BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

FSC

Annual Report 2010

Contents

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 legimate business transactions

Strategic **Aims**

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

Chairman's Statement

I am pleased to report to the Government and people of the British Virgin Islands through the Honourable Premier and Minister of Finance on the activities of the Commission during 2010.

The continued downturn in the global economy once again had an adverse impact on the financial wellbeing of the Territory, although in the financial services arena we have seen minor improvement. Revenues collected on behalf of the Government were marginally higher in 2010 than in 2009, bolstered in part by new company formations which increased 26% over those for the preceding year. Captive insurance business in the Territory, however, continued its severe decline with a reduction of 49% in fee income in comparison with 2009.

The Commission continues in its mission to maintain the Territory's reputation as a well-regulated international financial centre and meet the ever-increasing demands placed upon us by supra-national bodies.

I wish to commend the staff of the Commission for their hard work and dedication in the performance of their duties, and our more senior personnel in providing exemplary service as ambassadors for the Territory in their many presentations made at and participation in conferences and seminars at the international level.

In accordance with section 27 of the Act, I present this report on the operation and activities of the Commission for its 2010 year of operations together with the enclosed auditor's report and accompanying financial statements.

Robin Gaul
Chairman

Board of **Commissioners**

Mr. Robin **Gaul**
Chairman

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

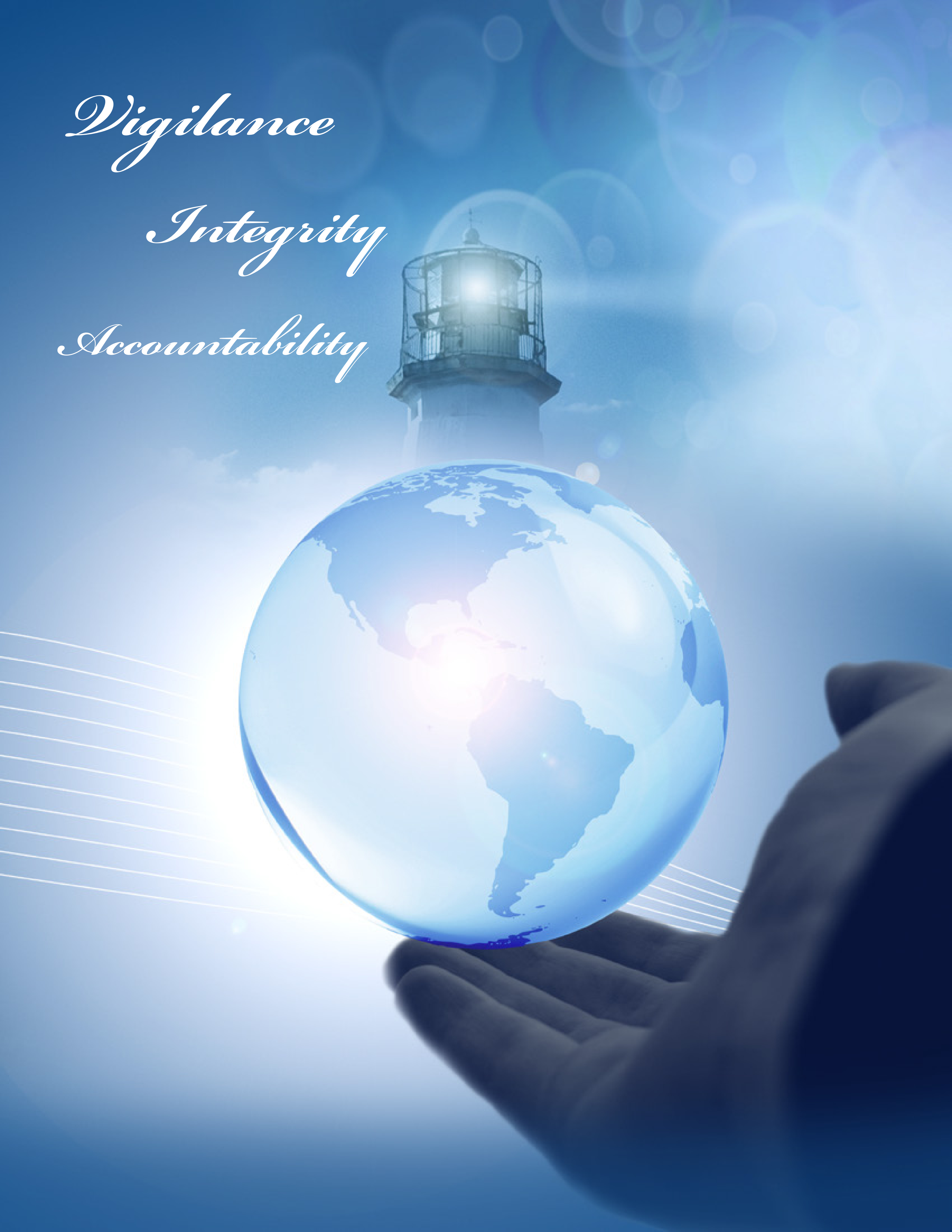
Mr. Robert **Mathavious**
(Ex-officio) Commissioner

Mr. E. Walwyn **Brewley**
Commissioner

Ms. Eleanor **Smith**
Commissioner

Mr. Phillip **Fenty**
Commissioner

Mr. Martin **Fuggle**, OBE
External Commissioner


Vigilance
Integrity
Accountability

Managing Director's Statement

As I look back on 2010, there are a number of hallmarks that made the year particularly special.

As it is every year, it is my pleasure to offer you this message in our Annual Report. If 2009 was a year marked by troubled seas due to the effects of the financial crisis, 2010 was a year marked by much calmer waters allowing the Commission to continue to develop, expand and service the industry at an extremely high calibre.

As I look back on 2010, there are a number of hallmarks that made the year particularly special. Not only did we see a 25.6% increase in new incorporations and post incorporation transactions for BVI Business companies when compared to 2009, we also saw the Commission make some substantial strides with respect to international recognition for the diligent efforts that we have made to meet and exceed international regulatory standards. We saw a number of internal programmes developed focused on harnessing the potential of all of our staff and we saw an increase in our staffing levels to 135, a staff count that is the highest that it has ever been.

The Commission has always been particularly keen on ensuring that our staff is the best and brightest in the industry and that we take great care in properly developing staff at all levels. In 2010 over 31% of Commission employees received training opportunities through attendance and participation in various regional and international conferences and seminars. I am extremely proud of this statistic and it demonstrates the commitment the Commission has to ensuring that our staff stays current and has its hand on the pulse of industry developments and trends. Furthermore, the Commission has, over the years, managed to retain a large number of our staff which is reflected in the Commission's growing maturity, as over 40% of the current staff have been employed with the Commission for at least seven years.

In addition to staff development, 2010 presented the Commission with many opportunities to showcase our regulatory regime and the hard work put into ensuring that we comply and exceed international regulatory standards. In April, 2010 the Territory underwent the IMF's Financial Sector Assessment Program (FSAP). As part of the review the Commission's implementation of current requirements was assessed against the BASEL Core Principles and the OGBS Statement of Best Practice for Trust and Corporate Service Providers for the banking and fiduciary services industries, respectively. I am delighted to report that the FSAP was extremely positive.

In November 2009, the FATF/CFATF established a joint working group to develop typologies on money laundering using trust and corporate service providers. The BVI served as a member of the core working group and in 2010 the group completed its Joint Typologies Report on Money Laundering using Trust and Company Service Providers (the "Report"). The issues reviewed while developing the report were: (i) determination of the need to establish standards for TCSPs; (ii) the role of TCSPs as it relates to transparency and international cooperation and the information that they maintain which directly impacts ongoing efforts to mitigate against money laundering and terrorist financing; (iii) the compilation of current data collected by way of Questionnaire.

After being tabled on the FATF Plenary Floor in October, 2010, the report was passed on to the Working Group on Terrorist Financing and Money Laundering as well as the Working Group on Evaluations & Implementations for further policy consideration. The report was also tabled at the November, 2010 CFATF Plenary and Ministerial. Throughout 2010, the Division continued its collaboration with the Attorney General's Chambers (AGC) to review the Territory's financial services legislation to ensure compliance with emerging international standards.

Robert A. Mathavious
Managing Director/CEO

Executive Management Team

Robert Mathavious
Managing Director/CEO

Jennifer Potter-Questelles
Deputy Managing Director,
Corporate Services

Kenneth Baker
Deputy Managing Director,
Regulation

Jacqueline Wilson
Director, Legal and Enforcement
Legal Counsel

Cherno Jallow, QC
Director, Policy, Research and Statistics

Annet Mactavious
Director, Human Resources
Secretary, Board of Commissioners

Board of Commissioners

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

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:
Harry Whitcher
Deputy Director:
Stanley Dawson

Investment Business Division
Director:
Brodrick Penn
Deputy Director:
Glenford Malone

Cherno Jallow, QC
Policy, Research and Statistics Division

Policy, Research and Statistics Division
Director:
Cherno Jallow, QC
Deputy Director:
M. Alva McCall


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

Corporate Services

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

During 2010, the Corporate Services Team continued to help drive the Commission's efforts to effectively manage a world class regulatory regime. Corporate Services has a rather diverse remit including finance, facilities management, information technology and general operations.

General Operations

The Administrative functions include providing travel services for all local and overseas travel, resource management to ensure efficient use of public spaces and equipment within the Commission and general management of mail services, customer service and purchasing.

Corporate Communications

The Commission announced during the year appointments and confirmations of senior members of staff at the Director and Deputy Director levels. In addition, a series of changes to the regulatory regime required direct communication from the Commission including effective dates for new legislation for Insurance and Financing and Money Services, Securities and Investment Business and the Regulatory Code. To this end, Corporate Communications publications focused on providing relevant and required information to external stakeholders on the Commission's behalf.

The Commission also solicited comments from the industry and public on the proposed Public Funds Code and provided guidance on new provisions of SIBA. To continue to improve service to the industry, the Commission introduced and published service level agreements for regulatory and registry processes to govern expectations for turnaround time from the industry. Also in support of this initiative was the introduction and publication of a formal complaints handling mechanism to ensure that serious concerns regarding the Commission's operations and interaction with licensees are handled in an appropriate and consistent manner and receive the attention of senior management to reduce risk and minimise repeats.

In October 2010 the Commission was pleased to be able to publish the report from the April IMF FSAP assessment. The Corporate Communications Unit continued to provide leadership in communications through publication of the quarterly statistical bulletin and all standardised written communication as well as coordination and management of Commission events including Meet the Regulator Forums, hosting of overseas counterparts including OGCISS annual meeting and the team of IMF assessors in tandem with general operations. The Corporate Communications Department also again participated in GOBVI training which was organised by the International Finance Centre to introduce senior Government officials to the financial services sector. The Department also participated in the IFC organised financial services day during the Elmore Stoutt High School Annual Career Expo. Corporate Communications along with regulators from other divisions introduced seniors at the high school to career opportunities in financial services to help expand their career interests in preparation for entering the work force and selecting a tertiary level course of study.

Facilities and Business Interruption Management

As part of ongoing business continuity efforts, the Commission was pleased to conclude a critical project that provides full replication of data on-site as well as at an out of region, secondary facility. This replication of data provides robust backup of critical and confidential information in secure locations to guard against equipment failure, acts of nature and sabotage.

During 2010, the Corporate Services Team continued to help drive the Commission's efforts to effectively manage a world class regulatory regime. Corporate Services has a rather diverse remit including finance, facilities management, information technology and general operations.

Information Technology

Work continued within the Information Technology Department for the review of the road map for phase 3 of the VIRRGIN project. The project which will automate and transform regulatory applications processing had to be reviewed against the plethora of new and revised legislation which called for an amendment to prior requirements. The requirements for handling regulatory processes is more complex that for the original regulation. The IT Department actively participated in a series of events hosted by the Government regarding the establishment of an Internet Exchange Point (IXP) in the Territory. The Commission is keen to remain keyed in to the establishment of an IXP as it would provide reduced costs, minimise network latency issues and offer an additional safeguard against international disruptions or interruptions in internet service between on-island entities.

In late 2010, the Commission completed its transfer to a fully digital telecommunications infrastructure that provides a more robust and efficient service for clients and provide more control of telephone services for the Commission. With over 130 employees, telecommunications needs and the ability to manage the administration of its phone system is an important part of the Commission's communications infrastructure.

Finance

Despite the global challenges to the financial sector, fees collected by the Commission in 2010 on behalf of the Government were approximately $3.8MM higher than in 2009. The Registry of Corporate Affairs which generally dominates revenue generation was largely responsible for this increase which is contributed by new companies' incorporations. Incorporation revenue grew 26% from $17.2MM in 2009 to $21.6MM in 2010. On a comparative basis 2009 reported the lowest incorporation volume for the period 2008 – 2011 as the global economic downturn was in full swing.

In 2010 and 2009 the sum payable to the Government amounted to 89.5% - 92.5% of all monies collected by the Commission on behalf of the Government pursuant to sections 19 and 20 of the Financial Services Commission Act, 2001. The contribution to the Government in 2010 amounted to $168.1MM compared to $164.7MM in 2009, an increase of just over $3.4MM.

Operating expenses increased 13%, or $2.1MM to $18.6MM. This was principally due to an increase in staff costs of $2.2MM, or 23.8%. The increase is a function of an ongoing salary review exercise that began to take form in 2010, and a charge for accrued unpaid vacation days further disclosed in note 9 to the audited financial statements.

Taking into account an increase in revenue after deducting fees due to the Government and an increase in operating and staff related expenses, the Commission generated an operating surplus of $2.3MM. On September 27, 2011 the Board of Commissioners approved a distribution to the Government of $2MM from its 2010 operating surplus after assessing the Commission's required reserves. As a consequence the Commission produced a net surplus of $266k, giving a rise in reserves to $17.2MM.

The close of 2010 saw the introduction of devices to facilitate paperless executive meetings within the Commission. As part of its desire to ensure a greater degree of efficiency, the Commission will introduce paperless meetings early in 2011. The move to paperless meetings operates in concert with a move earlier in the year to introduce video conferencing facilities to support attendance at monthly Board of Commissioners meetings. The external Commissioner in particular is able to join meetings via secure link from outside the Territory in an effort to reduce costs without negatively impacting productivity. Other technology improvement projects included electronic delivery of all internal mail to speed multi-person distribution and archive retrieval.

Human Resources

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

Its mission is to promote fair and equitable treatment of all employees and to administer an impartial disciplinary process and an attractive compensation and benefits plan, and to provide relevant information on all HR-related matters.

EMPLOYMENT

Staffing and Recruitment

One of the functions of the Human Resources Department is to assist applicants and employees with all phases of the employment process. In 2010, the Department continued to oversee recruitment, conduct interviews, background checks, and participate in the selection and hiring of administrative and regulatory staff. A total of 11 persons were hired by the Commission in 2010. The Human Resources Department received and processed approximately 155 requests for employment throughout the course of 2010, while four positions: two at management level, one at senior officer level, and one at the administrative level were advertised. The two management posts were filled, one internally and one externally; however, the other two posts both remained vacant at the end of 2010. Through the Annual Summer Employment Programme six temporary employees were hired. In addition, one additional temporary employee was hired to provide short-term relief during a brief period of extended leave by one member of staff.

Employees by Years of Service

Years	Number of Employees	Percentage of Employees
0 – 3 Years	43	31.9%
4 – 6 Years	37	27.4%
7 – 9 Years	55	40.7%
Total	135	100%

The Commission continues to strive to retain quality staff through its recruitment and ongoing development programmes. The organisation prides itself on ensuring that all employees are treated in an equitable manner and that benefits offered are comparable with industry standards. In so doing the Commission has, over the years, managed to retain a large number of staff which is reflected in the Commission's growing maturity, as over 40% of the current staff have been employed with the Commission for at least seven years.

At the end of 2010 the Commission's staff count had increased by five to 135 when compared to year-end 2009. In contrast to 2009 when the Commission experienced its lowest number of new hires, 11 new staff were hired during 2010, while the turnover rate remained negligible.

PROJECTS

The Human Resources Department focused efforts on two essential projects in 2010. First, the enhancement of the Commission's compensation system as the Department worked closely with the Managing Director to upgrade the existing salary scales to make salaries more commensurate with job responsibilities. The improvement within the scales was done with considerable thought to ensure that the Commission's objective to provide a competitive compensation system and pay structure for its employees was achieved, at least in part, while also ensuring that the Commission continues to remain competitive within the financial services sector, generally.

Employee Movement

Hires	11
Departures	0
Study Leave	5

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The second project undertaken in 2010 was the audit of leave activities which covered the period 2002 - 2010. The audit sought to ensure the adequacy of the framework in place to effectively and efficiently support and track leave activities. The exercise also served to ensure that leave transactions were being appropriately completed and were valid and compliant with applicable policies and procedures.

COMPENSATION ADMINISTRATION

Salary Administration

As previously noted, base salaries across the Commission were adjusted as a result of the upgrade made to the pay scales stemming from the need to enhance the organisation's compensation system. This adjustment to the pay scales came after much consideration by the Board to ensure fairness and equality and taking into account that no prior salary adjustments had been made since the Commission commenced operations in 2002. In addition to the salary adjustments that were implemented during the year, four members of staff were also awarded promotions during this time.

Benefits Administration

In response to various telephone and e-mail enquiries, as well as personal visits from employees in relation to benefits-related matters, the Department, together with the Managing Director and Financial Controller, negotiated a 15 % premium increase on health insurance, to become effective in 2011. At the end of 2010, 86 % of employees were enrolled in the Commission-sponsored health insurance plan.

With respect to retirement benefits the pension/retirement plan currently has an employee participation rate of 96 %. The remaining 4% of the staff are contract employees, which due to the terms of their employment, excludes their participation in the plan.

TRAINING AND DEVELOPMENT

Staff Development

In a continuing effort to ensure proper and relevant development of staff, over 31% of Commission employees received training opportunities in 2010 through attendance and participation in various regional and international conferences and seminars. During the year two employees were granted study leave, one in the area of law which commenced in September 2010 and the other in finance, which was approved to commence in January 2011 while five employees continued to pursue their respective programmes of study—three abroad and two locally. Additionally, two employees successfully completed studies and received the International Compliance Association Diploma in Compliance certification.

EMPLOYEE RELATIONS

In an effort to foster greater cohesiveness among staff several corporate entertainment activities such as karaoke, movie and games nights were held on-site throughout the year. Also, in a spirit of togetherness, employees and their families gathered at the end of the year for the Commission's fourth Annual Christmas Party for FSC Kids; an event that continues to be appreciated by staff and their families.

Employees also continue to embrace the Employee Assistance Programme as a slight increase was recorded in the number of persons who sought the use of the services provided through the Programme during the course of 2010.

2011 OUTLOOK

The Human Resources Department hopes to focus on improving employee benefits where applicable to promote health, wellness and a balanced work life for staff. It is also intended that many of the services provided by the Department would be automated in the coming year to enhance the Department's effectiveness and efficiency.

Registry of Corporate Affairs

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

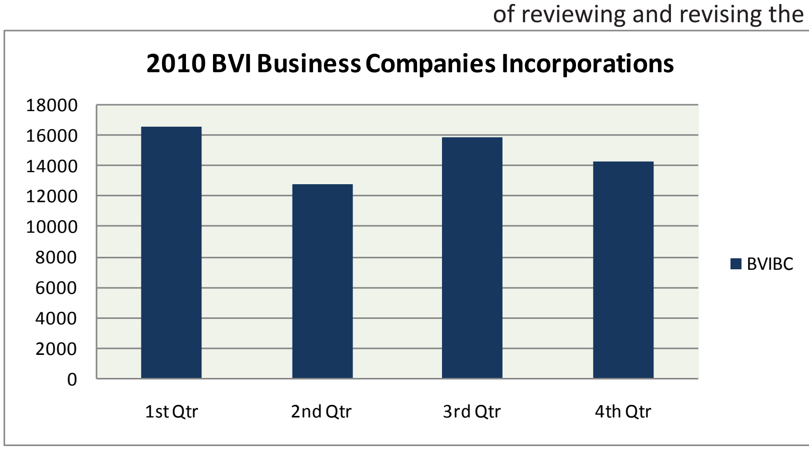
SECTOR OVERVIEW

2010 saw an overall increase in new incorporations and post incorporation transactions for BVI Business companies when compared to 2009. Incorporations for BVI Business companies increased by 25.6% above 2009, as increases in incorporations were recorded within every quarter of 2010.

Incorporations and Registrations

Type of Entity	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Total 2010
BVI Business Companies	14,296	15,946	12,815	16,595	59,623
Limited Partnership	29	14	16	13	72

As of 31 December, 2010, the total number of companies registered was 675,625, of which 459,364 were active as of that date. During 2010, 45,800 companies were struck for non-payment of annual fees and 7,782 were dissolved.



The Registry saw an increase in most categories of post incorporation transactions filed during 2010. Requests for certificates of good standing which are usually at a high volume followed the expected trend and increased by 9.3% above 2009. Another significant increase was seen in the filing of Register of Members and Directors which increased by 51% above 2009. It should be noted that 42% fewer companies filed the Notice of Election to Disapply Part IV of the Transitional Provisions than in 2009. The number of entities that elect to disapply the provision is generally expected to decrease year on year as the number of active business companies that are non-compliant decline.

SUPERVISORY REPORT

During 2010 a focus group was formed to review and revise the existing Intellectual Property legislation. The group was charged with the responsibility of reviewing and revising the existing laws on Intellectual and Industrial Property and advising on appropriate new legislation and to take into account current treaties on the subject and determine how best the subject could be effectively administered by the Commission.

31 December, 2009 marked the final date on which grandfathered bearer share

Total Registrations	2010	2009	2008	% Change
BVI Business Companies	59,623	47,477	61,716	25.6
Limited Partners	72	65	114	10.7
Trademarks (Local)	192	207	177	(7.2)
Trademarks (UK)	88	81	108	8.6

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31 December, 2009 marked the final date on which grandfathered bearer share companies were eligible to disapply the provision in the BVI BC Act which allows them to retain their bearer shares. For those companies that did not seek to disapply the provision, their Memoranda were deemed to be amended as of 1 January, 2010 to state that these companies are not authorised to issue bearer shares, convert registered shares to bearer shares or exchange registered shares for bearer shares on 1st January, 2010. Essentially, effective 1 January, 2010 such companies ceased to be bearer share companies.

STAFFING

The Registry continues to operate with a staff complement of 36. The divisions within the Registry comprise of Local Searches, International Searches, VIRRGIN Support, Data Cleanse, The Print Team, Records Management Unit, Trade Marks and the Registrar's Support Team. At the end of 2010, three members of staff remained on study leave while other individuals continued with independent studies at H. Lavity Stoutt Community College.

2011 OUTLOOK

The Registry continues to look forward to the development of VIRRGIN's on-line search function which will significantly reduce the high volume of manual processes in the Search Department and provide information to customers in a more efficient and cost effective way.

It is also anticipated that regulations and amendments to the BVI Business Companies Act and new Trade Marks legislation will be introduced in 2011. This will be accompanied by training and awareness sessions with the industry.

Regulation and Supervision

The Financial Services Commission Act, 2001 establishes two statutory committees for the purposes of addressing matters pertaining to the licensing and supervision of Commission licensees and the enforcement of the requirements of the Act. These two statutory Committees are the Licensing and Supervisory Committee (LSC) and the Enforcement Committee (EC).

Licensing and Supervisory Committee

Where in any financial services legislation reference is made to the Commission with respect to the granting of an authorisation or a licence, registration or recognition, the power to grant such an authorisation or a licence, registration or recogntion is constructed to vest in the LSC. As such, the LSC's functions are to receive, review and determine applications for authorisations, licences, registration and recognitions under any Financial Services legislation. In addition, the LSC supervises regulated persons to ensure that they continue to satisfy the fit and proper criteria for the conduct of financial services business. The names of persons who have been granted licences or certificates under financial services legislation other than certificates under the BVI Business Companies Act are also required to be published by the LSC.

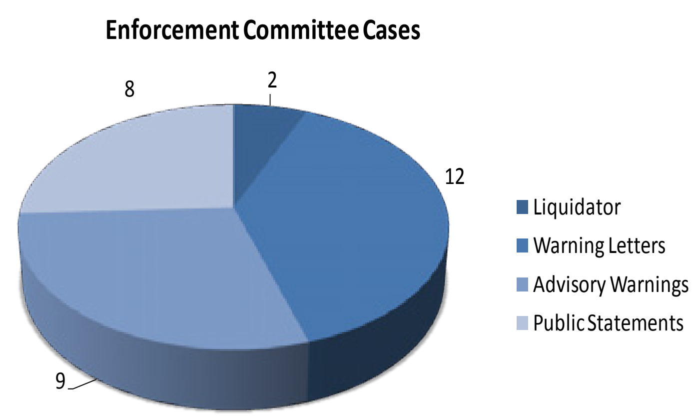
In instances where an application for a licence or for registration or recognition under financial services legislation is not approved, the LSC is required to notify the applicant and transmit a copy of the decision, together with a copy of the application to the Board of Commissioners for its record. Any person who is aggrieved by any decision of the Committee other than a decision on the grant of a licence, or a decision under the Securities and Investment Business Act, 2010 refusing the grant of a licence, on the basis that any person having a share or other interest in the applicant, whether legal or equitable does not satisfy the Commission's fit and proper criteria, may appeal the decision in accordance with Part VI of the FSCA.

Matters Brought Before the Licensing and Supervisory Committee

	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Total 2010
Banking and Fiduciary Services	**80**	91	84	90	345
Insolvency Services	**0**	1	7	4	12
Insurance	**53**	50	34	27	164
Investment Business	**131**	271	163	291	856
Total	**264**	413	288	412	1377

Enforcement Committee

Regulatory regimes, the nature and extent of financial regulation and regulatory compliance all continue to increase in complexity and financial services regulators globally must use the enforcement mechanisms available to address and deter regulatory non-compliance. As financial services products continue to evolve, becoming more elaborate, regulators are tasked with introducing measures that can effectively police the industry through ongoing supervision in addition to the enforcement modalities. Effective enforcement is an essential tool in any well developed regulatory environment as it serves to deter non-compliance and communicate the regulator's intolerance for the contravention of legislative requirements.



The Commission's regulatory toolkit includes extensive enforcement powers and these powers are exercised on its behalf by the Enforcement Committee (EC). The functions of the EC, which is statutorily established under section 14(1) of the FSCA, are directed by the Guidelines and Operating Procedures for the Enforcement Committee which has been published by the Commission.

The Commission employs its enforcement powers primarily to its regulatory objectives as set out in the Financial Services Commission Act. In the spirit of 'light touch regulation', the Commission tries to address regulatory non-compliance without recourse to intrusive enforcement action, except where absolutely necessary. For example, where the contravention is viewed as minor by the EC and a licensee has taken immediate steps to achieve compliance, the Commission may issue a warning, which it considers appropriate enforcement action. However, where the breach is of a serious nature, or there is a history of non-compliance with regulatory laws, or the licensee has not taken adequate remedial action in respect of a breach, the Commission considers what course of action would be a proportionate response while adhering to the required standards of fairness and consistency.

Regulatory Overview

Banking and Fiduciary Services

The Division's mandate covers the supervision of trust and corporate services providers that are subject to licensing under the Banks and Trust Companies Act, 1990 ("BTCA") and Company Management Act, 1990 ("CMA"). Licensees that fall under the remit of the BTCA, and seek to provide trust services and/or company management services may fall into 1 of 5 classes: specifically, a licensee may be licensed as a Class I trust, Class II trust, restricted Class II trust, Class III trust and restricted Class III trust. Applicants who qualify for licensing under Section 19A of the CMA may seek that approval if they intend to provide company management services.

Fiduciary Services

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Banking

The Division's mandate also includes the supervision of banking institutions which are subject to licensing under the BTCA. A banking licence issued under this Act may be in 1 of 3 categories: a general banking, restricted Class I banking, or restricted Class II banking licence in accordance with section 10(1) of the BTCA.

Supervision of Authorised Custodians

The Authorised Custodian regime operates pursuant to provisions in the Financial Services Commission, Act, 2001 ("FSC Act") and governs the immobilisation of bearer shares by requiring those shares, if issued by BVI Business Companies, to be lodged or in the custody of a regulated person. The regime recognises custodians licensed by the Commission, as well as bodies incorporated or formed outside the .BVI that are not resident in, and do not have a place of business in, the BVI.

Since the introduction of the regime in 2005, the Commission has licensed eight BVI entities and recognised five entities incorporated outside the Territory, as being authorised to take custody of bearer shares issued by BVI business companies. Following internal discussion that included the Registry of Corporate Affairs, the Commission is reviewing feasible and appropriate reporting requirements for Authorised Custodians. The Commission recognises that any changes to introduce a reporting requirement will require legislative amendment and the specific necessary actions will be discussed more fully during 2011.

Supervision of Money Services and Financing businesses

Money services remitters and entities engaged in providing financing above the legislative threshold are subject to supervision by the Commission since the 2009 enactment of the Financing and Money Services Act, 2009 ("FMSA"). In 2010, existing entities engaging in the activity governed by the FMSA were deemed not in contravention of the new legislation as long as they had filed an application with the Commission in compliance with the transitional provisions provided by the FSMA.

The transition period during which the Commission sought to acclimatise existing businesses with the requirements of regulatory supervision was challenging for both the regulator and the intended regulated. The Commission embarked on an extensive campaign to increase awareness of the new requirements to potential licensees and to ensure that the existing entities understood the importance of strict regulatory compliance, the consequences for non-compliance and the risks to their businesses for failure to move expeditiously to comply with the new requirements under the law.

Bringing the new class of licensees into the regulatory fold was further challenged by an unrelated development that saw some financial institutions adopt policies that excluded money transmitters generally as a client base. This restriction on doing business with the money transmitting sector critically impaired the ability of money transmitters to continue regular operations as they were temporarily without general banking services. The Commission through dialogue with the relevant trade association implored financial institutions to consider that money transmitters are subject to the Commission's regulatory supervision and to provide a favourable environment in which they could obtain the banking services critical to their operations. As the market sector for money services and the number of licensed money services operators grows, the Commission continues to observe improvements in the operations of money services providers through on-site visits and other monitoring techniques for on-going supervision.

Fiduciary Services

During 2010, the fiduciary services sector of the industry experienced a 13% growth in the number of licensees to 239 service providers.

As the state of the global economy stabilised and improved, a number of new applicants for licensing who were already conducting business within the BVI, through introduced relationships, took the business decision to establish independent entities after achieving critical mass. During 2010, the division also approved the changes in ownership of two licensees which were brought about by two separate acquisitions. The licensees involved included two of the larger trust and corporate service providers.

Banking

The BVI's banking sector remained healthy and stable during 2010 despite the global economic challenges encountered since 2008. At the end of 2010 the sector comprised 7 banking institutions that are regulated by the Commission. Of the 7, there are 6 general banking and 1 restricted Class 1 banking licence-holders. BVI banks have shown resilience in performance during 2010, and this is evidenced by the less than 1.00% decrease in the overall Total Asset size of the Territory's banks between Q4 2009 and Q4 2010 and the 8.07% increase in total Loans and Advances. The industry did, however, realize a 4.94 decrease in Total Deposits between Q4 2009 and Q4 2010. With regard to capitalization, all banks remained liquid and properly capitalized well over the regulatory requirement of 12% Tier I capital with an average ratio of 30.96% amongst the commercial banks. The Average Non-Performing Loans as a percentage of Total Loans for the banking sector decreased to 2.23% compared to 2.96% reported at the end of Q4 2009.

Net income was reported at $37,991 as at the end of Q4 2010 compared to $34,628 reported at the end of 2009 and Retained Earnings were up 9.71% year on year. Competing in low interest rate environments provided reduced yields on loans, affecting profitability and provisioning for loan losses increased 133.85% year on year.

In December, 2010, the Official Receiver was appointed by the BVI Courts as liquidator to a Class I trust licence, pursuant to section 178 (1)(d) of the Insolvency Act, 2003. This course of action was supported by the Commission following a review and implementation of appropriate enforcement action by the Commission on the licensee, which was unable to continue as a going concern. Subsequent to the Official Receiver's appointment, the Commission responded actively to provide the necessary assistance in the orderly winding up of the licensee.

Legislative and Policy Developments

During the 4th quarter, the Banks and Trust Companies (Amendment) Act, 2010 and the Company Management (Amendment) Act, 2010 were enacted and affected a number of changes to the regulatory regime they govern. The amendments sought to streamline the legislation with provisions of the Anti-money Laundering and Terrorist Financing Code of Practice, 2008 and to achieve greater synergy between the BTCA and the CMA. The main aspects that addressed the need for synergy included amendments outlining vesting provisions and definitions. Specific amendments to the CMA made provisions for the inclusion of subsidiaries to licensees, as well as requiring notification of a change in Principal Office and Authorizsd Agents – provisions that always existed with the BTCA. Amendments were also introduced to clarify the restrictions on the issuance of licences to a particular subset of entities, subject to relevant considerations. The unique amendment that impacted the BTCA was the introduction of clauses to bring about the reclassification of a trust licence between specific classes. The power to reclassify an existing licence will allow the Commission to more closely align a licence to the current and expected business scope of a current licensee.

December, 2010 also saw the enactment of the Financial Services Commission (Fees) Regulations, 2010, which introduced new fees for post-licensing transactions which were not previously subject to fees.

The Division began implementing the FMSA in early 2010 with the passage of the Financing and Money Services Regulations, 2010. The FMSA was enacted to provide for the licensing, registration and supervision of persons who carry on financing and/or money services business. The introduction of this piece of legislation stemmed from the Territory's commitment to ensure compliance with the Financial Action Task Force's ("FATF") recommendations on Anti-money Laundering and Countering the Financing of Terrorism (AML/CFT).Specifically, FATF recommendation 23, . states inter alia: "Other financial institutions should be licensed or registered and appropriately regulated, and subject to supervision or oversight for anti-money laundering purposes, having regard to the risk of money laundering or terrorist financing in that sector. At a minimum, businesses providing a service of money or value transfer, or of money or currency changing should be licensed or registered, and subject to effective systems for monitoring and ensuring compliance with national requirements to combat money laundering and terrorist financing."

The Commission received 8 applications for licensing (5-money services and 3-financing), with the first approval being granted for the issue of a money services licence in Q4 2010.

Supervisory Report

As part of its on-going supervision of licensees, the Commission continues to conduct on-site compliance inspections to determine and rate regulatory compliance. In 2010, the Commission's Inspection Unit carried out follow-up onsite inspections of five fiduciary services licensees that were previously subject to full inspections. The aim of the follow-up inspections was to verify information reported by the licensee through reporting obligations introduced by the Commission. The reporting obligations required the licensees to make regular periodic reports to the Commission on the progress made in remediating client due diligence deficiencies discovered during inspections. The follow-up inspections provided an opportunity for the Commission to verify that licensees had materially satisfied outstanding due diligence requirements as reported

A productive partnership with the private sector has always been an important relationship for the Commission and bodes well for ensuring a mutual understanding of objectives regarding activities of financial services sector. In support of this important relationship, the Commission's Fiduciary and Registry of Corporate Affairs Divisions, teamed with the industry to form a liaison committee. In October 2010 a meeting of the Fiduciary and Registry Liaison Committee was convened to discuss, amongst other things:- (i) Declined Business Logs; (ii) TCSP Prudential Returns; (iii) Authorised Custodians; and (iv) Timeframe for the Submission of Audited Accounts. The discussions of the committee provided critical information and views to the Commission which are being considered and the Committee is poised to meet regularly to capitalise on the exchange of ideas and information.

Also in October, 2010 the Banking Division on behalf of the Commission, convened a meeting with the BVI Banker's Association to discuss and advise the members on a variety of regulatory matters. The Commission presented various updates, particularly with respect to the impending increase in licence and renewal fees to be introduced in 2011 as a result of the newly enacted Financial Services Commission (Fees) Regulations, 2010. The group was advised that stemming from the recent IMF country evaluation undertaken on the BVI the Commission would be introducing market risk prudential returns by mid 2011.

The administration of the Regulatory Code, 2009 took full effect in 2010 and the Regulatory Code has added clarity to requirements in the application process for documents, such as business plans, the need for resources, and managed trust arrangements. Existing licensees are now taking steps to ensure that their framework, regulatory deposits, resources, etc. meet the minimum requirements as set out in the Code.

The Banking and Fiduciary Services Division continues to utilise the risk based questionnaire which forms part of the Commission's risk assessment framework. From the questionnaire, which is currently only circulated to licensees in the fiduciary services sector, responses received are electronically analysed and a weighted risk score is assigned to each licensee. The Commission then further considers information gathered from other sources including offsite assessments and determines any necessary action to be taken which may include the determination of the scheduling for inspection, or heightened desk-based supervision.

During 2010, Licensees commenced filing TCSP Prudential Returns under the Financial Services (Prudential and Statistical Returns) Order, 2009. The Division has been assessing the returns filed and feedback from the fiduciary services industry as well as from regulators reviewing the returns indicates that there is a need for minor amendments to the returns, as well as the further development and publication of accompanying Guidance Notes which will be introduced in 2011.

Statistical Data Analysis

Asset Analysis (Growth)
The total asset size of the BVI's banking system as at Q4 2010 was $2,489,436 down by less than 1.00% from $2,491,015 in Q4 2009. The historical trend for the year was an initial 2.35% increase between Q1 and Q2, a 13.25% decrease between Q2 and Q3 and an 11.89% increase between Q3 and Q4. Cash Items and Equivalents totaled $757,820 at the end of Q4 2010 down 18.08% compared to $925,018 in the same quarter in 2009. Total Loans and Advances increased 8.07% to $1,528,843 compared to $1,414,641 in 2009. Total Investments were down 42.78% to $1,668 from $2,915. Total Other Assets increased 37.70% to $201,105 from $146,048 at the end of 2009.

Table 1 - Quarter and Year on Year Comparison

BVI Banking Sector Balance Sheet (Assets)	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009
Total Cash Items	**757,820**	617,455	943,126	898,133	**927,411**
Total Loans and Advances	**1,528,843**	1,475,405	1,455,512	1,461,816	**1,414,641**
Total Investments	**1,668**	1,757	1,991	2,627	**2,915**
Total Other Assets	**201,105**	130,290	164,102	143,330	**146,048**
Total Assets	**2,489,436**	2,224,907	2,564,731	2,505,906	**2,491,015**

The commercial banks held $2,453,133 of the banking system's total assets in Q4 2010, which indicated a less than 1.00% increase compared to Q4 2009's $2,453,025. The total assets held by the non-commercial banks decreased 4.44% to $36,303 from $37,990 year on year. Together, the three largest banks held approximately 69.53% of the total assets in the BVI banking sector.

Cash and Cash Equivalent Items, and Loans and Advances continue to be the largest assets held by BVI banks. Cash and Cash Equivalent Items made up 30.44% of total assets in Q4 2010 compared to the 37.23% reported at the end of Q4 2009. At the end of 2010 Loans and Advances at $1,528,843 made up over 61.41% of the BVI banking sector's total assets compared to 56.79% at the end 2009.

Liability and Shareholder's Equity Analysis (Growth)

Total Liabilities for the BVI banking sector at the end of 2010 was $2,062,675 down 1.28% from $2,089,477 in 2009. The historical trend for the year, however, was an initial 2.24% increase between Q1 and Q2, a 16.36% decrease between Q2 and Q3 and a 14.49% increase between Q3 and Q4. The BVI banking sector's Total Deposits was also down 4.94% at $1,662,631 from $1,749,025 in 2009. Long Term Debt decreased 27.48% to $123,073 compared to $169,716 reported at the end of 2009. Total Accrued Liabilities decreased less than 1.00% to $11,919 from $11,954 in 2009. Total Other Liabilities was reported at $263,595 up 67.98% from $156,920, and Total Loss Reserves decreased 21.75% to $1,457 from $1,862 in 2009. The BVI banking sector's Total Shareholder's Equity increased 5.40% between 2009 and 2010 to $423,227 from $401,538.

Commercial banks made up 99.99% of the banking sectors total liabilities at $2,062,644 versus the non-commercial banks' contribution which made up less than 1% or $31. Deposits held by the commercial banks continue to be the largest segment of liabilities held by the banking sector at $1,662,631.

Table 2 - Quarter and Year on Year Comparison

BVI Banking Sector Balance Sheet (Liabilities & Shareholder's Equity)	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4 2009
Total Deposit	**1,662,631**	1,433,112	1,490,565	1,706,822	**1,749,025**
Total Long Term Debt	**123,073**	109,968	414,465	193,576	**169,716**
Total Accrued Liabilities	**11,919**	10,894	11,848	14,949	**11,954**
Total Other Liabilities	**263,595**	246,528	236,021	190,235	**156,920**
Total Loss Reserves	**1,457**	1,178	1,203	1,243	**1,862**
Total Liabilities	**2,062,675**	1,801,680	2,154,102	2,106,825	**2,089,477**
Total Shareholder's Equity	**426,761**	423,227	410,629	399,081	**401,538**
Total Liabilities & Shareholder's Equity	**2,489,436**	2,224,907	2,564,731	2,505,906	**2,491,015**

Statement of Income and Expense and Profitability

The banking sector reported net income of $37,991 as at the end of Q4 2010, up 9.71% from $34,628 as at the end of Q4 2009. The increase was due mainly to the 1.94% increase year on year in Interest Income earned by the industry (reported at $54,219 up from $53,185 in Q4 2009), the 11.94% increase in Non-Interest Income ($7,883 from $7,042 reported at the end Q4 2009) and the 25.04% decrease in Interest Expense ($6,226 down from $8,306 in Q4 2009). The overall increase in interest earnings resulted from the market's increased lending appetite despite the recent economic downturn, and the decrease in interest expense due to the low interest rate environment in which the banks currently operate.

Table 3 - Banking Sector Income Comparison for the Q4 2010 and Q4 2009

Banking Sector Statement of Income & Expense	Q4 2010	Q4 2009
Interest Income	54,219	53,185
Interest Expense	6,226	8,306
Net Interest Income	**47,993**	**44,879**
Provisions for Losses	753	322
Non-Interest Income	7,883	7,042
Operating Income	**55,123**	**51,599**
Non-Interest Expense (Overhead)	17,581	17,906
Net Gain/(Loss)	449	935
Income before Taxes	**37,991**	**34,628**
Applicable Taxes	0	0
Net Income	**37,991**	**34,628**
Dividend	0	0
Net Income Retained	**37,991**	**34,628**

The average Rate of Return on assets for commercial banks at the end of Q4 2010 was 1.89%, while the average profit margin was 61.51%. Net interest margin to gross income ratio, which is a measure of the relative share of net interest earnings within gross income, was recorded at an industry average of 83.86% at 2010 year end. Non-interest expense to gross income ratio, which measures the size of administrative expenses to gross income, was recorded at an average of 43.73% at the end of 2010.

Capital Adequacy and Liquidity

The banks in the BVI are properly capitalised and over the regulatory requirement of 12% Tier 1 capital with the average Tier 1 capital to risk weighted asset ratio being reported as 30.96% for commercial banks and 101.41% for the sole non-commercial bank. Capital positions of the commercial branches operating in the Territory are also monitored, managed and supported overseas by their parent institutions.

Asset Quality

The Total Non-Performing Loans in the BVI banking sector experienced a 21.13% decrease to $20,061 from $25,434 at the end of 2009. This decrease was largely due to sharp decreases in three of the commercial banks' Non-Performing Loans over the 12 month period, which was indicative of their overall improvement in this segment.   Total Non-Accruing Loans also experienced a 1.03% decrease to $19,143 from $19,343 in 2009, and Total Loan Loss Reserves saw a 21.75% decrease to $1,457 from $1,862 for the same period.

The average level of Non-Performing Loans as a Percentage of Total Loans of the BVI banking sector was 2.23% at the end of 2010 compared to 2.96% at the end of 2009. The total volume of non-performing loans in the BVI at the end of 2010 was $20,061.

Concentration of Deposits

On average the commercial banking sector maintains good concentration levels relative to their core deposit base, maintaining large depositors at approximately 29.82% of the total deposit base. The sector's demand deposits also have a concentration level pertaining to large depositors that on average is 35.80%, while the average large loans as a percentage of total loans for the industry stands at 19.09%.

Sensitivity to Market Risk/Foreign Exchange (Net Open Position Analysis)

All the banks in the BVI that conduct business in foreign currency are now required to calculate their Net Open Position in order to better monitor sensitivity to market risk. As of the end of 2010 the BVI commercial bank's Total Net Open position was $265,000. The commercial banks average Net Open Position as a comparison to Total Capital was less than 1%.

Sensitivity to Interest Rate Risk (Total Cumulative Gap Analysis)

At the end of 2010 the commercial banks' Average Total Cumulative Gap was $151,094 and the industry remained asset sensitive.

Involvement in Regional and International Organisations

The Commission is a member of the Offshore Group of Banking Supervisors ("OGBS"), which is comprised of 15 member countries (Aruba, Bahamas, Barbados, Bermuda, BVI, Cayman Islands, Gibraltar, Guernsey, Isle of Man, Jersey, Labuan, Macao, Netherland Antilles, Panama, and Samoa) plus 3 organisations (FSA, FSB and FATF). OGBS was organised to enable members to identify and discuss issues of mutual interest, establish an identity of purpose and share knowledge and experiences;

In March 2010, OGBS met to discuss, amongst other things, how the mutual evaluation reports of OGBS members who are also members of a FATF Style Regional Body (FSRB) should be considered, and to consider how to address the four OGBS members that are not currently members of a FSRB, for compliance with the FATF's 40 +9 Recommendations.

IMF Financial Sector Assessment Program

In April, 2010 the Territory underwent the IMF's Financial Sector Assessment Program (FSAP). As part of the review the Commission's implementation of current requirements was assessed against the BASEL Core Principles and the OGBS Statement of Best Practice for Trust and Corporate Service Providers for the banking and fiduciary services industries, respectively.

Specific to the issues raised in the Technical Note on Trust and Corporate Services Providers, the Division has: (i) begun the full implementation and enforcement of the Regulatory Code, 2009; (ii) commenced work towards greater monitoring of licensees through the filing of prudential returns; and (iii) budgeted for additional resources specific to the review of trust and corporate service providers. The Division is also actively participating in Commission wide discussions on the development of a risk based inspection policy as well as reviewing penalties under the BTCA and CMA.

FATF/CFATF Joint Typologies Report

In November 2009, the FATF/CFATF established a joint working group to develop typologies on money laundering using trust and corporate service providers. The BVI served as a member of the core working group and in 2010 the group completed its Joint Typologies Report on Money Laundering using Trust and Company Service Providers (the "Report"). The issues reviewed while developing the report were: (i) determination of the need to establish standards for TCSPs; (ii) the role of TCSPs as it relates to transparency and international cooperation and the information that they maintain which directly impacts ongoing efforts to mitigate against money laundering and terrorist financing; (iii) the compilation of current data collected by way of Questionnaire.

After being tabled on the FATF Plenary Floor in October, 2010, the report was passed on to the Working Group on Terrorist Financing and Money Laundering as well as the Working Group on Evaluations & Implementations for further policy consideration. The report was also tabled at the November, 2010 CFATF Plenary and Ministerial.

2011 Outlook

Development of legislative framework for TCSPs -

In seeking to further enhance the legislative framework for TCSPs, the Division has recognised the need to address gaps within current requirements, as well as the need to address concerns emergent from the IMF FSAP. Therefore, it is anticipated that further development of the legislative framework will take place in 2011 which will include:

(i) amendments to include restrictions on financial exposures; (ii) additional guidance in relation to Introduced Business; (iii) additional guidance and/or requirements for Managed Trust Company business; and (iv) the introduction of Declined Business Logs.

Authorised Custodian Regime -

Following the discussions within the Commission on the review of the Authorised Custodian Regime which took place in late 2010, the Division plans to develop the regulatory framework for Authorised Custodians. Specifically, it is envisaged that the framework will result in the introduction of new legislation, which will subsume Aide Mémoire # 3 and will include: (i) annual filings (prudential returns) for Authorised Custodians; and (ii) possible amendment to VIRRGIN filing with ROCA for BVI BCs that retain the ability to issue bearer shares that have been placed and immobilised.

Investment Business

The Investment Business Division administers the Securities and Investment Business Act, 2010 ("SIBA") and regulates, licenses, and supervises all securities and investment business activities and mutual funds that are recognised, registered and licensed under the Act.

Sector Overview

Overall State of the Sector

2010 signalled the waning of the tumultuous global crisis, yet markets generally continued to exhibit much volatility. Notwithstanding, the global fund industry had strong performance, both in terms of returns and inflows, as asset levels climbed back to $1.7 trillion. In BVI much of 2010 focused on compliance with new regulatory initiatives and funds restructurings.

The resurgence seen in the global markets was not reflected in the local fund industry, however, as inflows did not translate into increased numbers of new funds. Throughout the year, the industry continued to see a large decline in the level of new business when compared to previous years and the levels of liquidations and cancellations outpaced previous years. Overall, the total number of funds and licensees operating in the BVI declined, marking one of the largest year-on-year declines in the industry's history. The Division's primary focus in 2010 was to assist existing funds, licensees, and securities business providers to become compliant with SIBA.

Regional and International Developments or Influences

Global regulatory reform which was characterised by uncertainty in 2009, crystallised in 2010. Regulatory initiatives such as the Dodd Frank Act in the U.S and the European Alternative Investment Fund Managers ("AIFM") Directive became law. Each of these initiatives share some broad regulatory tenants requiring amongst other things, certain funds and/or managers to be subject to authorisation, supervision, transparency (reporting), and risk assessments. Moreover, each brought a restructuring of regulatory powers, institutions, and objectives. The International Organization of Securities Commission (IOSCO) continued to lead the way as the global standard setter for securities business. Amongst other works that are very relevant to BVI securities business, IOSCO completed and published its updated principles for securities regulation, its final report on cross border supervision, and its report on conflicts of interests facing market intermediaries. The updated principles are particularly relevant as these are the main global principles for securities regulation. Some of the new principles introduced require regulators to develop and engage systemic risk regulation and regulate hedge funds and their managers. In addition, new principles were introduced for the independence and oversight of auditors and regulation of credit rating agencies and other investor analytical service providers.

Legislative Developments

Securities and Investment Business Act ("SIBA")

Mid 2010 saw the introduction of a new and more comprehensive regulatory regime for funds and securities business in the BVI – SIBA.

The enactment and implementation of the Securities and Investment Business Act, 2010 brought to a conclusion, years of planning and refinement on an enhanced approach to securities and investment business regulation. SIBA now puts in place a comprehensive regulatory regime, not only for funds and their service providers, but also for securities intermediation activities and public issues of securities. With its broadened scope it covers the regulation and supervision of investment business services providers; public issues of securities; mutual funds; and the criminalising of market abuse.

In addition to SIBA, various other supporting regulations and Codes were either finalised or came into effect in 2010. These include:

- Mutual Funds Regulations, 2010
- Public Funds Code, 2010
- Regulatory Code (Amendment) 2010
- FSC (Securities and Investment Business Fees) Regulations, 2010
- FSC (Securities and Investment Business Fees) (Amendment) Regulations, 2010

The Mutual Funds Regulations set out more specific and detailed regulations for fund business, and enshrines within law a number of existing regulatory practices. The Public Funds Code sets out high level principles of business which public funds must conform to, as well as the detailed regulatory requirements in relation to their operations. The Code also sets out in great detail the requirements for the contents of the prospectus of a public fund.

The Regulatory Code was amended to include a new Part which addresses the requirements of Investment Business licensees, and to amend other sections of the existing Regulatory Code to make them specifically relevant and account for the nuances of securities business.
The FSC (Securities and Investment Business Fees) Regulations, 2010 provide for the introduction of new fees to take account of the new licensing categories and regulatory transactions under SIBA. They also introduce application fees in many new categories and significantly increase annual fees for most categories of licensing under SIBA. These fees were increased to more accurately reflect the high and increasing cost of regulation, particular arising from the significantly broadened regulatory regime.
SIBA and other subsidiary and supporting legislation follow objectives that are consistent with global objectives, and with its reformed regulatory regime places the BVI in a position to protect itself against reputational and other risks.

Change in scope of supervisory staffing

The staffing resources of the Division saw various changes in 2010. Staffers left to further their education and new recruits were brought in to buttress the resourcing of the Division. Persons were specifically targeted to help to administer and develop the new regulatory regime involving securities business.

Supervisory Report

Key Initiatives

Annual Returns

2009 marked the second year of annual reporting by recognised/registered mutual funds. Funds are required to submit completed annual returns on or before 30 June in respect of the year immediately preceding. Therefore, 2009 results were reported in 2010. In 2010 in order to encourage and facilitate optimal filing the Commission extended the deadline for submission of the 2009 returns until 30 October, 2010. Notwithstanding the extensions, and the electronic reporting system, timely compliance and low numbers of filings continue to characterise the regime.

The total number of reporting funds represents 51% of the active funds as at 31 December, 2009. The Commission is in the process of compiling statistical information from the filings and hopes to publish this information later in the year.

Statistical Analysis

Overall, the total number of funds and licensees operating in the BVI declined; in the case of funds by 7.9%, and for Investment Business licensees by 9.8% both marking the largest year-on-year decline in the industry's history. The large number of cancellations and reduced levels of business has also resulted in the largest decline in active licensees and funds in the history of the regime. Of even greater concern is the extent to which the decline seen during 2010 has outpaced previous declines as the 7.9% decrease in fund business far outpaced that of the decreases seen in 2003 and 2009 which were 2.2% and 0.5% respectively. The outlook is similarly grim for that of active licensees as the decrease of 8% seen in 2010 is significantly greater than the declines seen in 2003 (2.5%) and 2009 (1.3%).

Generally, in past years declines were so minimal that they were viewed simply as no growth within the industry. The notable declines paint a questionable picture that BVI fund business' long solidification as the #2 fund domicile in the world is under threat.

While the BVI's new regulatory regime has brought with it a large increase in applications for market intermediary licenses, these increases are likely attributable to the requirements to comply with the new SIBA legislation.

Training

The Division continued in the Commission's tradition of providing relevant training to its staffers by ensuring that all members of staff were exposed to various local and overseas training sessions and conferences, including training initiatives in the US, Canada, Europe and the Caribbean hosted by the relevant authorities. The training covered areas such risk based supervision, regulation, supervision of market intermediaries, enforcement, and anti-money laundering.

Involvement in Regional and International Organisations

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

The Division's Director made presentations at two BVI International Financial Centre Symposiums in Sao Paolo, Brazil and in New York on the topics - BVI Regulatory Approach in a new Era of Regulation, and The New Regime for Securities and Investment Business Regulation in the BVI. The Director also participated in the Overseas Territories Working Group on Hedge Fund Regulation, which finalised a paper on the subject area in 2010.

The Commission through the Investment Business Deputy Director continued to participate in CFATF Plenaries, and served on the FATF/CFATF's Joint Typologies Working Group on Trust and Company Services Providers, and presented the work of the Group at the June Plenary. He also attended the annual Egmont meeting, and made a presentation at the National Advocacy Centre on the Misuse of Corporate Vehicles.

The Division continues to be a key resource for, and play a leading role in the Offshore Group of Collective Investment Scheme Supervisors (OGCISS). In 2010 the BVI hosted OGCISS' annual meeting, where delegates from 6 regional regulators came to discuss matters of mutual interest relating to regulation. Several of the Division's staffers served as panellists for discussions on areas of risk based supervision, regulatory challenges facing collective investment schemes, and international initiatives in Hedge Fund regulation.

Strategic Work Plan Achievements

The Division was able to help facilitate the completion and enactment of SIBA and the Mutual Funds Regulations, as well as commence the administration of SIBA. The Division also was able to help facilitate the completion and enactment of the Public Funds Code, 2010, Regulatory (Amendment) Code, 2010 and the FSC (Securities and Investment Business Fees) Regulations, 2010.

2011 Outlook

Because of new regulations introduced in 2010; 2011 will be characterised by a focus on implementation initiatives. In both Europe and US, this will be formidable, as rulemaking and secondary legislation are not yet advanced. In the BVI, implementation will also be a challenge and a focus, as policy and interpretation issues of the new legislation, regulations and Codes will add to the deluge of applications to be processed.

The extent to which the Hedge Fund industry grows globally will be largely dependent on the actions of policy makers both in relation to regulation as well as fiscal and monetary policy. From a geographical perspective, the level of success developed markets have in managing debt problems as well as the success emerging markets have in curbing inflation will prove critical to the future performance of the global economy and the Hedge Fund Industry.

As a result, Europe and the United States will be seen as the standard setters in the industry and invariably, will drive the agenda laid out by the G20 to bring hedge funds and other alternative products into the regulatory sphere.

2010 was a year that was synonymous with pleasing legislative achievements and sobering industry performance. However, 2011 could prove to be quite a seminal moment in the industry's existence. This is because the local industry thus far has been unable to follow the trend of resurgence seen in the global markets. Shifts in investor preference have also had an impact on BVI. Should these trends continue, 2011 could very well mark the turning point in terms of relative and actual performance of our local industry, and BVI's place in the global hedge fund market.

Toward the end of 2010, the BVI saw some increase in applicants for licensing under SIBA, but limited fund applications. It is expected that 2011 will be much of the same. 2011 and beyond will continue to be dominated with further regulatory reform and new policies and initiatives to bolster the recently enacted legislation, new and greater international scrutiny, and growing investor demands for transparency, liquidity and diminished risk.

Insurance

The Insurance Division of the Commission is responsible for the prudential regulation, supervision and inspection of all insurance entities that are licensed to operate in, and from within, the Virgin Islands.

The legislation administered by the Division includes the Financial Services Commission Act, 2001, the Insurance Act, 2008, the Insurance Regulations 2009 and Regulatory Code, 2009 and subsequent amendments. The Insurance Division also takes into account other relevant legislation in performing its functions.

In 2010, two hundred and nineteen (219) captives, 36 domestic insurers, 16 agents, 7 brokers, 14 insurance managers and 4 loss adjusters were on the register of licensed entities. Most of these companies are single parent captive insurers from the USA.

Over 75% of the business was written in the classes of property, liability, pecuniary and life which also accounted for 54% of the premiums.

From a regulatory perspective the main developments include:

- The introduction of a federal regulatory body for insurance, in United States of America.
- Significant amendments to the insurance core principles and the overarching guidance for regulating groups by the International Association of Insurance Supervisors.
- The proposed division of the Financial Services Authority, in the United Kingdom, into two separate entities, one with responsibility for prudential regulation and the other with consumer protection responsibilities. This is resulted from the reviews into what caused the banking and financial crisis in United Kingdom and is significant to other jurisdictions as the financial services authority was one of the first “financial services regulators” rather than sector specific regulators.

The Insurance Division represents the Commission as a member of the International Association of Insurance Supervisors (IAIS), the Offshore Group of Insurance Supervisors (OGIS) and the Caribbean Association of Insurance Regulators (CAIR).

The Division is represented at the Governance and Compliance Sub-committee of the IAIS, the Executive Committee and Evaluation Committee of OGIS and on the Executive Committee of CAIR.

As part of the commitment to review standards, principles, guidance and issues papers adopted by the IAIS during its 2010 annual general meeting, the Commission took into account the various changes to Insurance Core Principles, the principles representing the methods upon which the jurisdiction is reviewed by IMF in its FSAPs and peer reviews of IAIS. The IAIS is still in the process of improving the Insurance Core Principles and this process will be ongoing throughout 2011 and into 2012.

The Commission has participated in the IAIS in its review of ComFrame, the common framework that is the tool to be used for internationally active insurance groups; insurance groups that are part of international financial groups and other insurers that could cause systemic failure. It is essentially a review of the few globally active insurers that could cause systemic failure which has resulted in some discussion at OGIS and CAIR. Whilst IAIS feels that there are a few insurers which could cause worldwide systemic failure, there are insurers which could cause regional or national systemic failure and the Commission intends to review active insurers as a means of categorizing the potential risks. The need for professional indemnity cover for local licence-holders has resulted in a level of inquiries and applications to write business in the domestic market.

In order to address the current and anticipated developments and challenges, the Commission has strengthened its insurance team through recruitment, bringing experience and expertise in international markets and other areas of financial services, to support the existing expertise in the team.

Despite expectations for developments in the insurance sector, the market continues to be difficult for smaller insurers which would include most of the captive insurance market. As such the outlook for growth in the sector through 2011 remains difficult, with most managers taking the opportunity to rationalise their portfolios.

The BVI Insurance Industry is almost a $500 Million dollar industry, comprising of $95 Million in premiums for domestic carriers and $400 Million for captives;

Property and liability insurance accounts for the largest lines of business written in the offshore market while health and property insurance dominate the domestic market.

Premiums by Line of Business

Domestic Insurance Companies

Total Gross Written Premiums

Line of Business	2009 Audited Financials	2008 Audited Financials	2007 Audited Financials
Motor	$ 7,939,714	$ 6,443,174	$ 6,026,000
Property	$ 21,463,575	$ 16,153,706	$ 17,949,684
Liability	$ 7,945,547	$ 5,729,041	$ 14,630,613
Marine & Aviation	$ 6,555,949	$ 7,992,121	$ 6,717,311
Health	$ 40,123,448	$ 30,771,893	$ 31,597,831
Accident	$ 42,169	$ 187,133	$ 287,117
Life	$ 4,163,086	$ 3,323,604	$ 3,257,445
Other	$ 6,223,255	$ 6,691,174	$ 6,365,829
Totals	**$ 94,456,743**	**$ 77,291,845**	**$ 86,831,830**

Insolvency Services

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

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

The Division issued 3 new licences during 2010, and all of the licensees represent expansions of existing firms. Additionally, 1 full licence was transferred to that of a restricted licence. The Insolvency Services Division currently supervises 20 licensed insolvency practitioners (19 full and 1 restricted).

Supervisory Report

In 2010, the Division, on behalf of the Commission, consented to the appointment of 35 overseas insolvency practitioners. These overseas practitioners were appointed jointly with locally licensed practitioners. In accordance with the Insolvency Act, overseas practitioners may be appointed jointly with BVI practitioners to mitigate the risk in asset recovery in the jurisdiction in which such assets are located. In such cases the joint appointee must possess similar qualifications from a recognised jurisdiction as required locally in order to be appointed.

Compliance Inspections and Enforcement Actions

Whilst there were no on-site compliance inspections conducted during the year, as a result of breaches identified during previous on-site inspections, the Division submitted seven matters to the Enforcement Committee for possible enforcement action, in addition to corrective measures. Also put forward to the Enforcement Committee was the involuntary revocation of a licence held by a licensee. This was the first such revocation encountered by the Insolvency Services Division.

Staff/Training

The Division operates and functions effectively with its current staff complement of five, which includes the Director, Acting Deputy Director, Assistant Director, Licensing & Regulation, Case Officer and Executive Assistant.

In 2010 members of the Division attended several conferences and training seminars including: the Jamaica Deposit Insurance Corporation's Bank Insolvency in the Caribbean seminar; the 8th Annual Offshore Alert Financial Due Diligence Conference; the INSOL International Regional Conference; the 2010 International Asset Recovery Conference – Mastering the Tools of Asset Recovery; and the International Association of Insolvency Regulators' (IAIR) Annual General Meeting and Conference. The IAIR conference was a Regulator-centred conference which provided an opportunity for Regulators around the world to share their experiences.

2010 Statistical Analysis

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

Annual Insolvency Practitioners Returns Summary of Classification of Cases January 1, 2010 - December 31, 2010

Case Type	B/F	Opened	Closed	In Progress
Receiverships	52	2	5	49
Admin Receiverships	8	0	1	7
Company Creditor Arrangements	1	1	0	2
Administrations	0	0	0	0
Provisional liquidations	3	2	4	1
Liquidations - appointed by members	43	30	6	67
Liquidations - appointed by Court	100	51	28	123
Bankruptcies	0	0	0	0
Individual Creditor Arrangements	0	0	0	0
TOTALS	**207**	**86**	**44**	**249**

Percentage of Cases in progress by case type at 31 December, 2010

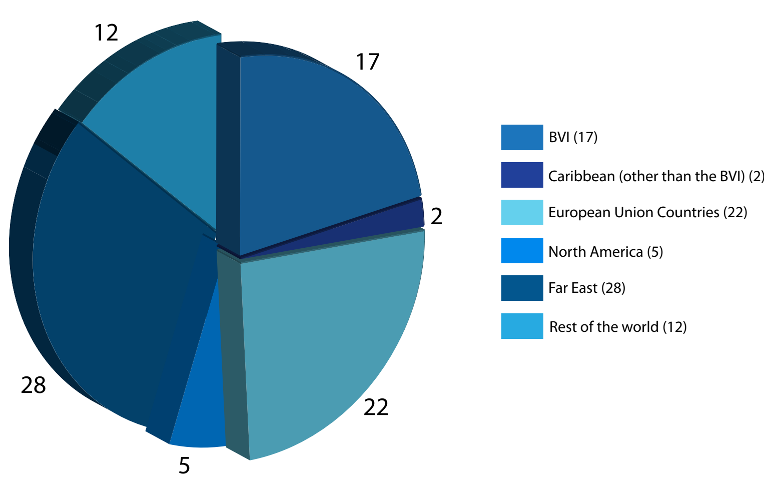
As of 31 December 2010, the statistical summary of cases by classification for the year showed that the Territory began the year with 207 cases in progress. During the year, 86 cases were opened and 44 cases were closed leaving 249 cases in progress at year end. This case load was handled by 20 insolvency practitioners and the Official Receiver.

In 2010 there were 88 cases opened as compared to 94 in 2009. The 44 cases closed in 2010 also reflect a reduction compared to the 79 recorded in 2009. This resulted in an increase of 39 in the overall number of cases in progress at end of 2010 from that of 2009.

The cases in progress at the end of 2010 consisted of Court appointed liquidations at 48% of total cases, an increase of 6% compared to the previous year. Receiverships also increased by 26% to 40% in 2010. Members' appointed liquidations amounted to 8% and Provisional liquidations 1%, both of which reflect a decrease from 2009. Administrative Receiverships remained at 3%. There still to date has not been any activity in Company Creditors Arrangements, Administrations, and Bankruptcy cases.
Annual Insolvency Practitioners Returns Summary of Main Centre of Operations for new Cases January 1, 2010 – December 31, 2010

Analysis of the centres of operation from which new cases were drawn in 2010

Main Centre of Operations



shows that 32% of all new cases originated from countries in the Far East and 26% from European Union countries. The next highest in rank would be the BVI at 20%, up from 10% in 2009. North America and Caribbean countries (other than the BVI) accounted for 6% and 2% respectively, while the remaining 14% of cases originated from the rest of the world.

2011 Outlook

Due to the current economic climate, the Division anticipates there will be growth in insolvency type cases occurring in the private sector, and many of the appointments made to handle such cases will be by way of joint appointments with overseas practitioners. The Division also anticipates that there will be an increase in local companies being put into liquidation by creditors as pressure from the global economy works its way into the BVI economy.

Non-Supervisory Divisions

Legal and Enforcement Division

The Legal and Enforcement Division provides ongoing legal support to the Commission's internal divisions, regulatory and non-regulatory the Managing Director and the Board of Commissioners. The Division also executes requests for assistance from foreign regulatory and law enforcement authorities and takes conduct of enforcement action against regulated persons that act in violation of the regulatory and anti-money laundering laws.

Primary responsibilities, legislation

One of the Division's responsibilities is to coordinate and execute requests for assistance by foreign regulatory and law enforcement authorities. The Division also makes requests for assistance to foreign regulatory authorities where assistance is required for the performance of the Commission's regulatory functions. The Division receives enquiries, complaints and reports relating to BVI companies from private individuals. Where such complaints or reports raise matters of regulatory concern or reputational risk to the Territory, the Division conducts preliminary investigations before referring the matter to the Enforcement Committee and/or any relevant regulatory, law enforcement or intelligence agency.

The Division also represents the Commission in civil proceedings in the High Court. These generally comprise applications in respect of the Commission's decisions on enforcement action and applications made under the BVI Business Companies Act, 2004 ("the BVI BC Act"). In addition, the Division is responsible for advising on the interpretation and application of all legislation by which the regulatory and supervisory functions of the Commission are governed, as well as other BVI and foreign legislation from time to time.

SUPERVISORY REPORT

Requests for Assistance

When the Commission receives a request for assistance from a foreign regulatory or law enforcement authority it is categorised as a formal request. In most cases, the formal requests that the Commission receives are from foreign regulatory authorities and the requests usually seek information to facilitate the conduct of due diligence inquiries or investigations into breaches of foreign regulatory laws. For the year 2010 the Division received 98 formal requests from foreign regulatory authorities.

With respect to inquiries, complaints and reports made by private individuals in relation to BVI companies, the Division received 157 such reports and inquiries which led to investigations and referrals to external agencies during the year.

Under the Memorandum of Understanding (MOU) between the Financial Investigation Agency (FIA) and the Commission, 98 matters were referred to the FIA in 2010. The cases related to companies which are alleged to be involved in investment fraud, tax evasion, tax avoidance, corruption, ponzi schemes, forgery of documentation issued by the Registry of Corporate Affairs, fraud, unauthorised business, money laundering and advanced fee fraud schemes. 2 requests were also made for the performance of enhanced due diligence investigations under the MOU. The requests sought information on various individuals who required the Commission's approval for appointment as directors of regulated entities. In addition, 17 matters were referred by the FIA to the Commission pursuant to the MOU. The Commission also filed 17 Suspicious Activity Reports (SARs) with the FIA relating to cases of suspected fraud, ponzi schemes and money laundering.

Regulatory and Enforcement Action

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

During the year 2010, two hundred and five (205) matters were referred to the Division for advice on regulatory and enforcement action. A breakdown of the regulatory divisions from which the requests were received is as follows:

Court Proceedings

For the year 2010 the Division represented the Commission and/or the Registrar of Corporate Affairs in 27 applications under the BVI BC Act. 20 applications sought the revocation of the dissolution of companies; 2 sought the termination of voluntary liquidation; 3 sought amendments to the Memorandum and Articles of Association of companies; 1 application sought an order to convert bearer shares into registered shares and in another 1 application, 3 applicants/companies sought a declaration from the Court that they be permitted to issue bearer share certificates to replace lost bearer share certificates.

2011 Outlook

The Division facilitates the work of the Commission and its regulatory divisions by providing advice on how the financial services laws should be interpreted and applied. In this regard the Division is responsible for providing guidance to ensure that the Commission's internal controls and procedures are transparent and efficient and its decisions fair, consistent and proportionate.

To promote this objective the Division proposes to embark on a comprehensive training programme for all of the Commission's staff on the requirements of administrative law, how those requirements apply to the Commission's day to day functions and what needs to be done to adhere to those requirements. Training for the Commission's staff on the application of the Enforcement Committee Guidelines is also proposed.

An area of priority for 2011 is the completion of the development and operation of a legal database as this is imperative to ensure that earlier decisions and advice are appropriately recorded and easily accessed. While there was some movement towards the development of a database in 2010, this needs to be finalised and appropriate training carried out to ensure proper use of the database.

The Division also intends to engage additional staff, so that it can better assist the Commission in the discharge of its functions in a more timely manner. Further, in the interest of enhancing the performance of its functions, further training in enforcement-based investigation and research, advocacy, case preparation and report-writing will be sought for the Division's staff in 2011.

Regulatory Division/Unit	Total No. of Matters Referred in the First Quarter of 2010	Total No. of Matters Referred in the Second Quarter of 2010	Total No. of Matters Referred in the Third Quarter of 2010	Total No. of Matters Referred in the Fourth Quarter of 2010
Approved Persons Regime Unit	4	2	2	1
Banks and Fiduciary Services	22	14	4	16
Corporate Services	0	3	2	0
Enforcement	1	0	0	0
Insolvency Services	2	1	1	0
Insurance	18	16	17	11
Investment Business	13	13	16	8
Policy Research & Statistics	0	0	0	2
Registry of Corporate Affairs	4	1	7	4
Total	**64**	**50**	**49**	**42**

Policy, Research and Statistics

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

Sector Overview

IMF Financial System Stability Assessment

In 2010, the International Monetary Fund (IMF) embarked on its Financial System Stability Assessment (FSAP) of the BVI. The aim of the FSAP was to assess the stability of the Territory's financial system as a whole. It was developed to help to identify and remedy any weaknesses in the financial sector structure, with a view to enhancing the Territory's resilience to macroeconomic shocks and cross-border contagion in relation to financial regulatory policies and financial stability.

The Division acted as liaison between the IMF and all local government agencies and private sector entities interviewed by the assessment team during the visit and was responsible for compiling the information required to accurately respond to the pre-assessment questionnaires. The resulting report updated the findings of the 2004 assessment conducted under the Offshore Financial Centre (OFC) programme, and stated that "a great deal of progress has been made in strengthening the regulatory system, in particular in developing effective enforcement. The legislative framework is now comprehensive and compliant with international standards and the work to ensure full implementation of this framework is ongoing. The regulatory framework for both onshore and offshore financial services is clear and comprehensive, and the FSC has demonstrated its strength and independence as a regulator."

Stemming from the IMF review and various other international reviews that the Territory had undergone since 2008, the Division developed a matrix to identify the deficiencies outlined in these reports (including the CFATF Mutual Evaluation Report, 2008 and Michael Foot Report, 2009) and to establish a comprehensive plan to address these deficiencies. This plan engages all relevant agencies and provides specific details and timeframes as to how and when the targets identified are to be achieved. The plan was endorsed by the Government and laid on the Table of the House of Assembly in December, 2010.

CFATF Mutual Evaluation Follow-up

As part of its ongoing review of the Territory's AML/CFT regime, the Division continued its follow up of the progress being made to address the deficiencies identified in the 2008 CFATF Mutual Evaluation of the Territory. This process entailed the drafting by the Division of further amendments to various legislation, including the Proceeds of Criminal Conduct Act, 1997, the Anti-money Laundering Regulations, 2008 and the Anti-money Laundering and Terrorist Financing Code of Practice, 2008. It also necessitated the drafting and enactment of the Criminal Justice (International Cooperation) (Amendment of Schedule 2) Order, 2010, which makes provision for the inclusion of various chemical substances in the Schedule in keeping with the addition of these substances to Tables I and II of the Annex to the UN Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances. Also addressed was the issue of insider trading and market manipulation through the enactment of the Securities and Investment Business Act, 2010.

Based on the progress made by the jurisdiction, the BVI submitted its 3rd Follow-up Report to the CFATF during its Plenary meeting held in Grand Cayman in November, 2010 and made a request to be placed on a biennial follow up as a result.

CFATF International Cooperation Review Group

At the end of 2010, the Caribbean Financial Action Task Force (CFATF) established a regional International Cooperation Review Group (ICRG) and appointed the Commission's Director, Policy, Research and Statistics as Chairman. This regional body is responsible for ensuring that member countries adopt a serious approach to reforming their AML/CFT regimes in keeping with the FATF's 40 +9 Recommendations. Along with other similar bodies established in other regions, the CFATF-ICRG has a responsibility to review the Mutual Evaluation Reports of all its members, monitor implementation of corrective actions, and assist with the development of action plans where necessary. The CFATF-ICRG is also responsible for making outreach to appropriate authorities in jurisdictions under review and for reporting to the FATF-ICRG on the progress its member jurisdictions have made in rectifying the deficiencies identified in their Mutual Evaluation Reports.

Legislative Developments

Throughout 2010, the Division continued its collaboration with the Attorney General's Chambers (AGC) to review the Territory's financial services legislation to ensure compliance with emerging international standards. As a result, the following legislation were developed by the Division and forwarded to the AGC for review and onward transmission to Cabinet and the House of Assembly:

- Securities and Investment Business Act, 2010
- Banks and Trust Companies (Amendment) Act, 2010
- Company Management (Amendment) Act, 2010
- Financial Services Commission (Financing and Money Services Fees) Regulations, 2010
- Financial Services (Approved Forms Publication) Regulations, 2010
- Mutual Funds Regulations, 2010
- Mutual Funds (Amendment) Regulations, 2010
- Financial Services Commission (Securities and Investment Business Fees) Regulations, 2010
- Financial Services Commission (Securities and Investment Business Fees) (Amendment) Regulations, 2010
- Anti-money Laundering (Amendment) Regulations, 2010
- Criminal Justice (International Cooperation) (Amendment of Schedule 2) Order, 2010
- Financial Services (Administrative Penalties) (Amendment) Regulations, 2010
- Financial Services Commission (Fees) Regulations, 2010
- Financial Services Commission (Fees) (Amendment) Regulations, 2010
- Financial Services (Miscellaneous Exemptions) Regulations, 2010
- Insolvency Practitioners (Amendment) Regulations, 2010

All of the above legislation were enacted and brought into force.

Supervisory Report

Regulatory Developments

Part of the Division's mandate is to develop regulatory policies for the Commission. In 2010, the Division prepared, and the Board approved, the following guidelines, Codes, Orders and Notices addressing a range of regulatory and supervisory matters:

- Financial Services Commission Approved Forms and Related Guidelines
- Guidelines for the Approved Persons Regime (revision)
- Guidelines and Operating Procedures of the Licensing and Supervisory Committee
- Anti-money Laundering and Terrorist Financing (Amendment) Code of Practice, 2010
- Anti-money Laundering and Terrorist Financing (Amendment) (No. 2) Code of Practice, 2010
- Regulatory (Amendment) Code, 2010
- Public Funds Code, 2010
- Securities and Investment Business (Amendment of Schedule 8) Order, 2010
- Securities and Investment Business (Recognised Jurisdictions) Notice, 2010
- Securities and Investment Business (Recognised Jurisdictions) (Amendment) Notice, 2010

As is the practice, the various Codes developed also incorporated guidelines for their proper use and interpretation through the inclusion of Explanatory Notes within the documents. In addition, the Division also revised the Commission's Compliance Inspection Procedures Manual which was then issued by the Commission on 1 February, 2010. This document provides Commission staff with a comprehensive guide to planning and conducting on-site inspections and ensures consistency in the application of relative procedures. It is also intended to serve as a useful tool in training regulators and other staff in the proper conduct of on-site inspections.

The Commission also reviewed its fee structure in 2010 and as a result introduced relevant subsidiary legislation which provided for a change in some existing fees and in some instances introduced new fees for services now being provided by the Commission.

Statistics

Another important part of the work of the Division is the collection and maintenance of key industry statistics. The Division is responsible for the collation of statistics recorded by each regulatory Division as well as the Legal and Enforcement Division that are used in the production of the Commission's quarterly Statistical Bulletin. The Division also acts as the central repository for AML/CFT statistics that are required to be maintained by the members of the Inter-governmental Committee on AML/CFT Matters. Such statistics are maintained as part of the Territory's effort to ensure compliance with the FATF's 40 +9 Recommendations on Anti-money Laundering and Terrorist Financing.

Inter-governmental Committee on AML/CFT Matters

Section 50 the Anti-money Laundering and Terrorist Financing Code of Practice, 2008 (the Code) provides for the establishment of a committee to promote cooperation between law enforcement and regulatory authorities in the fight against money laundering and terrorist financing. This arrangement is carried out through the Inter-governmental Committee on AML/CFT Matters (IGC) and 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 and Ports Authority. Members of the IGC are able to share information on activities which might have AML/CFT implications and how best to coordinate efforts to effectively combat financial crime. The Division is responsible for coordinating the activities of this Committee, including the collection of AML/CFT statistics as noted above.

Joint Anti-money Laundering and Terrorist Financing Advisory Committee

The Joint Anti-money Laundering and Terrorist Financing Advisory Committee (JALTFAC), established under section 51 of the Code, is responsible for providing advice on all AML/CFT matters, including the review of AML/CFT legislation. This body comprises representatives of the regulatory and law enforcement authorities and private sector entities and professionals. The Division is also responsible for coordinating the activities of this Committee.

During the year JALTFAC reviewed submissions for recognising some jurisdictions pursuant to section 54 of the Code and considered the implementation of the remaining recommendations arising from the BVI Mutual Evaluation Report of 2008, including the need to put in place an appropriate framework for the registration and supervision of non-profit organisations (NPOs). JALTFAC also focused its efforts on addressing the issue of monitoring and supervision of Designated Non-financial Businesses and Professionals (DNFBPs) as this, along with the registration and supervision of NPOs, remained outstanding in relation to satisfying the requirements of the FATF's 40 +9 Recommendations. As a result, members of the BVI Bar Association, Association of BVI Accountants, and several real estate agents were invited to meet with the Committee to discuss possible ways to bring this sector into compliance with the Recommendations. This work remains ongoing and is listed as one of the priority areas for JALTFAC to address in 2011.

Crisis Management Group

The Commission's Crisis Management Group which was established in 2009 to consider, among other things, what steps could or should be taken, either alone or in concert with the Government (or with private sector licensees/service providers) to minimise the exposure of the Commission and the BVI generally to any negative publicity stemming from licensees' possible involvement in the global financial crisis, continued its work under the chairmanship of the Director, Policy Research and Statistics. The Group continued to investigate current and emerging issues of a crisis nature which had or could have the potential to develop into reputational risks for the Territory's regulatory regime and financial services sector generally.

Intellectual and Industrial Property Focus Group

2010 also saw the establishment of the Commission's Intellectual and Industrial Property Focus Group which was mandated to, among other things, review the current Intellectual and Industrial Property (IIP) Laws of the BVI and prepare any new or revised legislation necessary to develop and promote the BVI as having an efficient and effective IIP Laws regime. The Focus Group met extensively throughout 2010 under the Chairmanship of the Director, Policy Research and Statistics. It focused on reviewing the existing BVI legislation and conducting a comparative analysis of other jurisdictions that have effective IIP law regimes. The Focus Group also reviewed the function of the Registry of Corporate Affairs with respect to its role in the registration and administration of IIP related matters, with a view to improving the efficiency of that office. The Focus Group prepared and submitted an interim report which was considered and approved by the Board of Commissioners. The report served as the basis for initiating the drafting of revised

IP legislation. The work of the Focus Group is expected to continue in 2011.

Overseas Territories Hedge Fund Regulation Working Group

The Commission, represented by the Director, Policy, Research and Statistics and the Director of Investment Business, coordinated the functioning of the Overseas Territories Hedge Fund Regulation Working Group (as part of the working group for OGBS). This group was established to develop a principles paper on the regulation of hedge funds. Work, which commenced in 2009, culminated in the development of a Statement of Best Practice for hedge fund regulation which was later adopted as an OGBS paper.

AML/CFT Training

Section 47 of the Anti-money Laundering and Terrorist Financing Code of Practice (the AML Code) requires the Commission to carry out AML/CFT training for its employees on an annual basis. The Division is responsible for co-ordinating this training which has taken place since the AML Code came into effect in 2008. In 2010, 80 persons received AML/CFT training. The training was divided into two sessions, one for beginners and one for persons with more advanced knowledge of the subject and included both regulatory and non-regulatory staff. Additionally, persons from other government agencies which also have responsibility for AML/CFT matters were invited to participate. These agencies included the Financial Investigation Agency, the Royal Virgin Islands Police Force, Ministry of Finance and the Virgin Islands Shipping Registry.

Topics discussed included the role of the FSC as a regulator of financial services business, the role of the FIA as a law enforcement/intelligence gathering agency, a review of current AML/CFT legislation, the types of institutions vulnerable to ML/TF activities, the BVI's international cooperation obligations, AML/CFT and the licensing process, AML/CFT and the inspection process, and a discussion on terrorist financing typologies. The participants were also informed of what the Commission's expectations would be of them once they completed the training.

2011 Outlook

The Division envisions that 2011 will bring about the need for greater legislative reform in the face of the growing demands of the various international standard setting bodies. Various legislative and regulatory amendments are planned including further amendments to the Financial Services Commission Act, 2001, the Company Management Act, 1990, the Banks and Trust Companies Act, 1990 and the Insolvency Act, 2003.

It is hoped that the draft legislation stemming from the work of the IIP Focus Group would be finalised during 2011 and submitted to Government for approval and enactment. The Division also intends to continue to follow up on the progress being made to address the deficiencies identified in the 2008 CFATF Mutual Evaluation Report with the aim of instituting necessary corrective measures, and where required, recommend legislative reforms. It is also hoped that the deficiencies identified in the IMF FSAP Report that have not already been addressed will be dealt with through the introduction of various administrative policy changes as well as further legislative reform.

The Division will continue to support the development of the Commission's staff by organising training programmes and rendering advice to other Divisions on regulatory and legislative matters where appropriate. As part of this mandate it intends to expand the training currently provided to cover enforcement processes and procedures, as well as to render necessary advice to the Registry of Corporate Affairs in relation to new amendments to the BVI Business Companies Act and the BVI Business Companies Regulations.

Financial Statements

BRITISH VIRGIN ISLANDS
FINANCIAL SERVICES COMMISSION

Audited Financial Statements

For The Year Ended December 31, 2010

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

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BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Commission Directory

BOARD OF COMMISSIONERS

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

REGISTERED OFFICE

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British Virgin Islands

COMMISSION SECRETARY

Ms. Annet Mactavious

INDEPENDENT AUDITORS

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British Virgin Islands

Independent Auditors' Report

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

We have audited the accompanying financial statements of British Virgin Islands Financial Services Commission (the "Commission"), which comprise the statement of financial position as at December 31, 2010 and the 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, 2010 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

BDO Limited

Tortola, British Virgin Islands
September 27, 2011

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Statement of Financial Position
As at December 31, 2010
Expressed in United States Dollars

	Notes	2010	2009
ASSETS			
Non-current assets			
Fixed assets	3,4	904,155	1,501,358
VIRRGIN project under development	4	386,401	386,401
		1,290,556	1,887,759
Current assets			
Regulatory deposits	5	7,050,449	8,096,053
Cash and cash equivalents	6	21,130,388	21,441,496
Other receivables and deposits	7	471,180	103,368
		28,652,017	29,640,917
TOTAL ASSETS		**$ 29,942,573**	**$ 31,528,676**
RESERVES AND LIABILITIES			
Capital reserves			
Contributed capital	8	3,993,900	3,993,900
Property & equipment reserve	8	1,290,556	1,887,759
Total capital reserves		5,284,456	5,881,659
Revenue reserves			
Training reserve	8	400,000	400,000
Loan revolving reserve	8	165,000	165,000
Future capital expansion reserve	8	8,500,000	7,500,000
Refunds reserve	8	50,000	50,000
Enforcement reserve	8	2,000,000	2,000,000
Contingency reserve	8	760,089	897,030
Total revenue reserves		11,875,089	11,012,030
Total reserves		17,159,545	16,893,689
Current liabilities			
Trade and other payables	9	1,874,407	864,778
Deposits on account	10	1,858,172	1,674,156
Distribution payable to Government	11	2,000,000	4,000,000
Regulatory deposits from licensed entities	5	7,050,449	8,096,053
Total liabilities		12,783,028	14,634,987
TOTAL RESERVES AND LIABILITIES		**$ 29,942,573**	**$ 31,528,676**

Signed on behalf of the Commission on September 27, 2011

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, 2010
Expressed in United States Dollars

	Notes	2010	2009
INCOME			
Fees collected on behalf of the Government	6	188,679,485	184,911,781
Less: Fees due to the Government	6	(168,136,158)	(164,696,384)
Fees retained by the Commission		20,543,327	20,215,397
Other income		141,123	178,143
Interest income		177,737	219,093
TOTAL INCOME		20,862,187	20,612,633
EXPENSES			
Advertising		1,840	2,280
Conferences and seminars		153,380	132,879
Contributions		78,260	79,027
Depreciation	3	1,234,077	2,125,358
Financial Investigations Agency funding		491,528	500,000
Insurance		67,019	67,019
Licenses and fees		61,963	42,985
Literature and reference		98,724	114,343
Maintenance and hire		350,414	330,750
Memberships and subscriptions		66,822	45,453
Miscellaneous		821	3,510
Office expenses		289,313	258,031
Professional services		1,822,008	1,137,360
Public relations		913	74,042
Rent and lease		918,797	902,572
Staff costs	12,16	11,211,427	9,056,420
Travel and subsistence		849,068	733,852
Telephone and communications		651,445	639,947
Utilities		248,512	214,959
TOTAL EXPENSES		18,596,331	16,460,787
SURPLUS BEFORE GOVERNMENT DISTRIBUTION		2,265,856	4,151,846
Distribution to Government	11	(2,000,000)	(4,000,000)
SURPLUS FOR THE YEAR		**$ 265,856**	**$ 151,846**

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, 2010
Expressed in United States Dollars

	Opening balance	Surplus for the year	Transfers	Closing balance
2010:				
Surplus for the year	-	265,856	(265,856)	-
Contributed capital reserve	3,993,900	-	-	3,993,900
Property, plant & equipment reserve	1,887,759	-	(597,203)	1,290,556
Training reserve	400,000	-	-	400,000
Loan revolving reserve	165,000	-	-	165,000
Future capital expenditure reserve	7,500,000	-	1,000,000	8,500,000
Refunds & drawbacks reserve	50,000	-	-	50,000
Enforcement reserve	2,000,000	-	-	2,000,000
Contingency reserve	897,030	-	(136,941)	760,089
	$ 16,893,689	$ 265,856	$ -	$ 17,159,545

	Opening balance	Surplus for the year	Transfers	Closing balance
2009:				
Surplus for the year	-	151,846	(151,846)	-
Contributed capital reserve	3,993,900	-	-	3,993,900
Property, plant & equipment reserve	3,656,297	-	(1,768,538)	1,887,759
Training reserve	400,000	-	-	400,000
Loan revolving reserve	165,000	-	-	165,000
Future capital expenditure reserve	5,500,000	-	2,000,000	7,500,000
Refunds & drawbacks reserve	50,000	-	-	50,000
Enforcement reserve	2,000,000	-	-	2,000,000
Contingency reserve	976,646	-	(79,616)	897,030
	$ 16,741,843	$ 151,846	$ -	$ 16,893,689

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, 2010
Expressed in United States Dollars

	2010	2009
CASH FLOW FROM OPERATING ACTIVITIES		
Surplus for the year	265,856	151,846
Adjustment to reconcile net surplus to net cash from operating activities before working capital changes:		
Depreciation	1,234,077	2,125,358
Interest income	(177,737)	(219,093)
Operating surplus before working capital changes	1,322,196	2,058,111
Increase in other receivables and deposits	(367,812)	(77,474)
Increase (decrease) in trade and other payables	1,009,629	(134,406)
Increase (decrease) in deposits on account	184,016	(383,943)
(Decrease) increase in distribution payable to Government	(2,000,000)	3,150,000
Net cash generated from operations	148,029	4,612,288
CASH FLOW FROM INVESTING ACTIVITIES		
Acquisition of fixed assets-net	(636,874)	(356,820)
Interest income	177,737	219,093
Net cash used in investing activities	(459,137)	(137,727)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(311,108)	4,474,561
CASH AND CASH EQUIVALENTS		
At beginning of year	21,441,496	16,966,935
At end of year	**$21,130,388**	**$ 21,441,496**

The accompanying notes form an integral part of these financial statements

BIRTISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
For The Year Ended December 31, 2010
Expressed in United States Dollars

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 and are expressed in United States ("US') dollars.

2.2 Standards, amendments and interpretations to existing standards effective January 1, 2010 and relevant to the Commission

- **Improvements to IFRSs**. Issued in April 2009, the improvements contain numerous amendments to IFRS, which are considered non-urgent but necessary. The improvements result in accounting changes for presentation, recognition or measurement purposes; or they are terminology or editorial changes only. These improvements have no significant impact in the Commission's accounting practice and are mostly effective from January 1, 2010. The Commission decided to adopt all those effective for annual period beginning on or after January 1, 2010.

  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, 2010, 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:

- **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 (mostly effective for annual period beginning on or after January 1, 2011).

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
For The Year Ended December 31, 2010
Expressed in United States Dollars

2. ACCOUNTNG POLICIES (Continued)

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

- **IAS 24 (revised),** ***Related Party Disclosures.*** The revision clarifies the definition of related parties (effective for annual period beginning on or after January 1, 2011).

- **IAS 32 (amendment),** ***Financial Instruments: Presentation*****.** Amendments relating to classification in equity of rights issue as long as the right issues are offered for a fixed amount and issued pro rata to an entity's all existing shareholders in the same class of shares (effective for annual period beginning on or after February 1, 2010).

- **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).

- **IFRS 9,** ***Financial Instruments.*** This new standard completes the first part of a three-part project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The classification of financial instruments will be based on how an entity manages its financial instruments and the contractual cash flows. IFRS 9 will also permit a single impairment method. As a result, this new standard will increase comparability, enhance the ability of the users to understand the accounting of financial instruments and reduce the complexity (effective for annual period beginning on or after January 1, 2013).

None of the other new standards, interpretations and amendments, which are effective for periods beginning after January 1, 2010 and which have not been adopted early, are expected to have a material effect on the Commission's future financial statements.

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.

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
For The Year Ended December 31, 2010
Expressed in United States Dollars

2. ACCOUNTNG POLICIES (Continued)

2.8 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.

2.9 Taxation

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

2.10 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.

2.11 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.

2.12 Pension plan

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

2.13 Financial Instruments

Financial instruments carried on the statement of financial position include cash and cash equivalents, regulatory deposits, other receivables, 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.

2.14 Use of estimates

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

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
For The Year Ended December 31, 2010
Expressed in United States Dollars

3. FIXED ASSETS

Cost	Leasehold Land	Motor Vehicles	Furniture & Equipment	Computers & Software	Leasehold Improvements	Total
As of December 31, 2010:						
Cost, opening balance	130,000	159,503	2,019,093	8,204,502	2,027,823	12,540,921
Additions	-	-	77,893	529,887	29,094	636,874
Cost, ending balance	$130,000	$159,503	$2,096,986	$8,734,389	$2,056,917	$13,177,795

Accumulated depreciation	Leasehold Land	Motor Vehicles	Furniture & Equipment	Computers & Software	Leasehold Improvements	Total
As of December 31, 2010:						
Accumulated depreciation, opening balance	10,317	82,583	1,699,914	7,296,409	1,950,340	11,039,563
Depreciation	2,065	31,900	150,423	1,003,638	46,051	1,234,077
Accumulated depreciation, ending balance	$12,382	$114,483	$1,850,337	$8,300,047	$1,996,391	$12,273,640

Net book value	Leasehold Land	Motor Vehicles	Furniture & Equipment	Computers & Software	Leasehold Improvements	Total
As of December 31, 2010	$117,618	$45,020	$246,649	$434,342	$60,526	$904,155
As of December 31, 2009	$119,683	$76,920	$319,179	$ 908,093	$ 77,483	$1,501,358

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
For The Year Ended December 31, 2010
Expressed in United States Dollars

4. VIRRGIN PROJECT UNDER DEVELOPMENT

As of December 31, 2010, 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 (2009: $386,401) relates to the uncompleted Phase III which is expected to be finished by December 31, 2011. The estimated costs to completion of the project, excluding any additional costs, are S$1,161,304 (equivalent to $899,778) (2009: $799,677).

Additional cost was also incurred and capitalised that relates to the overall VIRRGIN project amounting to $57,855 as of December 31, 2010 (2009: $36,641).

5. REGULATORY DEPOSITS FROM LICENSED ENTITIES

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

6. CASH AND CASH EQUIVALENTS

	2010	2009
Cash held in Government Trust Account	6,156,490	3,097,024
Payable to Government	(4,154,620)	(1,296,951)
Net cash held in Government Trust Account	2,001,870	1,800,073
Cash in operating account	18,887,177	19,402,124
Cash in insolvency account	241,341	239,299
Total cash and cash equivalents	$ 21,130,388	$ 21,441,496

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, 2010, the Commission retained 10.5% (2009: 10.5%) of revenue up to the projected revenue stream and thereafter, the Commission retained 7.5% (2009: 7.5%) of any revenue in excess of the projected revenue stream. This resulted in cash of $4,154,620 (2009: $1,296,951) being held on behalf of the Government as at December 31, 2010.

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
For The Year Ended December 31, 2010
Expressed in United States Dollars

7. OTHER RECEIVABLES AND DEPOSITS

	2010	2009
Loan to employees	38,138	22,012
Travel advances	29,643	75,490
Interest receivable	19,737	-
Prepaid expenses	383,662	5,866
	$ 471,180	$ 103,368

8. RESERVES

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

Capital reserves

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

Revenue reserves

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

9. TRADE AND OTHER PAYABLES

	2010	2009
Accounts payable and accrued expenses	397,071	200,500
Insolvency surplus reserve	234,649	234,649
Deferred revenue	233,644	233,644
Employee deductions and benefits payable	1,009,043	195,985
	$ 1,874,407	$ 864,778

Employee deductions and benefits payable includes accrued unpaid vacation benefits totalling $652,606 payable to the Commission's employees, which has also been recorded in the statement of comprehensive income. In the past, it has been the policy of management to require employees to take vacation days rather than paying them out. However, this policy was changed during the year ended December 31, 2010. During the year ended December 31, 2010, unpaid vacation benefits totalling $108,873 was paid to the Commission's employees. Had this policy been in place during the year ended December 31, 2009, income would have decreased by $30,594 resulting from the recognition of the vacation benefits as an expense in the statement of comprehensive income. The corresponding accrual on the statement of financial position as at December 31, 2009 would have been $570,149.

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
For The Year Ended December 31, 2010
Expressed in United States Dollars

9. TRADE AND OTHER PAYABLES (Continued)

Pursuant to the Insolvency Rules, 2005, the insolvency surplus reserve pertains to monies representing unclaimed assets received from liquidators or bankruptcy trustees after the completion of a liquidation or bankruptcy. Funds are paid out of the reserve to any person the Commission is satisfied 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.

10. DEPOSIT ON ACCOUNT

In 2006, the Commission introduced a new internet based information system (VIRRGIN) that allows companies to administer transactions online. As a result of this development, companies are required to deposit amounts with the Commission in advance of effecting an online transaction. As at December 31, 2010, the balance on this account amounted to $1,858,172 (2009: $1,674,156).

11. DISTRIBUTION PAYABLE TO GOVERMENT

On September 27, 2011, the Board of Commissioners approved a distribution to Government of $2,000,000 (2009: $4,000,000) from surplus earned by the Commission during the year ended December 31, 2010.

12. STAFF COSTS

	2010	2009
Wages and salaries	7,900,015	6,951,415
Allowances and benefits	2,736,241	1,578,757
Employment costs	175,535	186,758
Payroll taxes	399,636	339,490
	$ 11,211,427	$ 9,056,420

The average number of full time employees in 2010 was 142 (2009: 141).

During the year ended December 31, 2010, the Commission paid $1,162,455 (2009: $1,006,012) for current service costs toward a defined contribution pension plan (the "Plan"), which has been included in allowances and benefits.

13. 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).

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
For The Year Ended December 31, 2010
Expressed in United States Dollars

14. 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 $899,778 (2009: $799,627) as at December 31, 2010, plus maintenance and support costs of S$ 931,399 (equivalent to $721,648) as at December 31, 2010 (2009: S$931,399 equivalent to $662,877).

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:

2011	540,575
2012	453,600
2013	453,600
	$ 1,447,775

15. 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, 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.

15.1 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, 2010, the foreign exchange rate was $0.77480 (2009: $0.71170) per S$, with the average exchange rate for the year ended December 31, 2010 being $0.73437 (2009: $0.68856) per S$. Had the Singapore Dollar foreign exchange rate strengthened against the US dollar by 1% (2009: 1%) with all other variables remaining constant, the overall costs to complete the project, including maintenance/support costs, would increase by $16,214 (2009: $14,625). 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

The Commission has no significant concentrations of interest rate risk. The Commission does not enter into credit transactions for its services and as at December 31, 2010 and 2009 it is not exposed to adversities of fluctuating interest rates.

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
For The Year Ended December 31, 2010
Expressed in United States Dollars

15. FINANCIAL RISK MANAGEMENT (Continued)

15.2 Credit risk

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

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

The Commission's regulatory deposits and cash and cash equivalents are held by financial institutions with Aa1, A2 and Baa3 credit rating per Moody's Rating Agency.

15.3 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 undisclosed cash flow. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	On Demand	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
As at December 31, 2010					
Trade and other payables	1,120,899	753,508	-	-	1,874,407
Deposit on account	1,858,172	-	-	-	1,858,172
Distribution payable to Government	2,000,000	-	-	-	2,000,000
Regulatoty deposits	7,050,449	-	-	-	7,050,449
	$ 12,029,520	$ 753,508	$ -	$ -	$ 12,783,028
As at December 31, 2009					
Trade and other payables	468,293	396,485	-	-	864,778
Deposit on account	1,674,156	-	-	-	1,674,156
Distribution payable to Government	4,000,000	-	-	-	4,000,000
Regulatoty deposits	8,096,053	-	-	-	8,096,053
	$ 14,238,502	$ 396,485	$ -	$ -	$ 14,634,987

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
For The Year Ended December 31, 2010
Expressed in United States Dollars

16. DEFINED CONTRIBUTION PENSION PLAN

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

Glossary of Terms

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

Glossary of Terms (Cont'd)

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

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