></p> <p>Laws, regulations or other arrangements provide a framework for cooperation and collaboration with relevant domestic authorities and foreign supervisors. These arrangements reflect the need to protect confidential information.</p>
CP 4	<p><b><i>Permissible activities</i></b></p> <p>The permissible activities of institutions that are licensed and subject to supervision as banks are clearly defined and the use of the word “bank” in names is controlled.</p>
CP 5	<p><b><i>Licensing criteria</i></b></p> <p>The licensing authority has the power to set criteria and reject applications for establishments that do not meet the criteria. At a minimum, the licensing process consists of an assessment of the ownership structure and governance (including the fitness and propriety of Board members and senior management) of the bank and its wider group, and its strategic and operating plan, internal controls, risk management and projected financial condition (including capital base). Where the proposed owner or parent organisation is a foreign bank, the prior consent of its home supervisor is obtained.</p>
CP 6	<p><b><i>Transfer of significant ownership</i></b></p> <p>The supervisor has the power to review, reject and impose prudential conditions on any proposals to transfer significant ownership or controlling interests held directly or indirectly in existing banks to other parties.</p>
CP 7	<p><b><i>Major acquisitions</i></b></p> <p>The supervisor has the power to approve or reject (or recommend to the responsible authority the approval or rejection of), and impose prudential conditions on, major acquisitions or investments by a bank, against prescribed criteria, including the establishment of cross-border operations, and to determine that corporate affiliations or structures do not expose the bank to undue risks or hinder effective supervision.</p>
CP 8	<p><b><i>Supervisory approach</i></b></p> <p>An effective system of banking supervision requires the supervisor to develop and maintain a forward-looking assessment of the risk profile of individual banks and banking groups, proportionate to their systemic importance; identify, assess and address risks emanating from banks and the banking system as a whole; have a framework in place for early intervention; and have plans in place, in partnership with other relevant authorities, to take action to resolve banks in an orderly manner if they become non-viable.</p>
CP 9	<p><b><i>Supervisory techniques and tools</i></b></p> <p>The supervisor uses an appropriate range of techniques and tools to implement the supervisory approach and deploys supervisory resources on a proportionate basis, taking into account the risk profile and systemic importance of banks</p>
CP 10	<p><b><i>Supervisory reporting</i></b></p> <p>The supervisor collects reviews and analyses prudential reports and statistical returns from banks on both a solo and a consolidated basis, and independently verifies these reports, through either on-site examinations or use of external experts.</p>
CP 11	<p><b><i>Corrective and sanctioning powers of supervisors</i></b></p> <p>The supervisor acts at an early stage to address unsafe and unsound practices or activities that could pose risks to banks or to the banking system. The supervisor has at its disposal an adequate range of supervisory tools to bring about timely corrective actions. This includes the ability to</p>

	revoke the banking licence or to recommend its revocation.
CP 12	<b><i>Consolidated supervision</i></b> An essential element of banking supervision is that the supervisor supervises the banking group on a consolidated basis, adequately monitoring and, as appropriate, applying prudential standards to all aspects of the business conducted by the banking group worldwide.
CP 13	<b><i>Home-host relationships</i></b> Home and host supervisors of cross border banking groups share information and cooperate for effective supervision of the group and group entities, and effective handling of crisis situations. Supervisors require the local operations of foreign banks to be conducted to the same standards as those required of domestic banks
CP 14	<b><i>Corporate governance</i></b> The supervisor determines that banks and banking groups have robust corporate governance policies and processes covering, for example, strategic direction, group and organisational structure, control environment, responsibilities of the banks' Boards and senior management, and compensation. These policies and processes are commensurate with the risk profile and systemic importance of the bank.
CP 15	<b><i>Risk management process</i></b> The supervisor determines that banks have a comprehensive risk management process (including effective Board and senior management oversight) to identify, measure, evaluate, monitor, report and control or mitigate all material risks on a timely basis and to assess the adequacy of their capital and liquidity in relation to their risk profile and market and macroeconomic conditions. This extends to development and review of robust and credible recovery plans, which take into account the specific circumstances of the bank. The risk management process is commensurate with the risk profile and systemic importance of the bank.
CP 16	<b><i>Capital adequacy</i></b> The supervisor sets prudent and appropriate capital adequacy requirements for banks that reflect the risks undertaken by, and presented by, a bank in the context of the markets and macroeconomic conditions in which it operates. The supervisor defines the components of capital, bearing in mind their ability to absorb losses.
CP 17	<b><i>Credit risk</i></b> The supervisor determines that banks have an adequate credit risk management process that takes into account their risk appetite, risk profile and market and macroeconomic conditions. This includes prudent policies and processes to identify, measure, evaluate, monitor, report and control or mitigate credit risk (including counterparty credit risk) on a timely basis. The full credit lifecycle should be covered including credit underwriting, credit evaluation, and the ongoing management of the bank's loan and investment portfolios.
CP 18	<b><i>Problem assets, provisions and reserves</i></b> The supervisor determines that banks have adequate policies and processes for the early identification and management of problem assets, and the maintenance of adequate provisions and reserves.
CP 19	<b><i>Concentration risk and large exposure limits</i></b> The supervisor determines that banks have adequate policies and processes to identify, measure, evaluate, monitor, report and control or mitigate concentrations of risk on a timely basis. Supervisors set prudential limits to restrict bank exposures to single counterparties or groups of connected counterparties.
CP 20	<b><i>Transactions with related parties</i></b> In order to prevent abuses arising in transactions with related parties and to address the risk of conflict of interest, the supervisor requires banks to enter into any transactions with related parties on an arm's length basis; to monitor these transactions; to take appropriate steps to control or mitigate the risks; and to write off exposures to related parties in accordance with standard policies and processes.
CP 21	<b><i>Country and transfer risks</i></b> The supervisor determines that banks have adequate policies and processes to identify, measure, evaluate, monitor, report and control or mitigate country risk and transfer risk in their international lending and investment activities on a timely basis.
CP 22	<b><i>Market risks</i></b> The supervisor determines that banks have an adequate market risk management process that takes into account their risk appetite, risk profile, and market and macroeconomic conditions and

	the risk of a significant deterioration in market liquidity. This includes prudent policies and processes to identify, measure, evaluate, monitor, report and control or mitigate market risks on a timely basis.
CP 23	<b><i>Interest rate risk in the banking book</i></b> The supervisor determines that banks have adequate systems to identify, measure, evaluate, monitor, report and control or mitigate interest rate risk in the banking book on a timely basis. These systems take into account the bank's risk appetite, risk profile and market and macroeconomic conditions.
CP 24	<b><i>Liquidity risk</i></b> The supervisor sets prudent and appropriate liquidity requirements (which can include either quantitative or qualitative requirements or both) for banks that reflect the liquidity needs of the bank. The supervisor determines that banks have a strategy that enables prudent management of liquidity risk and compliance with liquidity requirements. The strategy takes into account the bank's risk profile as well as market and macroeconomic conditions and includes prudent policies and processes, consistent with the bank's risk appetite, to identify, measure, evaluate, monitor, report and control or mitigate liquidity risk over an appropriate set of time horizons.
CP 25	<b><i>Operational risk</i></b> The supervisor determines that banks have an adequate operational risk management framework that takes into account their risk appetite, risk profile and market and macroeconomic conditions. This includes prudent policies and processes to identify, assess, evaluate, monitor, report and control or mitigate operational risk on a timely basis.
CP 26	<b><i>Internal control and audit</i></b> The supervisor determines that banks have adequate internal controls to establish and maintain a properly controlled operating environment for the conduct of their business taking into account their risk profile. These include clear arrangements for delegating authority and responsibility; separation of the functions that involve committing the bank, paying away its funds, and accounting for its assets and liabilities; reconciliation of these processes; safeguarding the bank's assets; and appropriate independent internal audit and compliance functions to test adherence to these controls as well as applicable laws and regulations.
CP 27	<b><i>Financial reporting and external audit</i></b> The supervisor determines that banks and banking groups maintain adequate and reliable records, prepare financial statements in accordance with accounting policies and practices that are widely accepted internationally and annually publish information that fairly reflects their financial condition and performance and bears an independent external auditor's opinion. The supervisor also determines that banks and parent companies of banking groups have adequate governance and oversight of the external audit function.
CP 28	<b><i>Disclosure and transparency</i></b> The supervisor determines that banks and banking groups regularly publish information on a consolidated and, where appropriate, solo basis that is easily accessible and fairly reflects their financial condition, performance, risk exposures, risk management strategies and corporate governance policies and processes.
CP 29	<b><i>Abuse of financial services</i></b> The supervisor determines that banks have adequate policies and processes, including strict customer due diligence rules to promote high ethical and professional standards in the financial sector and prevent the bank from being used, intentionally or unintentionally, for criminal activities.

## International Association of Insurance Supervisors (IAIS) Core Principles

ICP 1	<p><b><i>Objectives, Powers and Responsibilities of the Supervisor</i></b> The authority (or authorities) responsible for insurance supervision and the objectives of insurance supervision are clearly defined.</p>
ICP 2	<p><b><i>Supervisor</i></b> The supervisor, in the exercise of its functions and powers:</p> <ul style="list-style-type: none"> <li>• is operationally independent, accountable and transparent</li> <li>• protects confidential information</li> <li>• has appropriate legal protection</li> <li>• has adequate resources</li> <li>• meets high professional standards</li> </ul>
ICP 3	<p><b><i>Information Exchange and Confidentiality Requirements</i></b> The supervisor exchanges information with other relevant supervisors and authorities subject to confidentiality, purpose and use requirements.</p>
ICP 4	<p><b><i>Licensing</i></b> A legal entity which intends to engage in insurance activities must be licensed before it can operate within a jurisdiction. The requirements and procedures for licensing must be clear, objective and public, and be consistently applied.</p>
ICP 5	<p><b><i>Suitability of Persons</i></b> The supervisor requires Board Members, Senior Management, Key Persons in Control Functions and Significant Owners of an insurer to be and remain suitable to fulfil their respective roles.</p>
ICP 6	<p><b><i>Changes in Control and Portfolio Transfers</i></b> Supervisory approval is required for proposals to acquire significant ownership or an interest in an insurer that results in that person (legal or natural), directly or indirectly, alone or with an associate, exercising control over the insurer. The same applies to portfolio transfers or mergers of insurers.</p>
ICP 7	<p><b><i>Corporate Governance</i></b> The supervisor requires insurers to establish and implement a corporate governance framework which provides for sound and prudent management and oversight of the insurer's business and adequately recognises and protects the interests of policyholders.</p>
ICP 8	<p><b><i>Risk Management and Internal Controls</i></b> The supervisor requires an insurer to have, as part of its overall corporate governance framework, effective systems of risk management and internal controls, including effective functions for risk management, compliance, actuarial matters and internal audit.</p>
ICP 9	<p><b><i>Supervisory Review and Reporting</i></b> The supervisor takes a risk-based approach to supervision that uses both off-site monitoring and on-site inspections to examine the business of each insurer, evaluate its condition, risk profile and conduct, the quality and effectiveness of its corporate governance and its compliance with relevant legislation and supervisory requirements. The supervisor obtains the necessary information to conduct effective supervision of insurers and evaluate the insurance market.</p>
ICP 10	<p><b><i>Preventive and Corrective Measures</i></b> The supervisor takes preventive and corrective measures that are timely, suitable and necessary to achieve the objectives of insurance supervision.</p>
ICP 11	<p><b><i>Enforcement</i></b> The supervisor enforces corrective action and, where needed, imposes sanctions based on clear and objective criteria that are publicly disclosed.</p>
ICP 12	<p><b><i>Winding-up and Exit from the Market</i></b> The legislation defines a range of options for the exit of insurance legal entities from the market. It defines insolvency and establishes the criteria and procedure for dealing with insolvency of insurance legal entities. In the event of winding-up proceedings of insurance legal entities, the legal framework gives priority to the protection of policyholders and aims at minimizing disruption to the timely provision of benefits to the policyholders.</p>
ICP 13	<p><b><i>Reinsurance and Other Forms of Risk Transfer</i></b> The supervisor sets standards for the use of reinsurance and other forms of risk transfer, ensuring that insurers adequately control and transparently report their risk transfer programmes. The supervisor takes into account the nature of reinsurance business when supervising reinsurers based in its jurisdiction.</p>



ICP 14	<b>Valuation</b> The supervisor establishes requirements for the valuation of assets and liabilities for solvency purposes.
ICP 15	<b>Investment</b> The supervisor establishes requirements for solvency purposes on the investment activities of insurers in order to address the risks faced by insurers.
ICP 16	<b>Enterprise Risk Management for Solvency Purposes</b> The supervisor establishes enterprise risk management requirements for solvency purposes that require insurers to address all relevant and material risks.
ICP 17	<b>Capital Adequacy</b> The supervisor establishes capital adequacy requirements for solvency purposes so that insurers can absorb significant unforeseen losses and to provide for degrees of supervisory intervention.
ICP 18	<b>Intermediaries</b> The supervisor sets and enforces requirements for the conduct of insurance intermediaries, to ensure that they conduct business in a professional and transparent manner.
ICP 19	<b>Conduct of Business</b> The supervisor sets requirements for the conduct of the business of insurance to ensure customers are treated fairly, both before a contract is entered into and through to the point at which all obligations under a contract have been satisfied.
ICP 20	<b>Public Disclosure</b> The supervisor requires insurers to disclose relevant, comprehensive and adequate information on a timely basis in order to give policyholders and market participants a clear view of their business activities, performance and financial position. This is expected to enhance market discipline and understanding of the risks to which an insurer is exposed and the manner in which those risks are managed.
ICP 21	<b>Countering Fraud in Insurance</b> The supervisor requires that insurers and intermediaries take effective measures to deter, prevent, detect, report and remedy fraud in insurance.
ICP 22	<b>Anti-Money Laundering and Combating the Financing of Terrorism</b> The supervisor requires insurers and intermediaries to take effective measures to combat money laundering and the financing of terrorism. In addition, the supervisor takes effective measures to combat money laundering and the financing of terrorism.
ICP 23	<b>Group-wide Supervision</b> The supervisor supervises insurers on a legal entity and group-wide basis.
ICP 24	<b>Macroprudential Surveillance and Insurance Supervision</b> The supervisor identifies, monitors and analyses market and financial developments and other environmental factors that may impact insurers and insurance markets and uses this information in the supervision of individual insurers. Such tasks should, where appropriate, utilise information from, and insights gained by, other national authorities.
ICP 25	<b>Supervisory Cooperation and Coordination</b> The supervisor cooperates and coordinates with other relevant supervisors and authorities subject to confidentiality requirements.
ICP 26	<b>Cross-border Cooperation and Coordination on Crisis Management</b> The supervisor cooperates and coordinates with other relevant supervisors and authorities such that a cross-border crisis involving a specific insurer can be managed effectively.

## Group of International Finance Centre Supervisors (GIFCS) Standard on the Regulation of Trust and Corporate Services Providers

### PART 2 Principles for Regulation

1	<p><b><i>Principles relating to the Regulator</i></b></p> <p>1.1 The responsibilities of the Regulator should be clear and objectively stated.</p> <p>1.2 The Regulator should be operationally independent and accountable in the exercise of its functions and powers.</p> <p>1.3 The Regulator should have adequate powers, sufficient resources and the capacity to perform its functions and exercise its powers.</p> <p>1.4 The Regulator should ensure that within its organisation conflicts of interest are avoided, eliminated, disclosed or otherwise managed.</p> <p>1.5 The Regulator should adopt transparent, clear and consistent regulatory processes.</p> <p>1.6 The staff of the Regulator should observe the highest professional and ethical standards, including appropriate standards of confidentiality.</p>
2	<p><b><i>Principles for Regulation</i></b></p> <p>2.1 The Regulator should have, or contribute to, a process to monitor and mitigate systemic risk, appropriate to its mandate.</p> <p>2.2 The Regulator should undertake prudential and conduct supervision, including the prevention of financial crime, anti-money laundering and combating the financing of terrorism, and have a process to monitor and review its supervision periodically.</p> <p>2.3 The Regulator should have, or contribute to, a process to review the perimeter of regulation regularly.</p> <p>2.4 The Regulator should have powers to gather all information required to perform its functions and exercise its powers including those:</p> <p style="margin-left: 20px;">2.4.1 to supervise TCSPs by the use of on-site inspections;</p> <p style="margin-left: 20px;">2.4.2 to obtain information from TCSPs; and</p> <p style="margin-left: 20px;">2.4.3 to undertake thematic reviews and other offsite supervision.</p>
3	<p><b><i>Principle for Co-operation</i></b></p> <p>3.1 Regulators should have authority to share both public and non-public information with domestic and foreign counterparts.</p> <p>3.2 Regulators should establish information sharing mechanisms that set out when and how they will share both public and non-public information with their domestic and foreign counterparts. These should cover information sharing on a timely and constructive basis at the Regulator's own initiative and also on request.</p> <p>3.3 Co-operation, where appropriate, could also include establishing colleges for supervisory co-operation and exchange of prudential supervisory information in relation to TCSPs whose operations extend to different jurisdictions.</p> <p>3.4 Regulators should adopt a pro-active approach to sharing information.</p> <p>3.5 The regulatory system should allow for assistance to be provided to foreign Regulators who need to make inquiries in the discharge of their functions and exercise of their powers.</p>
4	<p><b><i>Principles for Enforcement</i></b></p> <p>4.1 The Regulator should have comprehensive inspection, investigation and supervision powers.</p> <p>4.2 The Regulator should have comprehensive enforcement powers.</p> <p>4.3 The regulatory system should provide for an effective and credible use of inspection, investigation, surveillance, enforcement powers and sanctions and implementation of an effective compliance programme.</p>
5	<p><b><i>Other Requirements on Jurisdictions</i></b></p> <p>5.1 To ensure the timely development of legislation with regard to trusts, companies, foundations, etc.</p>

	<p>5.2 To develop an insolvency regime to solve the problems encountered with insolvent trusts.</p> <p>5.3 To ensure that jurisdictions have a public official of last resort empowered as necessary to manage or liquidate a trust, company, partnership or foundation or other legal person.</p> <p>5.4 Jurisdictions should promote the wider and harmonious adoption of sound and prudent principles as a basis for regulatory regimes for TCSPs. This Standard on the Regulation of Trust and Corporate Services Providers seeks to achieve this.</p> <p>5.5 Where jurisdictions do not regulate TCSPs, they are actively encouraged to consider introducing legislation and a regulatory framework in accordance with this Standard and promote practices to meet it.</p> <p>5.6 The jurisdiction's legislative framework should be such that in the event that a TCSP is wound up by the court or otherwise dissolved, the liquidators or any other person to whom custody of books and records has been given must retain such records for a period of five years thereafter.</p> <p>5.7 Jurisdictions should review their inherent powers and legislative provisions to determine their powers to administer trusts and foundations in the event that a TCSP goes into administration, receivership or liquidation.</p>
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### PART 3 The Standard

A	<p><b><i>Licensing</i></b></p> <p>A framework should exist to authorise the Regulator to licence TCSPs, to sufficiently assess whether TCSPs, Controllers of a TCSP and Key Persons of a TCSP are and remain fit and proper, and in event that a TCSP is no longer fit and proper or is in material breach of regulatory standards to withdraw the relevant licence.</p> <ul style="list-style-type: none"> <li>• The Regulator should consider the ownership, structure, control and/or management of a TCSP.</li> <li>• The Regulator should require that a TCSP demonstrates a physical presence in the jurisdiction in which it is regulated.</li> <li>• The Regulator should require that a TCSP's affairs are conducted in a prudent and financially sound manner.</li> <li>• The Regulator should require that a TCSP has appropriate policies, procedures and controls to ensure full compliance with the anti-money laundering and the combating of the financing of terrorism requirements, including the ability to accurately detail the ultimate beneficial owners of Vehicles.</li> <li>• The Regulator should require that a TCSP is and remains resourced, structured and organised appropriately so that it can manage all Vehicles and assets it administers.</li> </ul>
B	<p><b><i>Corporate Governance</i></b></p> <p>Regulators should require that a TCSP has embedded within it a robust corporate governance culture and framework. The Regulator should have in place an approval process for the direction and management of a TCSP.</p>
C	<p><b><i>Controllers of TCSPs</i></b></p> <p><b>1. Fit and Proper Standards</b></p> <ul style="list-style-type: none"> <li>• The Regulator should assess the fit and proper standards and be required to give prior approval for the appointment of a Controller. The Regulator should require that the Controller of a TCSP is fit and proper for his or her role on an ongoing basis.</li> <li>• Where a Controller is associated with a jurisdiction that is assessed as higher risk by the Regulator, the Regulator should require the TCSP to demonstrate that it can manage any such risks arising.</li> </ul> <p><b>2. Integrity</b></p> <ul style="list-style-type: none"> <li>• The Regulator should require that any Controller acts with integrity at all times.</li> </ul> <p><b>3. Competence</b></p> <ul style="list-style-type: none"> <li>• Controllers who exert an influence over the day to day affairs of a TCSP should be competent.</li> </ul> <p><b>4. Financial Soundness</b></p> <ul style="list-style-type: none"> <li>• If the TCSP is part of a group, the Regulator should assess the financial strength of the</li> </ul>

	<p>group insofar as it may impact the TCSP.</p> <ul style="list-style-type: none"> <li>• The Regulator should assess the solvency of Controllers and the impact on the TCSP where any Controller has been or is likely to be declared bankrupt or insolvent or has been the subject of a money judgment.</li> <li>• The Regulator should require that Controllers demonstrate clearly their sources of wealth and source of funds.</li> </ul> <p><b>5. Conflict of Interest</b></p> <ul style="list-style-type: none"> <li>• The Regulator should assess whether Controllers of TCSPs have any existing or potential conflicts of interest and should any conflicts exist, the Regulator should ensure that these are addressed appropriately.</li> </ul>
D	<p><b><i>Individuals – Key Persons and Other Employees</i></b></p> <p><b>1. Key Persons</b></p> <ul style="list-style-type: none"> <li>• The Regulator should assess the fit and proper standards and be required to give prior approval for the appointment of a Key Person. The Regulator should require that all Key Persons of a TCSP are fit and proper for their roles on an ongoing basis.</li> <li>• The Regulator should have the power to refuse approval to and remove a person from a Key Person role.</li> <li>• The Regulator should consider integrity, competence and financial soundness when assessing fitness and propriety.</li> </ul> <p><b>2. Other Employees</b></p> <ul style="list-style-type: none"> <li>• The Regulator should require a TCSP to implement controls in respect of the recruitment and ongoing assessment of employees.</li> <li>• The Regulator should require TCSPs to have procedures in place to control recruitment practices in regard to all individuals including Key Persons. The Regulator should require the TCSP to, prior to hiring an employee, to consider factors such as, criminal records, regulatory censure, professional reprimand and other formal censure, discipline or public criticism.</li> </ul> <p><b>3. Training and Development</b></p> <ul style="list-style-type: none"> <li>• The Regulator should require that a TCSP establishes and implements policies and procedures that require its employees, including Key Persons, to undertake an annual programme of training and professional development.</li> </ul>
E	<p><b><i>Control over Vehicles</i></b></p> <p><b>1. Professional Duties</b></p> <ul style="list-style-type: none"> <li>• Regulators should require that TCSPs have adequate written policies and procedures to ensure the professional performance of their duties.</li> <li>• Regulators should ensure that in order to meet the requirements and obligations under the FATF Recommendations relating to money laundering and terrorist financing risk that in respect of any Vehicle which a TCSP may incorporate, create, administer, manage or provide services to, the TCSP undertakes duties to obtain and verify beneficial ownership information and to understand the nature of the business and ensure procedures are in place for the easy retrieval of information..</li> <li>• The Regulator should require that TCSPs remain responsible for obtaining and documenting beneficial ownership information, even where reliance is placed on a third party.</li> <li>• Where TCSPs rely on third parties, the Regulator should require TCSPs to test the ability of all third parties to provide adequate beneficial ownership information upon request by the TCSP and without delay, which should also be supported by a contractual agreement.</li> <li>• In cases where a TCSP cannot obtain beneficial ownership information from a third party, the Regulator should require such relationships should be terminated.</li> </ul> <p><b>2. Vehicles Assets</b></p> <ul style="list-style-type: none"> <li>• The Regulator should require TCSPs to establish and document clear policies and procedures.</li> </ul> <p><b>3. Client Money Rules</b></p> <ul style="list-style-type: none"> <li>• The Regulator should put in place rules for the administering of and holding of Client</li> </ul>

	monies.
F	<p><b>Conduct</b></p> <p><b>1. Integrity</b></p> <ul style="list-style-type: none"> <li>The Regulator should require that a TCSP acts with integrity and fair dealing in the conduct of its business.</li> </ul> <p><b>2. Conflict of Interest</b></p> <ul style="list-style-type: none"> <li>The Regulator should require that a TCSP's policies and procedures reflect its duty to Clients over the referrers of those Clients and maintain the highest standards of ethical behavior.</li> <li>The Regulator should require that a TCSP has clearly established policies and documented procedures to either avoid any conflict of interest arising or, where a conflict arises, to keep adequate records of such conflicts and ensure fair treatment to its Clients by disclosure of the conflict, internal rules of confidentiality, declining to act, or otherwise.</li> </ul> <p><b>3. Interaction with Clients</b></p> <ul style="list-style-type: none"> <li>The Regulator should require that TCSPs adopt and maintain prudent standards in its interactions with Clients.</li> </ul> <p><b>4. Advertising and Communication</b></p> <ul style="list-style-type: none"> <li>The Regulator should require that a TCSP adopts certain advertising and communication practices.</li> </ul> <p><b>5. Terms of Business</b></p> <ul style="list-style-type: none"> <li>The Regulator should require a TCSP to enter into written terms of business with Clients for whom the TCSP has agreed to act.</li> </ul> <p><b>6. Complaints Handling</b></p> <p>The Regulator should require that a TCSP:</p> <ul style="list-style-type: none"> <li>has an effective documented complaints handling mechanism which is fair and timely;</li> <li>provides advice to Clients about the TCSP's complaints handling mechanism; and</li> <li>maintains a log of all complaints and their current status.</li> </ul>
G	<p><b>Prudential</b></p> <p><b>1. Capital and Liquidity Requirements for TCSP</b></p> <ul style="list-style-type: none"> <li>The Regulator should undertake an analysis of the capital and liquidity of a TCSP, based on an analysis of financial information.</li> <li>The Regulator should implement regulatory capital and liquidity requirements.</li> <li>The Regulator may choose exceptionally to grant a modification to the capital and liquidity requirement to reflect particular circumstances.</li> </ul> <p><b>2. Maintenance of Adequate Accounting and Other Records of a TCSP</b></p> <ul style="list-style-type: none"> <li>The Regulator should require a TCSP to produce and retain financial records that accurately reflect its affairs.</li> <li>Regulators should implement rules wherein a TCSP should retain sufficient accounting and financial data with regard to any financial transaction in which it played a part, to ensure the preservation of an audit trail for a minimum period of five years.</li> <li>Regulators should implement controls to require a TCSP to maintain accounting records in a manner that is accessible and promotes inspection by the Regulator.</li> </ul> <p><b>3. Requirement to have Accounts Audited</b></p> <ul style="list-style-type: none"> <li>The Regulator should require a TCSP to produce financial statements, in line with the accounting standards applicable in its home jurisdiction, and to have them audited.</li> <li>The Regulator should require the Auditor to be suitably qualified to undertake the audit.</li> <li>The Regulator should be empowered to refuse a proposed Auditor and to remove Auditors.</li> <li>The Regulatory framework should include provisions for gateways between the Regulator and the Auditor.</li> <li>The Regulatory framework should enable the Regulator to require copies of financial records, including audited financial statements of parent and ultimate parent entities.</li> </ul> <p><b>4. Insurance</b></p>

	<ul style="list-style-type: none"> <li>• The Regulator should require a TCSP to maintain Professional Indemnity Insurance (“PII”) cover which is commensurate with the size and nature of its business.</li> <li>• The Regulator should require notification to itself and insurers concerned of any potential claim on a timely basis.</li> <li>• The Regulator should give consideration to imposing requirements for the TCSP to have in place run-off PII where a licence is surrendered or revoked.</li> </ul> <p><b>5. Liquidations and Receiverships</b></p> <ul style="list-style-type: none"> <li>• The Regulator should have the power to apply to the Court to appoint a Manager, Administrator, Receiver or Liquidator (“insolvency practitioner”) to a TCSP.</li> <li>• A regulatory framework should be established in relation to insolvency practitioners.</li> </ul>
H	<p><i>Administration</i></p> <p><b>1. Record Keeping Requirements</b></p> <ul style="list-style-type: none"> <li>• The Regulator should ensure that it has the statutory power to access the records of a TCSP, and to take copies of such records to undertake its regulatory functions.</li> <li>• The Regulator should require that TCSPs have in place robust record keeping policies and procedures that deliver effective information and document management systems.</li> </ul> <p><b>2. Accounting Requirements for Vehicles Administered by TCSPs</b></p> <ul style="list-style-type: none"> <li>• Regulators should require that a TCSP with responsibility for maintaining accounting records of a Vehicle does so with sufficient particularity to show and explain the transactions and commitments (whether effected on its own behalf or on behalf of others).</li> </ul> <p><b>3. Outsourcing of Key Functions</b></p> <ul style="list-style-type: none"> <li>• The Regulator should define the functions of a TCSP which should not be outsourced, giving careful consideration to ensure that a TCSP does not delegate so many of its functions as would leave an inadequate presence in the jurisdiction.</li> <li>• Outsourcing must not hamper supervision of a TCSP by the Regulator.</li> <li>• The Regulator should ensure that a TCSP notify it before outsourcing functions relevant to its management, compliance or the delivery of TCSPs services and perform its own assessment on the proposed outsourcing.</li> </ul> <p><b>4. Data Security</b></p> <ul style="list-style-type: none"> <li>• The Regulator should require that data (whether in a physical or digital format) is held in a secure manner.</li> </ul> <p><b>5. Data Protection</b></p> <ul style="list-style-type: none"> <li>• The Regulator should require that a TCSP follow GIFCS data protection principles.</li> </ul>
I	<p><i>Financial Crime and International Sanctions</i></p> <p><b>1. AML/CFT Policies</b></p> <ul style="list-style-type: none"> <li>• The Regulator should require that TCSPs assess risks and apply a risk-based approach to discharging their AML/CFT obligations.</li> </ul> <p><b>2. National Co-operation and Co-ordination</b></p> <ul style="list-style-type: none"> <li>• The Regulator should ensure that it has legal authority and effective mechanisms in place which enable it to co-operate, and, where appropriate, coordinate domestically with policymakers, the financial intelligence unit (FIU), law enforcement Authorities, Regulators and other relevant competent Authorities concerning the development and implementation of policies and activities to combat money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction.</li> </ul> <p><b>3. Regulation and Supervision</b></p> <ul style="list-style-type: none"> <li>• The Regulator should ensure that TCSPs are subject to regulation and supervision and have policies, procedures and controls which effectively implement the FATF Recommendations by undertaking on-site inspections.</li> </ul> <p><b>4. Bribery and Corruption</b></p> <ul style="list-style-type: none"> <li>• Regulators should require TCSPs to have systems and policies, procedures and controls in place to ensure that they or entities that they control and administer do not become engaged directly or indirectly in bribery or corruption.</li> </ul> <p><b>5. Policies, Procedures and Controls</b></p> <ul style="list-style-type: none"> <li>• Regulators should require that TCSPs promote employee awareness of Financial Crime</li> </ul>

	<p>Risk and compliance with its policies, procedures and controls.</p> <p><b>6. International Sanctions</b></p> <ul style="list-style-type: none"> <li>Regulators should monitor the readiness of TCSPs to comply with sanctions regimes.</li> </ul>
J	<p><i>Co-operation</i></p> <p><b>1. Information Sharing</b></p> <ul style="list-style-type: none"> <li>The Regulator should have the legal authority and sufficient resources to obtain and share both public and non-public information with domestic and foreign counterparts without the approval of another body or government department.</li> <li>The regulatory system should allow for assistance to be provided to foreign Regulators who make enquiries in the discharge of their supervisory functions and exercise of their powers.</li> <li>Requested Regulators may impose conditions on the use of the information by the Requesting Regulator.</li> <li>Regulators should have the legal authority to enter into information sharing on a timely and constructively at the Regulator's own initiative and also on request.</li> <li>Regulators that receive information from another Regulator should have measures to ensure that the information is kept confidential.</li> <li>Regulators should adopt a pro-active approach to sharing information in a coordinated, timely and effective way during each stage of the regulatory relationship pertaining to a TCSP.</li> </ul> <p><b>2. Other Forms of Co-operation</b></p> <ul style="list-style-type: none"> <li>Regulators should have the legal ability to provide assistance to foreign Regulators upon request.</li> <li>Regulators should have the legal authority to allow a foreign counterpart to conduct an onsite inspection of a TCSP operating in the Regulator's jurisdiction that is also regulated by the foreign counterpart.</li> <li>Regulators should have mechanisms to collaborate with each other and other competent authorities in exercising their functions in the case of suspected or actual criminal activities by a TCSP.</li> </ul>

## International Organization of Securities Commissions (IOSCO) Objectives and Principles of Securities Regulation

A	<p><b><i>Principles Relating to the Regulator</i></b></p> <ol style="list-style-type: none"> <li>1. The responsibilities of the Regulator should be clear and objectively stated.</li> <li>2. The Regulator should be operationally independent and accountable in the exercise of its functions and powers.</li> <li>3. The Regulator should have adequate powers, proper resources and the capacity to perform its functions and exercise its powers.</li> <li>4. The Regulator should adopt clear and consistent regulatory processes.</li> <li>5. The staff of the Regulator should observe the highest professional standards, including appropriate standards of confidentiality.</li> <li>6. The Regulator should have or contribute to a process to monitor, mitigate and manage systemic risk, appropriate to its mandate.</li> <li>7. The Regulator should have or contribute to a process to review the perimeter of regulation regularly.</li> <li>8. The Regulator should seek to ensure that conflicts of interest and misalignment of incentives are avoided, eliminated, disclosed or otherwise managed.</li> </ol>
B	<p><b><i>Principles for Self-Regulation</i></b></p> <ol style="list-style-type: none"> <li>9. Where the regulatory system makes use of Self-Regulatory Organizations (SROs) that exercise some direct oversight responsibility for their respective areas of competence, such SROs should be subject to the oversight of the Regulator and should observe standards of fairness and confidentiality when exercising powers and delegated responsibilities.</li> </ol>
C	<p><b><i>Principles for the Enforcement of Securities Regulation</i></b></p> <ol style="list-style-type: none"> <li>10. The Regulator should have comprehensive inspection, investigation and surveillance powers.</li> <li>11. The Regulator should have comprehensive enforcement powers.</li> <li>12. The regulatory system should ensure an effective and credible use of inspection, investigation, surveillance and enforcement powers and implementation of an effective compliance program.</li> </ol>
D	<p><b><i>Principles for Cooperation in Regulation</i></b></p> <ol style="list-style-type: none"> <li>13. The Regulator should have authority to share both public and non-public information with domestic and foreign counterparts.</li> <li>14. Regulators should establish information sharing mechanisms that set out when and how they will share both public and non-public information with their domestic and foreign counterparts.</li> <li>15. The regulatory system should allow for assistance to be provided to foreign Regulators who need to make inquiries in the discharge of their functions and exercise of their powers.</li> </ol>
E	<p><b><i>Principles for Issuers</i></b></p> <ol style="list-style-type: none"> <li>16. There should be full, accurate and timely disclosure of financial results, risk and other information which is material to investors' decisions.</li> <li>17. Holders of securities in a company should be treated in a fair and equitable manner.</li> <li>18. Accounting standards used by issuers to prepare financial statements should be of a high and internationally acceptable quality.</li> </ol>
F	<p><b><i>Principles for Auditors, Credit Ratings Agencies, and other information service providers</i></b></p> <ol style="list-style-type: none"> <li>19. Auditors should be subject to adequate levels of oversight.</li> <li>20. Auditors should be independent of the issuing entity that they audit.</li> <li>21. Audit standards should be of a high and internationally acceptable quality.</li> </ol>



	<p>22. Credit rating agencies should be subject to adequate levels of oversight. The regulatory system should ensure that credit rating agencies whose ratings are used for regulatory purposes are subject to registration and ongoing supervision.</p> <p>23. Other entities that offer investors analytical or evaluative services should be subject to oversight and regulation appropriate to the impact their activities have on the market or the degree to which the regulatory system relies on them.</p>
G	<p><b><i>Principles for Collective Investment Schemes</i></b></p> <p>24. The regulatory system should set standards for the eligibility, governance, organization and operational conduct of those who wish to market or operate a collective investment scheme.</p> <p>25. The regulatory system should provide for rules governing the legal form and structure of collective investment schemes and the segregation and protection of client assets.</p> <p>26. Regulation should require disclosure, as set forth under the principles for issuers, which is necessary to evaluate the suitability of a collective investment scheme for a particular investor and the value of the investor's interest in the scheme.</p> <p>27. Regulation should ensure that there is a proper and disclosed basis for asset valuation and the pricing and the redemption of units in a collective investment scheme.</p> <p>28. Regulation should ensure that hedge funds and/or hedge funds managers/advisers are subject to appropriate oversight.</p>
H	<p><b><i>Principles for Market Intermediaries</i></b></p> <p>29. Regulation should provide for minimum entry standards for market intermediaries.</p> <p>30. There should be initial and ongoing capital and other prudential requirements for market intermediaries that reflect the risks that the intermediaries undertake.</p> <p>31. Market intermediaries should be required to establish an internal function that delivers compliance with standards for internal organization and operational conduct, with the aim of protecting the interests of clients and their assets and ensuring proper management of risk, through which management of the intermediary accepts primary responsibility for these matters.</p> <p>32. There should be procedures for dealing with the failure of a market intermediary in order to minimize damage and loss to investors and to contain systemic risk.</p>
I	<p><b><i>Principles for the Secondary Markets</i></b></p> <p>33. The establishment of trading systems including securities exchanges should be subject to regulatory authorization and oversight.</p> <p>34. There should be ongoing regulatory supervision of exchanges and trading systems which should aim to ensure that the integrity of trading is maintained through fair and equitable rules that strike an appropriate balance between the demands of different market participants.</p> <p>35. Regulation should promote transparency of trading.</p> <p>36. Regulation should be designed to detect and deter manipulation and other unfair trading practices.</p> <p>37. Regulation should aim to ensure the proper management of large exposures, default risk and market disruption.</p> <p>38. Securities settlement systems and central counterparties should be subject to regulatory and supervisory requirements that are designed to ensure that they are fair, effective and efficient and that they reduce systemic risk.</p>





