

THE BRITISH VIRGIN ISLANDS
FINANCIAL SERVICES COMMISSION



ANNUAL REPORT 2004

British Virgin Islands Financial Services Commission
2004 Annual Report

Table of Contents

Chairman's Statement.....	2
Managing Director's Statement	4
Establishment and Structure of the FSC	6
Functions	7
Management and Governance	8
Board of Commissioners	8
Board of Appeal	9
FSC Management Team	10
Economic Climate	11
BVI Economy	11
Asia's Economy and the BVI	11
The Year in Review	12
Legal and Regulatory Developments	14
BVI Business Companies Act, 2004	14
Policy and International Initiatives	16
International Initiatives	17
International Cooperation	17
Enforcement Matters	20
Protection Orders/Court Proceedings	20
Advisory Notices	20
Regulation and Supervision	22
The Approach to Regulation	22
Licensing and Supervisory Committee	22
On-site Inspection Programme	23
Compliance.....	24
Authorised Custodians.....	24
Banking and Fiduciary Services	26

Investment Business.....	28
Insurance Supervision	30
Insolvency Services	31
Registry of Corporate Affairs	33
Management and Professional Development.....	35
General Administration	35
Professional Development.....	35
Strategic Partners.....	38
Financial Services Institute (FSI)	38
International Finance Centre (IFC)	38
Financial Investigation Agency (FIA)	38
Economic Affairs Secretariat (EAS)	39
On the Horizon: Looking Ahead to 2005	40
Legislative Agenda	40
Exchange of Information and International Cooperation.....	40
Asia-Pacific Presence.....	40

O u r

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

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

M i s s i o n

Chairman's Statement



The year 2004 has seen continuing progress in the on-going efforts of the Financial Services Commission to fulfil the mandate imposed on it by the enabling legislation which constituted the Commission three short years ago. This year saw the publication of the first comprehensive international review of the activities of the Commission and it seems particularly appropriate to quote from this report by the International Monetary Fund to demonstrate how this important regulatory body views the efforts of the working members of the Commission. According to the IMF Report –

"..... the professionals who staff the FSC, led by senior management and directors, are dedicated and experienced professionals with a clearly articulated goal of maintaining and, where possible, improving the framework and implementation of financial

services supervision in the BVI."

The year also saw the twentieth anniversary of the creation of the International Business Company (IBC) and the first steps towards the replacement of this international icon of the BVI with a new type of corporation known as the BVI Business Company. The legislation to update and improve the standard IBC model will become effective on the 1st January 2005 and will be gradually implemented over a two year period to allow for a smooth but gentle transfer from the old to the new regime.

There have been numerous important developments within the Commission during the year. At long last the computer-based K Review system has been brought into operation which allows the Commission to carry out on-site inspection programmes of regulated entities. This has long been seen as a chink in the regulatory armour which has now been successfully addressed.

On a more mundane but critical level, the Registry staff have been freed from

the tyranny of restricted space and inadequate facilities by a move to new custom-built premises next to the Commission. The Financial Services Industry and the Commission itself owe a deep debt of gratitude to the Registrar of Companies and her hard-working staff who put in countless hours of overtime, as well as blood, sweat and tears in ensuring the smooth transfer of hundreds of thousands of records and files with the loss of only two working days.

The Commission has successfully launched its cadet programme to ensure the steady supply of young trained professionals to meet the ever growing demands of modern regulatory requirements. This programme allows young qualified British Virgin Islanders to receive training in the various divisions of the Commission and it is fair to say that our cadets have risen to the challenge.

On the legislative front besides the passage of the important BVI Business Companies' Act, the year saw the implementation of the new and comprehensive Insolvency legislation

and also the introduction of an innovative piece of trust legislation in the creation of the VISTA trusts.

The report for the year pays tribute, as must I, to our strategic partners in the steady growth of the excellent reputation of the BVI as a well-run and well regulated jurisdiction. My thanks and appreciation therefore go out not only to the hard working directors and staff of the Financial Services Commission but also to the staff of the Financial Services Institute, the International Finance Centre, the Financial Investigation Agency and the Economic Affairs Secretariat. The BVI owes all of you a vote of thanks for a job well done.

Michael Riegels, Q.C.
Chairman

Managing Director's Statement



The British Virgin Islands Financial Services Commission (FSC) takes it duty to provide sound regulatory and supervisory oversight of the BVI Financial Services industry seriously and it gives me pleasure to comment for your reading our 2004 Annual Report and Audited Financial Statements.

Throughout 2004, the FSC has endeavoured to play its full role in maintaining the development of the BVI as a diversified financial centre that practices balance and effective regulation. We have made significant progress in updating key financial services legislation and introducing new laws to keep the BVI at the forefront of modern corporate jurisdictions.

This year, the government, people and the financial services practitioners came together to celebrate the twentieth anniversary of the International Business Companies (IBC) Act that provides the foundation for the BVI finance centre. The year 2004 also saw

the first major enhancement of the IBC, through our new BVI Business Companies Act, an ultra modern corporate statute, which retains the best of the traditional IBC while updating it for today's modern world.

I must pay tribute to the valuable private sector input we received at the every stage. Partnership between the government, regulator and private sector is fundamentally important to the FSC.

The FSC seeks at all times to remain abreast of international developments and to respond prudently to legitimate international expectations. Our new regime for immobilising bearer shares, based on authorized custodians, is one such example and 2004 saw the first applications for custodian status.

Other highlights of the year include the following:

- The introduction of a modern and sophisticated regime for the regulation of insolvency practitioners;

- The rolling out of a formal on-site inspection regime;
- The implementation of a new system for accepting and approving Compliance Officers;
- Publication of the International Monetary Fund's comprehensive and positive review of our regulatory regime;
- Introduction of a Regulatory Cadet programme in the FSC to ensure a pool of well-trained officers; and
- Further inward and outward secondment of regulatory staff.

The FSC was also able to organize a series of workshops and seminars, to make industry practices more au fait with the emerging international framework for financial regulations. In addition the FSC conducted training for regulators throughout the Caribbean region in, AML/CFT compliance, and the regulation of trust and corporate service providers.

As ever, I deeply appreciate the ongoing dedication and loyalty of the FSC's staff, who never fail to amaze me with the capacity to rise to the challenge as we continue to grow in size and to develop our roles and responsibilities.

And I know I speak for the FSC as a whole when I express our heartfelt gratitude to the Board of Commissioners and the Government of the BVI. Their unswerving encouragement, wise advice and determination to provide us with the resources we need to fulfil our statutory remit help keep our course steady and our vision clear.

Robert Mathavious
Managing Director/CEO

Establishment and Structure of the FSC



The British Virgin Islands Financial Services Commission (FSC) was created through the enactment of the FSC Act 2001, which went into effect on 1 January 2002.

The FSC Act established the FSC as an autonomous regulatory body responsible for the regulation, supervision and inspection of all financial services conducted within and from the Territory of the BVI.

While the FSC is an autonomous body, it is fully accountable to the BVI Government through the Executive and Legislative Councils. The Executive Council appoints members to the FSC's Board of Commissioners and approves the FSC's operating budget and work plan annually, as mandated by the governing legislation.

The FSC is also responsible for maintaining an account known as the Government Trust Account at a bank operating in the Territory and approved by the Executive Council. All monies

received on behalf of the Government, including annual licence fees and other registration and recognition fees payable under financial services legislation, along with any other such fees as agreed by the Council and the FSC, must be paid into the Government Trust Account.

The FSC's Board of Commissioners is responsible for strategic planning and policy formation and entrusts the day-to-day operations to the Managing Director and his management team.

The FSC's Motto of "Vigilance, Integrity and Accountability" embodies the attributes that guide the organisation as it carries out its regulatory and statutory remit.

Our logo, a lighthouse, represents security, dependability, transparency and trust. Just as a lighthouse provides terrestrial travellers of today with the same sense of hope and reassurance that it provided mariners years ago, so the FSC's logo bears testimony to the FSC'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 systems so as to maintain the confidence of clients doing business with BVI financial institutions.

Functions

As set out in Section 4(1) of the FSC Act, the primary functions of the FSC include:

- Engendering a fit and proper regulatory environment in which financial institutions provide quality products and services for the economic benefit of the BVI;
- Sustaining domestic and international confidence in the BVI financial services industry, as well as contributing to its growth and development;
- Protecting consumers by ensuring that all firms and individuals authorised to provide financial services in and from within the BVI are competent and financially sound;
- Promoting improvements in public understanding of the benefits and

risks associated with financial products;

- Facilitating the provision of a system of continuing education for practitioners of financial services;
- Instigating and pursuing enforcement actions against any individual or business found in violation of BVI financial services laws;
- Monitoring and detecting financial crime, as well as assisting in the prosecution of such crime;
- Consulting with the industry and government on financial services legislation and regulations, as well as supervisory policies and practices;
- Facilitating innovation in financial services and monitoring the effectiveness of financial services legislation; and
- Taking account of the international nature of financial regulation and the financial services business, and maintaining regular contact with foreign regulatory authorities.

Management and Governance



Board of Commissioners

The Board of Commissioners is the FSC's governing and policy-setting body. It is committed to upholding the integrity of the FSC, protecting the interests of the public and serving all regulated individuals and companies through efficient and accessible service-orientated policies and procedures. The Board monitors and oversees the management of the FSC through the Managing Director, with the objective of ensuring economic and efficient use of resources. The Board also ensures that the FSC's internal financial and management controls are adequate and that the FSC operates in accordance with the principles of good governance. The members of the Board of Commissioners are appointed by the Executive Council for terms ranging from one to three years.

The Board is comprised of the Managing Director and not less than four and not more than six other Commissioners, one of whom must be

from outside the Territory and possess a financial services background.

FSC Board of Commissioners



From left to right:

Michael Riegels (Chairman)

Phillip Fenty

Eleanor Smith

Robert Mathavious (Managing Director)

Rodney Gallagher

Robin Gaul (Deputy Chairman)

Annet Mactavious (Secretary)

Jacqueline Wilson

(Director, Legal and Enforcement)

E. Walwyn Brewley

The Board of Commissioners was unchanged during 2004 and continued to perform its duties under the sterling leadership of Chairman, Michael Riegels Q.C.

Board meetings are convened at least once a month and are presided over by the Chairman or, in his absence, the Deputy Chairman. At each meeting, the Board reviews operating activities and solidifies policies and plans for the remainder of the fiscal year.

The Board also meets with the members of Executive Council at least once a year to discuss issues relating to:

- The operation, management and performance of the FSC;
- The initiatives and future direction of the FSC;
- Government policy with respect to the financial services industry;
- Developments in international initiatives related to regulatory and legal measures that may affect the Territory; and
- Additional matters that either party may consider essential for strengthening the role of the FSC

and enhancing the welfare of the Territory.

Board of Appeal

During the year under review, the membership of the Board of Appeal was changed following the resignation of its former Chairman, Lionel Barker, and another member, Murray Riggall. On 1 November, Attorney Cecil Dawson was appointed Chairman and Mr. Edison O'Neal was named as a member, joining Mrs. Thelma Penn who was originally appointed at the inception at the Board. The Board of Appeal received no applications for review of rulings against decisions by the FSC or the LSC in 2004.

FSC Management Team

**Managing Director/
Chief Executive Officer**

Robert Mathavious

Director

Administration and Support Services

Jennifer Potter-Questelles

Director

Banking and Fiduciary Services

Kenneth Baker

Director

Insolvency Services

Christopher Hill

Director

Insurance

Michael Oliver

Director

Investment Business

Ruth Chadwick

Legal and Enforcement

Jacqueline Wilson

Director

Policy, Research and Statistics

Mark Mackenzie

Director

Registry of Corporate Affairs

Myrna Herbert

Director

Registry of Shipping

Captain Baboucar Sallah

Manager

Human Resources

Annet Mactavious

Director

Economic Climate



BVI Economy

The BVI economy continued to enjoy a period of growth in 2004. Economic growth was driven by strong expansion in tourism and financial services, the established twin pillars of the economy.

Activity in the offshore financial services sector was again outstanding, covering more than 50 percent of the cost of Government activities.

The Government announced key changes to the operating environment for the financial services sector through the enactment of revised and consolidated companies' legislation, known as the new BVI Business Companies Act of 2004. The consolidated legislation was enacted in part in response to the concerns highlighted in the EU Code of Conduct about "ring-fencing". It removed the different tax obligations that existed between companies conducting business locally and internationally.

Asia's Economy and the BVI

Due to the attractiveness of incorporation in the BVI among Asian businesses, and particularly those in Hong Kong, the economic climate in Asia is always of interest to the BVI.

As Asia is a premier user of the BVI's corporate vehicle for company formations, the FSC was pleased to note the expansion of aggregate Asia-Pacific GDP by 7.3 percent in 2004, the highest growth recorded since the Asian financial crisis of 1997-98.

The positive economic outlook for the Asia-Pacific region encourages BVI to continue to enhance its offering of financial services products of interest to entrepreneurs in the region, with the intention of growing and sustaining business there.

The Year in Review

As has been the case since the introduction of the FSC, the year has yielded significant progress, growth and development in the financial services activities conducted within and from the Territory. The jurisdiction continues to thrive as a key player in the area of international finance as the FSC strives to uphold the BVI's integrity as a well-regulated financial centre and to safeguard its economic interests.

2004 was a year of increased vigilance and growth for the FSC. One of the key markers of the year was the FSC's continued commitment to the further development of the BVI as an international financial centre that is well diversified and practices a regime of balanced and effective regulation. A major recurring theme for the FSC was the enhancement and strengthening of the tools already in place to carry out its regulatory remit. This effort included the launch of a formal on-site inspection regime and the introduction of a completely new regime for the regulation of insolvency practitioners.



As an organisation that attaches great importance to its investment in its highly valued human resources, the FSC welcomed both inward and outward secondment of regulatory staff, and hosted and participated in focused regional training initiatives to enhance the regulatory skills of its key employees.

The FSC also had the distinct honour of joining with the Government and people of the British Virgin Islands and participants in the local financial services industry in celebrating the twentieth anniversary of the foundation of the BVI's international financial services centre, which occurred with the enactment of the International Business Companies Act. As BVI continues to forge ahead with pioneering developments for structuring corporate

vehicles, the FSC was pleased in 2004 to play an important role in the introduction of cutting edge legislation consolidating all BVI Corporate statutes into a single modern statute, the BVI Business Companies Act.

A major step was taken towards the immobilisation of bearer shares in July when the FSC commenced receiving applications for the approval of authorised custodians.

The dynamic nature of the financial services regime was demonstrated in the significant progress made in updating key financial services legislation through amendment, as well as significant inroads that were made into the introduction of new laws to complement the current body of legislation administered by the Commission.

The BVI FSC is always keen to participate in international initiatives aimed at regulating international finance and encouraging best practice, and was pleased in 2004 to publish the country report from the assessment programme

conducted in 2000 by the International Monetary Fund.

To round out the key initiatives and accomplishments of the FSC's third year of operations, mention must be made of the introduction during the year of FSC's Regulatory Cadet programme which seeks to ensure that the FSC has a ready pool of well-trained regulators to conduct the activities necessary to maintain the BVI's hard won position as a well-regulated international finance centre.

Registry of Corporate Affairs (ROCA)



Registry of Corporate Affairs File Room



Legal and Regulatory Developments

During 2004, a range of financial services related legislation was introduced in the Legislative Council. Of direct relevance to the regulatory and supervisory regime of the FSC were the Financial Services Commission (Amendment) Act, 2004, the International Business Companies (Amendment) Act, 2004, the Insolvency Act, 2003 (as amended), the Insolvency (Amendment and Consequential Provisions) Act, 2004, and the Virgin Islands Special Trusts Act, 2003.

Other complementary legislation introduced or amended in 2004 that had some relevance to the regulation and supervision of the financial services industry include legislation creating the Financial Investigation Agency, amendments to Mutual Legal Assistance laws, and legislation to handle the transfer of assets and liabilities of the Development Bank of the Virgin Islands.

BVI Business Companies Act, 2004

In 2004, the FSC worked with legislative draft persons and the Attorney General's Chambers to repackage the BVI's flagship product, the world-renowned BVI International Business Company (IBC) within the BVI Business Companies Act 2004. The current IBC legislation is one of the most widely used in international trade and finance, with more than half a million companies incorporated under it.

The BVI Business Companies Act, 2004, which will come into effect on 1 January, 2005, will replace the IBC Act following a two-year transition period that ends in December 2007. The new statute removes any distinctions on incorporated companies based on whether they operate domestically or internationally. It provides flexibility and choice in the range of corporate vehicles available and is a modern and comprehensive piece of legislation designed to appeal to international clients while providing a sufficient framework for firms conducting domestic business.

As always, the legislation was developed in consultation with the private sector.

Policy and International Initiatives

The FSC in 2004 commenced an important initiative aimed at providing standards and a framework for corporate governance by regulated entities. As part of this initiative, a comprehensive study of corporate governance was conducted. Extensive work on the initiative is expected to continue in 2005, with expansion to the insurance and other financial services sectors. The ultimate objective of providing guidelines to the industry is to be realised in 2006.

Anti-Money Laundering (AML) measures and Combating the Financing of Terrorism (CFT) are very high on the priority list for all international standard-setting bodies, particularly as they relate to the conduct of financial services in international finance centres. To this end, in 2004, the FSC continued to re-examine the BVI's AML/CFT framework with a view to making recommendations to update the current regime. This proactive approach reflects the FSC's goal of ensuring that the BVI remains

fully engaged in the global fight against such illicit activity.

Revisions to the AML/CFT regime are intended to meet several key domestic and international objectives, including compliance with the Financial Action Task Force's (FATF's) revised 40 and 9 special recommendations.



The FSC reviewed the findings of a working group of insurance practitioners that was convened to develop a policy for the winding up of insurance companies. A paper from the Offshore Group of Insurance Supervisors (OGIS), which looked at "cease and desist" orders, contained the principles which will form the basis of the FSC's policy.

International Initiatives

The International Monetary Fund (IMF) commenced its first round of stand-alone assessments for offshore financial centres in 2000. In 2002, the BVI participated in an assessment, which included an evaluation of the BVI's supervisory and regulatory powers by a team of specialist supervisors. The assessment was conducted according to standards determined by the Basel Committee on Banking Supervision, the International Association of Insurance Supervisors and the International Organization of Securities Commissions, as well as a comprehensive review of AML/CFT practices.

The IMF noted in its report, which the BVI was happy to make public, that, *"The BVI has most of the essential elements for a suitable framework for financial supervision. Primary legislation provides the FSC with adequate independence and authority to license and supervise covered financial services, which include banking, insurance, securities (mutual funds, their management, and investors), and trust*

and company service providers, whether onshore or offshore, and implementation has largely been good. In particular, the professionals who staff the FSC, led by senior management and directors, are dedicated and experienced professionals with a clearly articulated goal of maintaining and, where possible, improving the framework and implementation of financial services supervision in the BVI. While there are several weaknesses in the framework, the FSC and the BVI Government have indicated that they are keenly interested in addressing those weaknesses, and in many cases have already taken steps to that end."

Since the review, priority has been given to regulatory and supervisory areas most relevant to the cross-border nature of the financial services business conducted within and from our borders and to niche markets (such as company services) so as to safeguard the BVI's reputation as a major player in area of international finance.

International Cooperation

As a responsible regulatory organisation committed to providing services to those who wish to conduct legitimate business, the FSC is always keen to improve and enhance its relationship with other regulatory and supervisory bodies to help combat financial crime. The FSC's powers to obtain and disclose confidential information, otherwise known as the gateway provisions, are exercisable against a wide range of persons and in comprehensive circumstances. The powers that govern the exchange of information in matters of international cooperation are set out in two pieces of legislation, namely, the Financial Services Commission Act and the Financial Services (International Co-operation) Act.

The FSC Act allows for disclosure of confidential information to foreign law enforcement and regulatory authorities of approved jurisdictions for the purpose of providing legal assistance. Under financial services legislation and on the order of a court of competent jurisdiction for any criminal or civil proceedings in the BVI and legal proceedings, it also allows disclosure to any person for the

purpose of discharging any duty in connection with the winding up of a regulated entity or the appointment of a receiver.

The Financial Services (International Cooperation) Act contains detailed provisions on how the FSC should execute requests for assistance by foreign regulatory authorities and has stringent provisions to enforce compliance with the FSC's compulsory powers. A foreign regulatory authority is defined as an authority in a country outside the Virgin Islands that exercises regulatory functions that, in the opinion of the FSC, relate to companies or financial services.

The FSC considers the following four main factors when determining whether the requested assistance should be granted:

- Reciprocity by the requesting authority (whether corresponding assistance would be given to the Commission);
- Whether the inquiry relates to a possible breach of a law or other

requirement that has no parallel in the Virgin Islands (there is no express requirement to establish dual criminality);

- The nature and seriousness of the matter to which the inquiry relates and whether the assistance could be obtained by other means; and
- Whether it is appropriate in the public interest to grant the assistance sought.

In 2004, the FSC entered into a Memorandum of Understanding (MOU) with the Republic of Panama to assist the FSC and the Superintendency of Banks of the Republic of Panama jointly supervise cross-border establishments between the FSC and Panama. The FSC worked closely with the Superintendency of Banks in Panama over the previous three years to develop the MOU, which covers a broader range of regulated entities and is based on the following principles:

- Mutual trust and reciprocity between the FSC and the Superintendency of Banks in Panama;

- The determination of the FSC and the Superintendency of Banks in Panama to use their best efforts to cooperate towards achieving the joint supervision , of the parent company and the subsidiary in the host jurisdiction;
- The observance of strict confidentiality by all staff members with access to information shared under the MOU;
- Assurance that both the FSC and the Superintendency of Banks in Panama will use their best efforts to assure the full implementation of the MOU; and
- The clear understanding that the MOU does not modify or supersede any laws in effect in, or applying to, British Virgin Islands or Panama, or create any rights enforceable by one signatory against the other or any obligations to or rights of any third parties.

Enforcement Matters

In 2004, as part of its enforcement responsibilities, the FSC took action against a number of regulated entities for various breaches of financial services legislation. Enforcement action was deemed necessary for a number of reasons including:

- Failure to comply with cease and desist directives;
- Failure to pay prescribed annual fees;
- Commencement of business without appropriate authorisation; and
- Failure to have the required number of company directors.

Enforcement action took the form of directives, letters of warning, court proceedings and advisory notices to the community and general public.

Protection Orders/Court Proceedings

Protection orders were made by the Courts against two licensed mutual funds during the year. The protection orders were sought on the grounds that the FSC was of the opinion that the funds were conducting business in a manner that was detrimental to the interests of investors. The FSC initiated proceedings in these cases to preserve the assets of the funds pending further investigations. Among other things, the protection orders restrained the funds from disposing of their assets, making redemption payments, and paying any outstanding or future fees and commissions.

Protection orders were also issued for the appointment of provisional liquidators and of joint official liquidators.

Advisory Notices

During 2004, the FSC issued three advisory notices to warn the public that:

- Certain companies that appeared to be carrying on insurance business and mutual fund business from

within the BVI were not licensed or regulated by the FSC under any financial services legislation; and

- Certain companies holding themselves out to be BVI companies were not registered or incorporated in the BVI.

Regulation and Supervision



The Approach to Regulation

The FSC's regulatory approach ensures that the FSC exercises reasonable care in organising and controlling the affairs of regulated entities, and responsibly and effectively develops and maintains adequate risk management systems.

The FSC employs a risk-based approach based on the principle that a burden or restriction which is imposed on an entity should be proportionate to the broad benefits expected to result from the imposition of that burden or restriction.

The risk-based approach to supervision focuses on the mitigation of risks to the regulatory objectives and ensures that the FSC's resources are used most effectively. The approach incorporates both the impact of such risks, were they to crystallise, and the probability of them doing so. Assessing the probability of such risks occurring entails reviewing the inherent risks run by regulated entities, the environment within which they operate and the internal systems

and controls they have in place to mitigate such risks.

Licensing and Supervisory Committee

The Licensing and Supervisory Committee (LSC), created under Section 14(1) of the FSC Act, is the authorisation arm of the FSC. The LSC is responsible for assessing and granting all applications for licences and certificates to conduct financial services business within and from the British Virgin Islands. The LSC also supervises authorised entities to ensure continued compliance with relevant laws and regulations.

The LSC is comprised of the following representatives:

- The FSC's Managing Director, who serves as Chairman of the LSC;
- The Deputy Managing Director;
- The heads of regulatory and supervisory divisions within the Commission; and

- Other senior officers of the Commission that have been appointed to serve on the LSC by the Chairman with the approval of the Board.

Meetings of the LSC are convened weekly and presided over by the Chairman or, in his absence, any other officer he designates.

Prior to issuing a licence or certificate, the LSC must be satisfied that the proposed activity is in the interest of the BVI and that the entities (including their senior managers, directors and shareholders) meet relevant “fit and proper” tests established by BVI laws and policies and by the appropriate international standard-setting organisation.

Licensed companies are also required to notify the FSC of any significant matter which might affect the assessment of fitness and propriety as soon as the licensee becomes aware of it. Furthermore, the conditions for fitness and propriety must be met on a continuing basis. All changes in control

of the licensee are subject to regulatory approval.

Where the LSC does not approve an application for a licence or for registration or recognition under financial services legislation, it notifies the applicant and transmits a copy of the decision, together with a copy of the application, to the Board for its record.

Any person who is aggrieved by a decision of the LSC may appeal, to the FSC’s Board of Appeal under the provisions set out in the FSC Act.

On-site Inspection Programme

To further its implementation of a fully risk-based approach to supervision, in 2004 the FSC rolled out a formal on-site inspection programme, aided by the use of specialised software.

The primary purpose of carrying out on-site inspections is to improve the FSC’s understanding of the business and to control the risks by the regulated entity, focusing in particular on those areas deemed by the FSC to be the most significant.

In partnership with KPMG and a US-based software development company (name?), the FSC co-authored a comprehensive software package, K-Review, which accelerates the on-site inspection visit by providing automated tools for pre- and post-inspection activities. The software is specifically tailored to assess the requirements of BVI legislation for all regulated activity and is used across the full spectrum of FSC activities.

The actual on-site visits are carried out by experienced FSC regulators, who are responsible for the day-to-day supervision of the regulated entity and are supervised by senior managers. The visit provides an opportunity to clarify any points arising out of the preliminary risk assessment and to gain a better understanding of the business undertaken by the entity.

Compliance

In 2004, the FSC finalised its systems and procedures for acceptance and approval of Compliance Officers and rolled out a new regime as required under the Financial Services

Commission Act and the Anti-Money Laundering Code of Practice.

Compliance Officers are required to be senior officers with relevant qualifications and experience, capable of responding appropriately and effectively to enquiries relating to the regulated entity and the conduct of its business. Generally the functions and responsibilities of the Compliance Officer include establishing and maintaining a manual of compliance procedures for the regulated entity, ensuring compliance with financial services legislation and any regulatory codes and internal controls, and acting as a liaison between the regulated entity and the FSC.

Authorised Custodians

Through the introduction of the authorised custodian regime, ultimately all bearer shares issued by companies incorporated in the BVI will be required to be held by a custodian.

Under this new regime, all applicants must satisfy the Commission that they meet established “*fit and proper*” criteria

and have the necessary systems in place to ensure safe custody of the shares.

To assist those seeking to be approved as authorised custodians, the Commission issued an Aide Memoire¹. This covers the duties of authorised custodians and the legal framework for the immobilisation of bearer shares, which is contained in the 2003 and 2004 amendments to the International Business Companies Act and the Financial Services Commission Act.

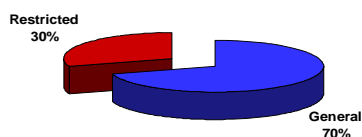
The new rules on the immobilisation of bearer shares are the culmination of extensive consultation with practitioners in the local financial services industry through a private sector panel that the FSC convened to examine the issues.

¹ The Aide Memoire , entitled *Criteria for Approval of Authorised Custodians of Bearer Shares of BVI Incorporated Companies*, can be found on the FSC's website, www.bvifsc.vg

Banking and Fiduciary Services

The responsibility for promoting the safety and soundness of the BVI's banking system is vested in the FSC and primarily executed through the Banking and Fiduciary Services division. Like other FSC divisions, this closely follows emerging issues on anti-money laundering and combating the financing of terrorism and takes the latest international developments into consideration when conducting its regulatory assessments. Consequently, in 2004, the Banking and Fiduciary Services division placed special emphasis on the "Know Your Customer" and customer due diligence policies and procedures of regulated entities.

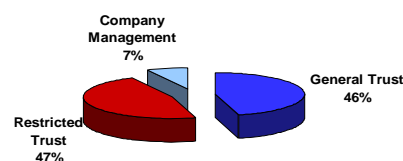
Banking Licenses Issued by Type 2004



The Division also placed significant emphasis on the need for business

continuity planning in light of a growing dependence on technology by both regulated entities and their customers, as well as the potential disruption to operations from unplanned events or natural disasters.

Fiduciary Licenses Issued by Type 2004



Holders of general banking licences are authorised to engage in banking business within and outside the BVI while banks with restricted licences may only conduct banking business outside the BVI. All current BVI banks, with the exception of the state-owned bank, are either subsidiaries or branches of a foreign banking group.

In the area of fiduciary services, two classes of trust licences are issued by the FSC. A general trust licence-holder is permitted to carry on trust business without any restrictions.

As mentioned above, the move towards a predominantly risk-based supervisory approach in 2004 enabled the FSC to deploy its supervisory resources more effectively. The FSC's approach of focusing more supervisory resources on areas and entities that are highly vulnerable is gaining popularity among international regulators.

The FSC continued in 2004 to maintain regular contact with the boards of directors, senior officers and external auditors of regulated entities. The Banking and Fiduciary Services Division staff met frequently with these stakeholders to review and discuss regulatory and compliance issues. These meetings proved invaluable in strengthening communication and improving the FSC's understanding of the state of affairs, financial position and strategic plans of regulated entities.

The FSC was pleased in 2004 to commence work specifically with the BVI Bankers Association on a draft regulatory Code of Practice to govern banking activities. The primary objectives of the Code include promoting good banking practices by

setting out minimum standards, increasing transparency in the provision of services to customers, fostering a fair and cordial relationship between banks and their customers, and ultimately improving customer confidence in the banking system.

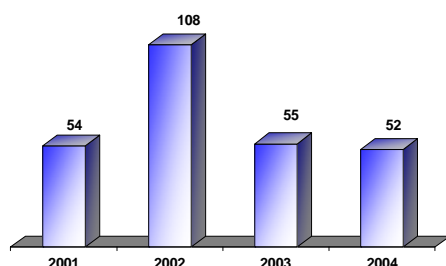
In addition to the code, the FSC consulted and collaborated with the Bankers Association on the introduction of a comprehensive prudential return. The proposed new reporting framework will ensure that the FSC has a means of collecting, reviewing and analysing the risk exposure and capital adequacy of banks in the BVI. This information will be used as a primary source of input for the production of performance ratios and other financial indicators for analysis.

Additional items on the joint agenda of the Bankers Association and the Commission are draft guidelines for large exposure and liquidity risk management.

Investment Business

2004 was a record year for the number of applications received by the Investment Business Division for the recognition and registration of mutual funds and the licensing of companies to provide management services to funds. The level of activity was surpassed only by the activity seen at the time of the introduction of the Mutual Funds Act in 1996.

Mutual Fund Manager/Administrator Licenses Granted

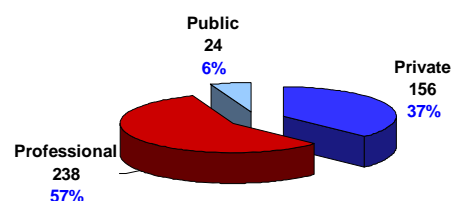


The BVI professional mutual fund remained the most popular fund vehicle, evidenced by an increase of over 60% in the number of applications received. As in previous years, the first quarter of the year revealed the most activity. Applications for the authority to provide management services to funds

accounted for over 80% of applications processed during the year.

As required by the Mutual Funds Act, the Investment Business Division commenced proceedings to cancel funds and licence-holders in contravention of legislation due to non-payment of fees.

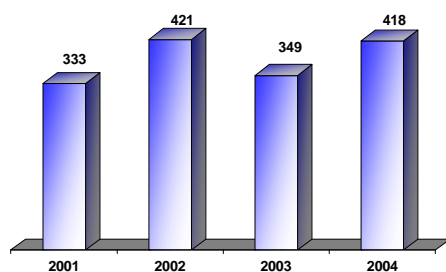
BVI Mutual Funds by Classification



Growth from 2003 to 2004 of 19.77%

This was intended to bring delinquent entities into compliance with the Mutual Funds Act through regularisation of their status. The Act also provides for funds to initiate proceedings for voluntary cancellation, which were also processed by the Division. Over 200 mutual funds were struck from the register during the year.

Mutual Funds Recognised/Registered



is also being prepared for new securities and investment legislation, which the BVI hopes to significantly advance during 2005.

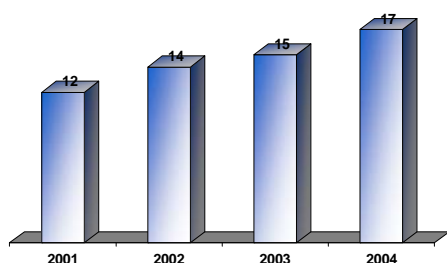
At the end of the 2004 operating year, over 2,000 funds remained on the active register; this being the cumulative total since the introduction of the Mutual Funds Act. Due to the transient nature of the class of funds known as private and professional funds in the BVI, it is expected that after their special purpose is served many of these funds will be liquidated, abandoned or cancelled.

As part of the revision of the Investment Business regime, amendments to the Mutual Funds Act went through various iterations and the drafting stage neared completion at the end of 2004. Once the amendments have been introduced and after a necessary transition period, the Code of Practice governing investment business practitioners will be introduced. The Code has already been approved by the FSC's Board of Commissioners. Preliminary information

Insurance Supervision

2004 proved to be a record year for the licensing of new captive insurers, which increased from 309 to 346. The Insurance Supervision division's notable activity for the year included the approval of six new Segregated Portfolio Companies and the approval of twelve new Segregated Portfolios.

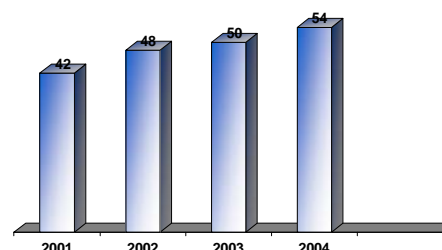
Insurance Managers



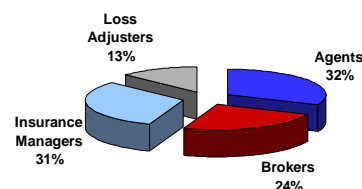
The vast majority of captive insurers' parent companies continue to be small to medium-sized family businesses based in the USA. Remaining licenses are generally companies with parents domiciled in Canada, Mexico, the Caribbean, Europe and the Asia-Pacific region. Over 70 per cent of all approved companies have elected to be taxed as USA businesses by the US Internal

Revenue Service to take advantage of certain tax incentives available.

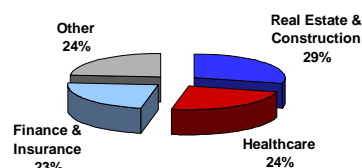
Total Number of Insurance Intermediaries



Total Intermediaries



Captive Insurance Companies by Business Sector



Insolvency Services

The new BVI insolvency law became effective in August 2004, which culminated many months of planning and legal drafting and included several pieces of interrelated legislation.

The new law provides a much more modern and sophisticated insolvency regime for companies and private individuals, and it addresses particular issues relevant to the BVI's position as an offshore financial centre. It also provides a predictable and effective safety net for the ever-increasing number of BVI registered companies and those who do business with them.

Insolvency Cases by Classification 2004

Case Type	Number
Receiverships	1
Administrative Receivership	2
Provisional Liquidations	4
Liquidations	16
Bankruptcies	0

The main features of the new insolvency regime are to:

- Establish a licensing and regulation scheme for insolvency practitioners;
- Provide a wide range of insolvency and financial restructuring options for businesses that encounter financial difficulties;
- Establish the role of Official Receiver; and
- Encourage better corporate governance through the introduction of a director disqualification regime.

As part of the regime, the FSC is responsible for issuing licenses and the administering and enforcing relevant legislation.

For a limited period immediately following the new regime coming into effect, special arrangements were made to fast-track the licensing of those already taking insolvency appointments in the BVI.

In addition to its licensing and regulatory responsibilities, the FSC is required to appoint the Official Receiver and provide office facilities. The Official Receiver is an officer of the Court and does not report through the FSC.

The Official Receiver may be appointed as an insolvency office holder (for example, as a receiver or liquidator) by the Court and is responsible for bringing director disqualification applications to Court.

Registry of Corporate Affairs

The cornerstone of BVI financial services, the BVI International Business Company, continued to excel in 2004. This versatile corporate vehicle continues to be the structure of choice for a myriad of business ventures globally as the number of companies on the BVI register climbs. Over 60,000 new companies were added to the BVI register during 2004, a 27% increase over 2003.

Revenue Contributions 2004 (Registry of Corporate Affairs)

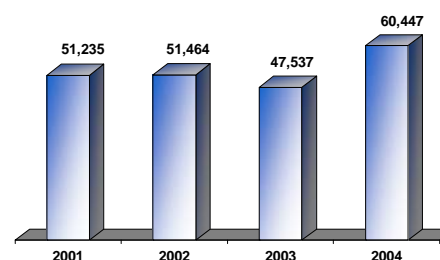
Product / Sector	Revenue Contribution (\$)
International Business Companies (IBCs)	117,398,656
Local Companies	458,376
Limited Partnerships	94,280
Trademarks	18,992

During the year approximately 36,000 international business companies were struck from the Register for non-payment of fees, 900 less than 2003.

Other activities at the Registry of Corporate Affairs include the registration of limited partnerships. This is the most

recent of the range of corporate structures introduced by the FSC and has seen an average of approximately 65 new registrations annually since its introduction in 1997.

New International Business Companies (IBCs) incorporated



A major initiative of the Registry during 2004 was the re-introduction of its imaging project. The initiative is intended to digitise the full set of company files to allow for electronic searches and more efficient storage and retrieval.

One of the Registry's most significant activities during 2004 had very little to do with the Companies Register. In December, the Registry offices relocated to new premises, adjacent to the FSC's headquarters. The task was a Herculean one, given the large number of physical files that needed to be moved. The Registry was closed to the public for only two days, during which

limited service was provided. The Director and staff are now comfortably situated in their new and more spacious offices and anticipate being able to serve their customers more efficiently.

Management and Professional Development



General Administration

As is the tradition since the inception of the FSC, the Board of Commissioners hosted an appreciation dinner in honour of FSC employees to begin the year. The theme for the evening was encapsulated in the address given by the keynote speaker, entitled, "Good to Great" based on a book of the same name.

The Territory recognised the 50th Anniversary of its Annual August Emancipation Celebration in 2004 and the FSC fielded an entry in the parade of floats and troupes. The FSC's entry, paid tribute to the BVI's rich marine heritage and homage to the FSC's logo and motto. Participants portrayed lighthouses, buoys, anchors, sailors and flags of international ports where FSC staff have travelled for business.

In fulfilment of its public education mandate, the FSC again hosted its Annual Open House in November. The

employees of the FSC conducted tours of the premises and gave brief presentations to visitors on the structure and functions of the FSC. Over 400 visitors toured the offices during the day long event.

Professional Development

The FSC proudly offers its employees training opportunities in order to further the FSC's effectiveness. Partnership arrangements and collaboration with several regional and international regulators provide a framework for this important training. During 2004, the FSC embarked on inward secondment arrangements with the St Lucian, Anguillian and Antiguan regulators, which enabled the external regulators to draw on the FSC's experiences and regulatory tools. A member of the Banking and Fiduciary Services Division completed a six-month secondment with the Gibraltar Financial Services Commission.

The FSC also introduced study leave during 2004 for employees undertaking study intended to complement their current skills. Other employees

completed specialised training and attained internationally recognised professional qualifications in regulatory and other relevant disciplines.

Another FSC innovation in 2004 was the introduction of the Regulatory Cadet Programme. This programme of about 18 months, exposes young professionals to the financial services industry and the related legislation. Following a period of classroom style induction, cadets follow a structured rotation through all regulatory divisions. This ensures that they receive a well-rounded appreciation of the industry and of the regulatory climate in the BVI. Resident BVI Islanders over 18 years are eligible for the programme if they hold a Bachelors degree or have equivalent work experience.

As is customary, FSC staff participated in local, regional and international seminars and conferences. Key areas for training in 2004 included expert witness preparation and testimony and the annual conferences on Economic Crime, in Cambridge, UK, and on Offshore Centres, in Oxford, UK,. FSC staff also had an opportunity to

participate in training conducted by: the Offshore Group of Banking Supervisors, the Offshore Group of Insurance Supervisors, the Caribbean Regional Technical Assistance Centre, the IMF and other standards- setting agencies.

Senior FSC staff further took part in international conferences, seminars and working groups, at which they presented papers and speeches, etc.

Members of the FSC accepted an invitation from IFC to assist in presenting the jurisdiction to service providers internationally through the advent of the IFC's Road Show series. The series, which kicked off in London in 2003, continued this year in New York and in Asia Pacific. While attending the Road Show, the FSC visited the Companies Registries in Singapore and Hong Kong.

In early 2004, the FSC participated in the annual conference held by The Risk and Insurance Management Society, Inc (RIMS). The event, which was held in San Diego, California attracted regulators and insurance professionals from around the world.

To further its professional development commitment, the FSC launched a Brown Bag lunch programme for its employees. Once a month, FSC staff members were presented with topics of interest in regulation and other complementary areas. Initial topics included an introduction to the Insolvency Act, Confidentiality Obligations under the FSC Act and the Immobilisation of Bearer Shares.

Strategic Partners



Financial Services Institute (FSI)

To further the FSC's mandate of educating the public and providing additional training to industry practitioners, the FSC continues to work closely with the The Financial Services Institute (FSI) at the H. Lavity Stoutt Community College.

The Institute provides educational and training opportunities to those interested in employment in the local financial services industry, and develops programmes to provide the financial services industry the tools for responding to human resources needs as the industry evolves and expands.

International Finance Centre (IFC)

The International Finance Centre (IFC) acts as a liaison between the FSC and the financial services community on non-regulatory matters. The IFC was established to enhance and promote the BVI as a premier jurisdiction to conduct international financial business.

The IFC's responsibilities include: creating a shared understanding of the current and future value of financial services to the BVI, devising and implementing national and international marketing and communications programmes to support business development and further enhance the BVI's reputation and creating and executing education programmes to create awareness and understanding of the BVI as a financial centre.

Throughout the year, the FSC and IFC have partnered to introduce the Centre to the local and international business community and to highlight the IFC's role in managing the Territory's financial services image.

Financial Investigation Agency (FIA)

The Financial Investigation Agency (FIA) was created by the Financial Investigation Agency Act, 2003, which came into effect on 1 April, 2004.

The FIA is responsible for processing requests for legal assistance from international judicial and law

enforcement bodies, assisting with the investigation of financial crimes, and receiving, analysing and investigating suspicious transaction reports filed under the Proceeds of the Criminal Conduct Act. The FIA also assists the Ministry of Finance in implementing relevant Tax Information Exchange and related agreements.

The Executive Body of the FIA comprises the Deputy Governor as Chairman, the Financial Secretary, the Commissioner of Police, the Comptroller of Customs and the Managing Director of the Financial Services Commission. The FIA also assumes responsibility as the Territory's Reporting Authority, which formerly came under the FSC through the Managing Director as Chairman.

Economic Affairs Secretariat (EAS)

The Economic Affairs Secretariat is a unit of the Government's Ministry of Finance. The Secretariat was developed to provide a focal point in the Government for handling external initiatives. It is tasked with elaborating

policy responses to, and representing the BVI on, external initiatives affecting the development of the offshore financial services sector, including those led by the IMF, the Organisation for Economic Cooperation and Development (OECD, the European Union (EU) and the Financial Action Task Force (FATF).

The Secretariat also leads strategic planning in the areas of finance and economic development for the Government and gathers, analyses and distributes information on current and future international initiatives.

On the Horizon: Looking Ahead to 2005



Legislative Agenda

In 2005, the FSC will continue to work with the Government to advance the review of financial services legislation to enhance the FSC's regulatory regime and ensure continued compliance with international standards.

The FSC anticipates introductory legislation in the areas of securities and investment business, Segregated Portfolio Companies, money services business and non-bank financial institutions.

Exchange of Information and International Cooperation

In order to contribute to the broad global agenda of information exchange and international cooperation, the FSC intends to commission a study comparing international cooperation provisions and boundaries in BVI legislation to other major jurisdictions. Further, in 2005 the FSC intends to continue to invite international agencies

and other regulatory bodies and authorities to the BVI to make presentations and get a first-hand view of the FSC's operations and supervisory framework. The FSC believes that such an open approach will enhance the BVI's already positive image in the global arena and heighten the jurisdiction's international profile. In parallel with this approach, the FSC will continue to make its staff available for participation in important international meetings, conferences and seminars.

Asia-Pacific Presence

In 2005, the FSC intends to open a representative office in Asia to service the volume of business originating from the region, particularly for the Registry of Corporate Affairs. The FSC sees the establishment of a physical presence in Asia as pivotal to improving the efficiency of the services provided to this specialist market and to reducing the barriers presented by a different language, culture and business environment.