The British Virgin Islands Financial Services Commission

Annual Report 2012

10th Anniversary Edition

Regulate
risk
Vigilance
Funds
finance
transition
Development
corporate services
Employees
Certificate
Red
guidelines
Act
insurance
careers
Managing
Balance
services
faciliate
educate
legal and enforcement
Trust
inform
SUPERVISORY
COMMISSION
banking and fiduciary
Business
Ensure
Investments
Integrity
system
VIRRGIN
Lighthouse
Insolvency Services
Policy, Research and Statistics
building
Registry of Corporate Affairs
British Virgin Islands
human resources
governance
Protect
Statistics
Laws
Compliance
Regulations
international
Money
Money Matters
standards
Management
core
Strategic
policies
Information Technology
TEAM
businesses
Training
Reporting
police
VALUES
Unity
CHAIRMAN
consult
perfection
Boards
assistance
legislation
incorporation
Advise
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Mission **Statement**

To uphold the integrity of the British Virgin Islands (BVI) as a well-regulated international finance centre

and safeguard the economic interests of the territory by:

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

We **Pledge**

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

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

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

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

Our Logo: **The Lighthouse**

The lighthouse, embodies security, dependability, transparency and trust. Just as a lighthouse provides terrestrial travellers of today with the same sense of hope and re-assurance that it provided mariners years ago, the Commission's logo bears testimony to the Commission's dedication to upholding standards befitting a premier international finance centre. It is symbolic of our commitment to preserving the safety and soundness of the BVI's financial services system so as to maintain the confidence of clients doing business from and within the BVI

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

ROBIN **GAUL**

CHAIRMAN

“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 2012.”

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 2012.

The results for 2012 are broadly in line with those budgeted, with total fees collected on behalf of Government exceeding $205million and net payments to Government exceeding $182 million. The Commission's operational costs have again been held in check, and this permits a distribution to Government out of available profits.

Against this positive result must be weighed the increasing pressures on the Territory and the offshore world generally, for increased transparency in operations; enhanced information including nationality/residence for beneficial owners of companies and trusts; maintaining a central directory of directorships under new FATF regulations, and new reporting requirements on ownership and financial activities under US FATCA and possibly similar legislation which may be introduced by other countries. These pressures, combined with negative publicity that offshore centres have been receiving, will likely adversely affect the marketability of the Territory's financial products and in turn depress subsequent years' revenues, and will at the same time increase the scope and breadth of compliance and reporting procedures for the Commission and Government alike.

I take pleasure each year in commending the staff of the Commission for their hard work and dedication in the performance of their duties, and our more senior personnel 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 – particular mention must be made this year of the untiring efforts of the Commission's Director, Policy, Research and Statistics who chairs the CFATF for the year November 2012 thru 2013.

In accordance with section 27 of the Act, I present this report on the operation and activities of the Commission for 2012, together with the enclosed auditor's report and accompanying financial statements.

Robin Gaul
Chairman

Board of Commissioners

Mr. Phillip Fenty

Mr. Colin O'Neal
Deputy Chairman

Mr. Robin Gaul
Chairman

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

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

Mr. E. Walwyn Brewley

Ms. Eleanor Smith

Mr. Robert Mathavious
Managing Director

Mr. Martin Fuggle
External Commissioner

Mr. Wadham has embraced his role as Commissioner and works seamlessly with other members of the Board to advance the work of the Commission. In 2012, the Board during its monthly meetings approved a number of important policy changes, supported new initiatives and supported the work of the Executive.

The Board is committed to upholding the integrity of the Commission, protecting the interests of the public, serving all regulated individuals and companies through efficient and accessible service-orientated policies and procedures and ensuring that the Commission operates in accordance with the principles of good governance.

ROBERT **MATHAVIOUS**

MANAGING DIRECTOR/CEO

"The bar is being raised even higher. But like the Olympians from whom earlier this year we drew our inspiration, we are determined to redouble our efforts and clear the bar."

Managing Director's Statement

Welcome to the eleventh annual report of the BVI Financial Services Commission.

Across the world, 2012 will be remembered as time of economic difficulty and of sporting inspiration. The global financial crisis continued to create challenges for countries the world over, including the BVI. Meanwhile, the Olympics and the Paralympics reminded us how meeting high standards and striving to be the best, as the BVI has always done, can win the highest rewards.

In our Territory, 2012 marked the tenth anniversary of the Financial Services Commission as an independent regulatory authority. Previously, the Commission had been a department of government ever since the creation of the BVI's financial services industry with the International Business Companies Act in 1984.

The move to independence was a result of the BVI's determination always to respond to international expectations. The Commission took as its motto the words "vigilance, integrity, accountability" and these have guided us ever since.

I am extremely proud of the service that the Commission and its dedicated staff has provided to the industry for the last decade and of the progress we have made.

I am particularly pleased that we have built a strong dialogue and partnership between the regulator, government and industry. This has been invaluable in promoting and defending our Territory's interests.

In November, our partnership again bore fruit when the BVI hosted the plenary meeting of the Caribbean Financial Action Task Force (CFATF).

I am pleased to report that the CFATF removed the BVI from its mutual evaluation follow-up process as a result of substantive progress in addressing deficiencies identified.

At the meeting, the Commission's Director of Policy, Research and Statistics was invited to assume the chairmanship of the CFATF on the BVI's behalf. Throughout the year, he had already chaired the CFATF's International Cooperation Review Group with great success in helping members comply with international AMl/CFT standards. The FATF complimented the CFATF for the results achieved.

In such febrile times, the industry picture this year is inevitably mixed yet there are grounds for optimism.

We saw a small decrease in active BVI Business Companies but a substantial increase in new limited partnerships. Despite some growth in approvals, the number of captive insurers overall declined, while domestic insurance remained stable. Both bank assets and liabilities increased by a small amount, with profitability indicators by year end close to historic levels and banks' capital ratios well in excess of statutory requirements.

Mutual fund registrations fell sharply and some licensees requested cancellation as funds matured, while the number of new types of licensees under the Securities and Investment Business Act (SIBA) remained constant.

Compliance continues to form the linchpin of the BVI's reputation and in 2012, the Commission extended its onsite inspections for the first time to authorised custodians and money services providers.

Looking ahead, we expect greater international regulation, scrutiny and peer reviews to become a fact of life. The regulatory perimeter will be widened further and non-compliance with the rules will have ever more serious implications.

The bar is being raised even higher. But like the Olympians from whom earlier this year we drew our inspiration, we are determined to redouble our efforts and clear the bar.

So we will maintain our pragmatic and practical approach to supervision and enforcement. We will ensure that the numbers and skills of our exemplary staff continue to rise to the challenges ahead. And we will keep working with the government on the requisite legislation and with our industry to ensure effective compliance.

I much appreciate the ongoing support the Commission receives from the government and industry, as well as from stakeholders such as the Financial Intelligence Unit.

I remain immensely grateful, too, to the members of the Board for their steadfast support and invaluable counsel and to the Commission's remarkable employees for their constant hard work and commitment to self-improvement. We have a great team in place for the year ahead.

Robert Mathavious
Managing Director/CEO

Executive Management Team

Robert Mathavious
Managing Director/CEO

Jennifer Potter-Questelles
Deputy Managing Director,
Corporate Services

Kenneth Baker
Deputy Managing Director,
Regulation

Jacqueline Wilson
Director, Legal and Enforcement
Legal Counsel

Cherno Jallow, QC
Director, Policy, Research and Statistics

Annet Mactavious
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

Acting Deputy Director:
Shakuntala Yamraj

Insurance Division

Acting 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 Mc Call

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

Corporate Services Division
Director:
Jennifer Potter-Questelles

Registry of Corporate Affairs
Director:
Myrna Herbert
Deputy Director:
Lydia Cline-George

Finance
Financial Comptroller:
Sheldon Scatliffe

Jacqueline Wilson
Legal and Enforcement Division

Legal and Enforcement Division
Director:
Jacqueline Wilson
Deputy Director, Legal:
Lynette Ramoutar
Deputy Director, Enforcement:
Gary Wilson

Annet Mactavious
Human Resources Division

Human Resources Division
Director:
Annet Mactavious
Deputy Director:
Carleen Penn

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REGULATION AND SUPERVISION

Matters concerning the licensing and supervision of the Commission's licensees and the enforcement of the requirements of the FSC Act are addressed through the Licensing and Supervisory Committee (LSC) and the Enforcement Committee (EC) which are statutorily established under the Financial Services Commission Act, 2001.

Licensing and Supervisory Committee

The LSC's functions are to receive, review and determine applications for authorizations, licences, registration and recognitions under any Financial Services legislation. Prior to issuing a licence or certificate, LSC must be satisfied that such issuance will be in the interest of the BVI.

As such, the LSC is steadfast in its commitment to protect the interests of all stakeholders, including depositors, investors, consumers and the BVI itself, and to meet standards established by BVI laws and policies, and appropriate international standards-setting organisations. In carrying out its mandate the LSC is guided by the Commission published Guidelines and Operating Procedures of the Licensing and Supervisory Committee.

The LSC is required to publish the names of persons who have been granted licences or certificates under any financial services legislation other than certificates granted under the BVI Business Companies Act. In addition to licensing the LSC also supervises authorised entities to ensure continued compliance with relevant laws and regulations and to ensure that they continue to satisfy the fit and proper criteria for the conduct of financial services business. Any person who is aggrieved by any decision of the Committee, other than in relation to a decision on the grant of a licence, may appeal the decision in accordance with Part VI of the FSCA.

The total number of matters deliberated by the LSC in 2012 increased by 22.5% over 2011. The largest increase in matters came from the Banking and Fiduciary Services Division which submitted 27% more matters to the LSC in 2012. Matters from the Insurance Division increased by 22% while matters from the Investment Business Division increased by 22%.

Enforcement Committee

The Commission considers adequate supervision of the Territory's financial services sector as critical to maintaining a solid reputation as a jurisdiction of integrity. To this end, enforcement of compliance with financial services regulation is a key function of the Commission. As such, one of the Commission's principal functions and objectives relates to the monitoring of licensees for compliance with legislative obligations and the imposition of enforcement action where necessary. This responsibility is exercised on behalf of the Commission by its Enforcement Committee (EC).

The Commission employs the use of enforcement powers to address incidents of non-compliance with regulatory legislation primarily in instances where: the matters of non-compliance are considered serious or greater; the overall compliance culture of the licensee is wanting; where the issue of non-compliance poses real risk to the reputation and orderly functioning of the jurisdiction as a premier financial services centre or where there is a history of non-compliance by a licensee. When the Commission performs its functions in fulfilment of its statutory mandates, it is not liable for any loss or injury that a person may suffer as a result. This protection is essential to ensure the full and effective performance of the Commission's functions without let or hindrance. It is, however, tempered with the principle that in the execution of its duties and the exercise of its powers the Commission will act in good faith.

During the year 2012, one hundred and ninety (190) cases were referred to the EC for a decision on appropriate enforcement action. This marked a 37% increase over the number of cases dealt with by the EC in 2011. While the number of overall cases referred to the EC increased, administrative penalties levied by the Committee decreased as compared with 2011 as some of the matters were either not subject to penalties as provided in the legislation or the breaches were addressed in other ways to achieve regulatory compliance.

Advisory Warnings are issued by the Commission primarily in instances where entities purport to and falsely hold themselves out to the public, as registered in the Territory; and where entities purport to hold a license or authorisation from the Commission to engage in regulated activity when they in fact do not. In 2012, the Commission more than doubled the number of Advisory Warnings issued in response to discoveries related to entities purporting to have a nexus to the jurisdiction.

2012 also saw an increase in the revocation or cancellation of certificates and licenses. Revocation or cancellation of regulatory licences and authorisations arise in a

Matters Brought Before the **Licensing and Supervisory Committee**

	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Total
Banking and Fiduciary Services	155	110	79	103	447
Investment Business	374	446	332	259	1411
Insurance	72	60	46	139	317
Insolvency	3	1	7	10	21
Total	**604**	**617**	**464**	**511**	**2196**

2012 Enforcement Cases

	Q1 2012	Q2 2012	Q3 2012	Q4 2013	Total
Enforcement Cases Before EC	42	42	51	55	190
Administrative Penalty:					
- Initial Notice	-	5	2	2	9
- Final Notice	-	-	4	4	8
- Waived Penalty	-	-	1	-	1
- Advisory Warning	1	11	11	12	35
- Cease and Desist Order	-	-	1	4	5
- Directive	2	-	4	5	11
- No Action Warranted	12	7	7	10	36
- Noted for Information	23	17	22	24	86
- Public Statement	-	14	1	-	15
- Revoke Certificate or License	5	11	-	-	16
- Warning Letter***	2	1	1	2	6
- Withdraw Approval of Director/Senior Officer	-	-	1	-	1
Total	**45**	**66**	**55**	**63**	**229**

number of circumstances; at the request of the licensee and as a result of enforcement action by the Commission to remedy a breach of legislative requirements or obligations by the licence-holder. In the cases before the EC, these licenses were revoked as a result of some compliance failure by the licensee. Compliance failings that resulted in cancellation or revocation of the licence included failure to pay annual recognition fees, failure to submit audited financial statements and to pay the resulting administrative penalties and failure to seek prior approval for post licensing material changes to the circumstances of the licensee as required.

2012 On-Site Inspection Compliance Cases before EC

	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Total
On-site Inspection Cases Before EC	6	7	16	7	36
Administrative Penalty:					
- Initial Notice	-	-	2	1	3
- Final Notice	-	-	1	1	2
- Corrective Action Plan	-	2	9	-	11
- Focused On-site Inspections	-	-	-	1	1
- Follow up Inspection	-	-	1	-	1
- No Action Warranted	2	2	-	-	4
- Noted for Information	4	3	3	5	15
Total Compliance Actions	**6**	**7**	**16**	**8**	**37**

In addition to the regular enforcement cases brought before the EC in 2012, thirty-six (36) compliance inspection reports were also considered by the EC which resulted in a total of twenty-two (37) compliance actions being taken by the EC. As part of the critical compliance inspection regime, a cross section of licensees from every area of regulatory supervision were subject to compliance inspection visits at their premises. As a result of the consideration of the reports by the EC, various enforcement action was taken. Actions which are represented in the table below included specific plans for corrective action, scheduled follow-up inspections, administrative penalties and appointment of an examiner.

On-site Compliance Inspection Programme

One of the key apparatus used by the Commission in ensuring that the industry is prudently regulated and supervised is the conduct of onsite inspections, which are used in tandem with traditional desk-based supervision.

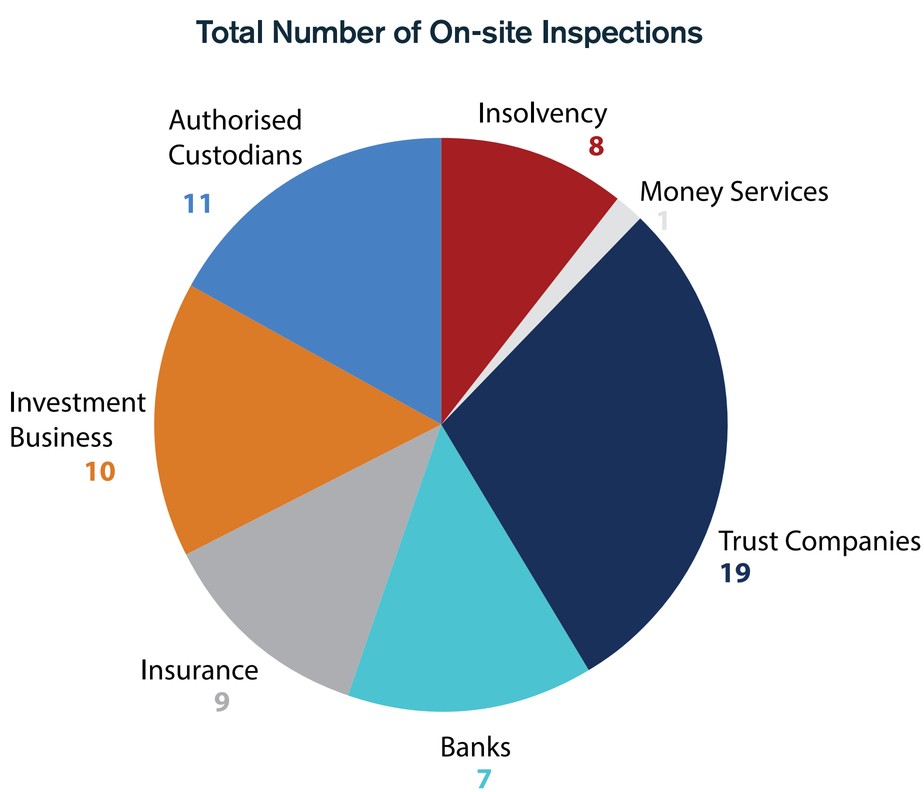
The main goal of the onsite compliance inspection regime is to effectively monitor the entities governed by regulatory legislation. Compliance inspections are conducted with a view to identifying the systemic risks inherent in the operations of licensees and the consequential impact(s) on the jurisdiction. Through its Compliance inspection programme the Commission then seeks to address discovered risks and instances of regulatory non-compliance in a timely manner. Additionally, onsite inspections provide the Commission with the opportunity to determine whether a regulated entity remains “fit and proper” to be entrusted with the financial services business that it conducts.

During 2012, the Commission continued its programme of onsite compliance inspections, which has been active for the past eight years, as part of its supervision of regulated entities. The Commission undertook a total of 65 on-site inspections which covered licensees from the four regulated sectors: Insolvency Services, Investment Business, Insurance and Banking and Fiduciary Services. For the first time, inspections were carried out on the holders of Authorized Custodians licences as well as on an entity licensed under the Financing and Money Services Act.

In all, 27 on-site inspections were conducted in relation to banks, trust and corporate services providers and money services providers, while 9 inspections were carried out on insurance providers and 8 on licensed insolvency practitioners. In addition, 10 on-site inspections were conducted on Investment Business providers while the business practices of 11 Authorised Custodians were also reviewed. The inspections covered a broad range of topics including but not limited to: anti-money laundering and terrorist financing related issues, internal control systems, identification procedures, internal testing, risk assessment, suspicious transaction reporting procedures, employee/staff education and training, complaints handling, business continuity plans and management and control.

The scope of an onsite inspection is determined by the result of the risk assessment of the entity, its available resources and the Commission’s specific concerns. Inspection visits generally last up to five days, depending on the size of the regulated entity and its systems. At the end of the inspection process, the

Commission provides the entity with a formal report summarizing the areas assessed and setting out the recommend corrective action where required. Non-compliance discovered during the inspection visit is liable to attract administrative penalties and /or enforcement action based on the powers available to the Commission.



REGULATORY OVERVIEW

02 BANKING AND FIDUCIARY

Banking and Fiduciary Services

The Division's mandate covers the supervision of banks, trust and corporate services providers, financing and money services providers and authorised custodians.

Banks in the Virgin Islands are subject to licensing under the Banks and Trust Companies Act, 1990 (BTCA). A banking licence issued under this Act must be in 1 of 3 categories: general banking, restricted Class I banking, or restricted Class II banking.

Licensees that wish to provide trust and corporate services are also subject to licensing under the BTCA as one of five classes of Trust licences. Entities that provide company management services are authorised under the Company Management Act, 1990 (CMA).

Authorised Custodians are licensed pursuant to the provisions of the Financial Services Commission Act (FSCA) and can be BVI entities incorporated and licensed by the Commission, or corporate bodies formed outside the Virgin Islands that are not resident in, and do not have a place of business in the BVI. Additionally, money services remitters and/or financing businesses are subject to licensing under the Financing and Money Services Act, 2009 (FMSA).

Sector Overview

The global banking sector continues to meet undulating challenges as new banking international regulations came into effect during 2012 affecting various aspects of supervision and reporting requirements.

The global banking sector continues to meet undulating challenges as new banking regulations, namely the revised Core Principles for Effective Banking Supervision, came into effect during 2012 affecting various aspects of supervision and reporting requirements. The Core Principles for Effective Banking Supervision ("Core Principles") are the de facto minimum standard for sound prudential regulation and supervision of banks and banking systems. During the week of 10 September 2012 the Basel Committee on Banking Supervision approved revised core principles at the 17th International Conference of Banking Supervisors Meeting held in Istanbul, Turkey (which was attended by the Director, Banking & Fiduciary Services Division). Most notable of the revisions are the merger of the Core Principles and the assessment methodology into a single comprehensive document, and the reorganization of the 29 Core Principles to foster their implementation through a more logical structure starting with supervisory powers, responsibilities and functions and followed by supervisory expectations of banks, emphasizing the importance of good corporation governance and risk management, as well as compliance with supervisory standards.

Other important enhancements have been introduced into the individual Core Principles, particularly in those areas that are necessary to strengthen supervisory practices and risk management. For example, a new Core principle on corporate governance has been added in this review by bringing together existing corporate governance criteria in the assessment methodology and giving greater emphasis to sound corporate governance practices. Additionally, there is the added focus on greater public disclosure and transparency, and enhanced financial reporting and external audit. As a result of the review, the number of Core Principles has increased from 25 to 29. There are a total of 36 new assessment criteria, comprising 31 new essential criteria and 5 new additional criteria. In addition, 33 additional criteria from the existing assessment methodology have been upgraded to essential criteria that represent minimum baseline requirements for all countries.

Further, as governments try to mitigate the occurrence of another global financial crisis, the global banking sector is being made to comply with added bank supervisory reforms, including more stringent capital and liquidity standards, information reporting and other related issues.

Core Principles for Effective Banking Supervision, 2012

During Q3 2012, the Basel Committee approved revised Core Principles for Effective Banking Supervision ("Core Principles"). What this means for the Territory is that there is much work to be done by the Commission to ensure that the BVI's supervisory system remains in regulatory compliance with international and global standards. This includes working toward providing comprehensive standards for maintaining a sound foundation for the regulation, supervision, governance and risk management of the BVI's banking sector. Taking the lead on this issue for the Commission, the Banking Division consulted with the BVI Banker's Association during 2012 on the revised document and has maintained communication as the impact on the BVI's banking sector will encompass changes to information reporting standards. The change agenda will likely include the revision of current prudential returns which are submitted quarterly to the Commission by BVI licensed banking institutions. Consumer protection standards will also need to be developed as part of the plan to ensure continued compliance with global standards for effective supervision.

It was concluded that the Commission will convene periodic meetings with the Association to ensure that development of the prudential returns, and any such reporting requirement, would be in line with international and global standards and receive their feedback. To date, progress on the returns remain underway.

Basel II and III

While Basel III is likely to demand attention as timelines move, the Commission's immediate interest and attention during 2012 related to preparations for Basel II. The primary objective of the Basel II Framework is to strengthen the stability of a financial system by requiring adequate capitalization of banks and general improvements to the risk mitigation/ management systems used within banking sectors. The Commission has identified the need to determine and acquire the relevant training and consultancy. These resources are necessary for the Commission to formulate a way forward to ensure that the BVI maintains regulatory standards commensurate with its regional and international peers. The Division anticipates that out of this initiative a focus group will be formed during in mid - 2013 to guide the Commission on the introduction and implementation of Basel III in the BVI.

Foreign Account Tax Compliance Act (FATCA)

In 2010, a critical development in U.S. efforts to combat tax evasion by U.S. persons holding investments in offshore accounts was introduced in the form of Foreign Account Tax Compliance Act (FATCA). With the introduction and pending implementation of FATCA in the US, the BVI can expect major changes relative to information reporting, tax reform and the introduction of additional compliance obligations to financial institutions connected to BVI companies and license holders.

Once on stream FATCA will have significant implications on the jurisdiction. FATCA will require Foreign Financial Institutions (FFIs) to report directly to the United States Internal Revenue Service (IRS) certain information on financial accounts held by U.S. citizens, or by foreign entities in which U.S. citizens hold a substantial ownership interest. Financial institutions, including, but not limited to, banks, trust companies, investment firms, unit and investment trusts, pension plans, hedge funds and insurance companies will have to comply with the rules of FATCA if they have US clients, or if they hold US assets in any form. Given the implications of this legislation on the respective parent banks of BVI banking licence holders, there is the expectation that our banks may be required to enhance the quality of their data, systems and processes in order to meet FATCA requirements.

Because of the implications for regulated entities under its supervision, the Commission has provided support and advice on FATCA to the Government. As FATCA is primarily a tax initiative the competent authority is properly the Government's Ministry of Finance who has carriage of the matter. The Commission continues to collaborate with the Ministry of Finance to address the impact of FATCA on BVI regulated entities and business companies.

New FATF Recommendations

In February, 2012 the FATF issued its revised Recommendations, which are of global application and impact all aspects of a jurisdiction's AML/CFT regime. In relation to the Territory's ongoing commitment to the fight against AML/CFT, an initial review and assessment of the changes in the recommendations point to a profound impact on the work and activities of Trust and Corporate Services Providers (TCSPs). Specifically, changes to recommendations relating to transparency and beneficial ownership are being scrutinised for potential changes to the regimes that govern TCSPs and companies. Additionally, the new standards for the reliance on third parties will be further reviewed against the current practices of TCSPs and their engagement in Introduced Business to ensure compliance with the standard.

Regional Financial Crisis Management Plan (RFCMP)

In response to the global financial crisis, governments and regulatory authorities worldwide have focused on implementing crisis management plans to address future potential financial crises locally, regionally and internationally. The Caribbean Group of Banking Supervisors (CGBS) in its effort to preserve and promote financial stability within its member countries has developed a Regional Financial Crisis Management Plan (RFCMP) that comprises systems, policies and procedures to assist in (i) detecting and preventing a potential financial crisis, (ii) managing a financial crisis and mitigating its consequences; and (ii) easing contagion risks which may arise from distressed financial institutions during a crisis. The Board of Commissioners formally approved the Commission adopting the tenets of the regional financial crisis management plan during one of its regular meetings.

The BVI, as an active member of CGBS has given its support of the RFCMP recognizing that with the introduction of this initiative, reform will be required to address the changes to existing reporting forms and returns to bring them in line with the data collection requirements of the project.

Supervisory Report

Banking

At the end of 2012, the BVI's banking sector comprised seven banks: six commercial banks (including a government owned entity), and one restricted bank; twelve authorised custodians: (eight domestic and four overseas license holders) two licensed money services businesses and one licensed financing service provider.

During the year the division continued to exercise oversight over these institutions through robust onsite and offsite surveillance activities. Continued monitoring of the banks in regard to growth, asset quality,

Licence Type	Total Licensees
General Bank Licence	6
Restricted Bank Licence	1
Authorised Custodian	12
Finance and Money Services	3
Total	22

profitability, liquidity and capitalization was achieved through the Division's offsite supervisory efforts while onsite compliance inspections were carried out on all banking license holders and authorised custodians of bearer shares of BVI companies in collaboration with the Commission's Onsite Compliance Inspections Unit.

In 2012 the Commission was able to improve monitoring of banking licensees in particular through the development and implementation of a Risk Assessment Framework (RAF). With the implementation of the RAF, the Division was able to produce risk profiles for its licensees. The RAF tool was developed to standardize and provide a consistent approach to risk management for regulated entities across the Commission. The tool assists regulators with benchmarking and peer review within each financial services business sector. Use of the RAF has proven to enhance the BFSD's ability to risk profile licensees by introducing a disciplined and structured process that integrates performance analysis and risk management into its supervisory work. The RAF assesses criteria that results in a numerical score which categorises the entity as medium, low or high risk to the Commission.

Financing and Money Services

In 2009, the Financing and Money Services Act (FMSA) was enacted to provide for the licensing, registration and supervision of persons who carry on financing business, money services business and for connected matters.

While entities have been licensed under the regime, dozens of other applications have been evaluated and processed for potential entrants to the market since the advent of these classes of businesses as part of the regulated community. Throughout 2012, the Division continued to undertake several matters relative to the administration of the FMSA. The Commission conducted the first onsite compliance inspection of a money services business licence-holder and approved the issue of the first financing license.

Licence Type	Total Licensees
Class I Trust Licence	85
Class II Trust Licence	15
Class III Trust Licence	10
Restricted Class II Trust Licence	96
Restricted Class III Trust Licence	0
Company Manangement Licence	21
Total	227

Fiduciary Services

In 2012, 227 licensees fell under the remit of Fiduciary Services for direct supervision, an increase of 17 licensees from the prior year. New licensees were primarily Class II Trust Licences. During 2012, the Division using a recent amendment to the Banks and Trust Companies Act (BTCA) approved the reclassification of a number of existing licensees. The reclassification exercise, which mostly involved holders of Class I trust licences saw these licensees opting to be reclassified to a Class II trust licence, which better reflects the scope of business in which the licensee is regularly engaged. During 2012, six new licences were granted; two each for Class III Trusts, restricted Class II Trusts and Company Management. The net result was positive growth in relation to Fiduciary Services licensees.

The Commission continued to observe a trend of acquisitions of trust companies and providers of trust and corporate services by venture capital firms. This trend was first observed in 2011 and has continued. As a result, in 2012 four applications for acquisitions were progressed, one of which included the acquisition of a top ten incorporator of BVI Business Companies.

Desk-based monitoring

Fiduciary Services has introduced Supervisory Plans as a mechanism for enhanced regulatory oversight. Supervisory plans are developed and introduced to guide licensees who are determined to have material deficiencies in regulatory compliance and challenges in correcting these issues to the satisfaction of the Commission. Generally, these Supervisory Plans seek to focus the remediation in the areas of Corporate Governance framework, Compliance Culture and Business Objectives. In 2012, three licensees were assessed to require Supervisory Plans which are not considered enforcement action.

December 2012 Prudential Returns for TCSPs

Prudential returns are submitted on a semi-annual basis from TCSPs, and provide the Commission with information detailing the level and quality of business conducted by licensed TCSPs. Data extracted from the December, 2012 submissions show the total number of trust structures under administration by BVI-licensed TCSPs.

Class of Licence	Trust	Vistas[1]	PTC's[2]
Class I Trust	6,873	1,141	661
Class II Trust	908	11	0
Restricted Class II Trust	389	2	20
Total Trust Structures	**8,170**	**1,154**	**681**

Balance Sheet Information

As at the end of 2012, the total assets of the BVI's banking system was $2.5 billion demonstrating a 2% growth over 2011. By composition, Loans and Advances made up the majority of the Territory's banking assets representing 57%, followed by Cash and Cash Equivalents representing 38%. Conversely, the sector experienced a (13%) decrease year on year in Total Loans and Advances, largely driven by the reclassification of assets by one bank for the purpose of accurately reporting their liquidity position. Additionally, Total Cash Items increased 45% year on year due to increases in the cash balances of all the banks in the region.

As at 31 December 2012 Total Liabilities was $2 billion representing a 4% increase from 2011. Overall, the sector experienced a 68% growth in Other Liabilities that resulted from an increase in the fluctuation of balances related to

Table 1 - Quater on Quarter Comparison

Balance Sheet (Assets)	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q4 2011
Total Cash Items	684,201	683,827	689,938	967,551	669,304
Total Loans & Advances	1,587,303	1,578,625	1,646,948	1,406,918	1,622,126
Total Investments	1,855	1,746	1,680	1,611	1,899
Total Other Assets	172,816	175,324	146,874	143,368	170,100
Total Assets	**2,446,175**	**2,439,522**	**2,485,440**	**2,519,448**	**2,463,429**

the transfer of funds for one bank, as well as an increase in the value of interoffice transactions between head office and other branches for another bank. Total Loss Reserves also increased 29% primarily due to the reduction of specific loan loss provisioning by certain banks. Deposits held by the commercial banks continue to be the largest segment of liabilities making up 73% of Total Liabilities and Equity. Comparatively, Shareholder's Equity which made up 18% of Total Liabilities and Shareholder's Equity saw a (4%) reduction year on year, with retained earnings also declining by (6%) for the same period. Nevertheless, the banks continue to grow their respective businesses despite the challenges of operating in a contracting economy.

Table 2 - Quarter and Year on Year Comparison

Balance Sheet (Liabilities & Shareholder's Equity)	**Q1** 2012	**Q2** 2012	**Q3** 2012	**Q4** 2012	**Q4** 2011
Total Deposits	1,716,300	1,733,264	1,786,275	1,827,070	1,701,419
Total Long Term Debt	120,987	118,613	132,662	131,588	135,466
Total Accrued Liabilities	14,576	5,289	6,146	5,620	12,528
Total Other Liabilities	118,255	95,493	63,161	106,288	145,106
Total Loss Reserves	4,419	1,985	1,047	1,348	1,526
Total Liabilities	1,974,537	1,954,644	1,989,291	2,071,914	1,996,045
Total Shareholders Equity	471,638	484,878	496,149	447,534	467,384
Total Liabilities & Shareholder's Equity	**2,446,175**	**2,439,522**	**2,485,440**	**2,519,448**	**2,463,429**

Statement of Income and Expense and Profitability

Table 3 - Income Comparison for Q4 2011 and Q4 2010

BVI Banking Sector	**Q4** 2012	**Q4** 2011
Interest Income	51,649	52,805
Interest Expense	5,237	5,945
Net Interest Income	46,412	46,860
Provisions for Losses	1,297	409
Non-Interest Income	7,000	7,230
Operating Income	52,115	53,681
Non-Interest Expense (Overhead)	19,021	18,246
Net Gain/(Loss)	609	323
Income before Taxes	33,703	35,758
Net Income	33,703	35,758
Net Income Retained	33,703	35,758

A (6%) decrease in Net Income Retained was observed in 2012 with a major contributing factor being the large increase in Provisions for Losses by some banks.

In the course of 2012 the banking sectors' previously stable profitability indicators demonstrated some volatility showing a weakening in profitability indicators such as Profit Margin in Q1 and Q3, which occurred primarily due to an increase in provisioning. Some of the profitability indicators demonstrated significant improvement during Q2, however, in Q4 2012 the profitability indicators ended up at, or close to, historic levels.

Asset Quality

There was an overall cutback in borrowing throughout the Territory during the year as banks reported increasing levels of nonperforming loans (NPLs) which correlates to the current macroeconomic environment. Further, with the rise in NPLs, loss provisioning grew exponentially. As a result, BVI banks during the course of 2012 began taking a more conservative approach towards sustaining stronger credit risk management practices including improved credit quality and loss mitigation activities to offset growing NPLs.

Both Total Non-Performing Loans and Total Non-Accruing Loans increased by 10% and Total Loan Loss Reserves also increased 29% as a result of increases to the reserves of some banks. However, the average level of Non-Performing Loans as a Percentage of Total Loans was 5%, slightly up from 4% in 2011.

Capital Adequacy and Liquidity

BVI banks sustained favourable capital throughout 2012 reporting an industry average ratio of 32% Tier 1 Capital to Adjusted Risk-Weighted Assets, well over the statutory requirement of 12%. Over the last two years the banking sector has demonstrated stable liquidity levels. At the end of 2012 the banking sector's Liquid Assets as a percentage of Short Term Liabilities averaged 37% while Loans as a percentage of Total Deposits averaged 90%.

Legislative and Policy Developments

A 2012 amendment to the Mutual Legal Assistance Act (MLAT), the Mutual Legal Assistance (Tax Matters) (Amendment) Act, 2012 introduced a new section to the primary statute specifying the types of records required to be maintained by Registered Agents at their offices. As the amendment is specific to registered agents, it has a direct impact to TCSPs licensed under the BTCA and CMA. The amendment also sets out the need to retain records of BVIBCs (or any other business in which the Registered Agent is engaged) for a period of five years, which is in keeping with existing AML/CFT provisions. The amendments to the Act also seek to ascertain where records of the affairs and activities of BVIBCs are being kept, if not otherwise maintained by the Registered Agent.

The BVI Business Companies (Amendment) Act, 2012 amended the definitions of a "BVI Authorised Custodian" and a "foreign authorised custodian". Other provisions in the Amendment Act also related to and impact the Authorised Custodian regime.

For clarity, an Authorised Custodian is a person authorized by the Commission, to act as a custodian of bearer shares issued by BVI business companies. This may include a person who holds a licence under BVI financial services legislation as well as bodies incorporated or formed outside the Virgin Islands that are not resident in, and do not have a place of business in, the Virgin Islands.

The law governing Authorised Custodians was enacted in July 2004 through an amendment to the Financial Services Commission Act which came into force in January 2005. The aim of the legislation was to provide the

Table 4 - Asset Quality Comparison

BVI Banking Sector (Asset Quality)	**Q1** 2012	**Q2** 2012	**Q3** 2012	**Q4** 2012	**Q4** 2011
Total Non-performing Loans	121,718	43,399	44,951	49,592	45,818
Total Non-accruing Loans	114,427	26,026	26,900	29,651	31,224
Total Loan Loss Reserves	3,772	1,985	1,047	1,348	1,526
Average Non-performing Loans percentage of Total Loans	**4.61%**	**4.67%**	**4.49%**	**4.61%**	**4.56%**
Non-performing Loans Net of provisions to Total Capital	**38.61%**	**97.89%**	**41.77%**	**38.61%**	**40.67%**

legal basis that enables the Commission to facilitate a seamless transition to the new regime established for the control and ultimate immobilization of bearer shares.

As at 1 Jan 2012 there was an estimated total of 739 bearer shares held by approved authorized custodians.

Revised and new provisions in the Amendment to the BVI Business Companies Act now include a specific definition of a bearer share company and the requirement for Registered Agents to maintain a Register of Bearer Share Companies. This is in order to better and more efficiently accommodate the recognition of quality registered agents which are critical to the efficient operations of entities registered under the Business Companies Act. The amendment also outlines the circumstances in which a person ceases to be eligible to act as a Registered Agent and actions that are to be taken prior to cessation of the power to act.

The Anti-money Laundering and Terrorist Financing legislation is a key piece of legislation that governs the Territory's AML regime. The 2012 Amendment revised existing provisions to ensure that all trusts (and not solely high risk trusts) are subject to appropriate due diligence by the regulated service provider. When the Commission conducted a recent self-assessment against the Offshore Group of Banking Supervisor's (OGBS) Statement of Best Practice a gap was identified. This gap in the AML regime is now corrected by this amendment to the AML Code and as a result, all trusts administered should be subject to the appropriate level of customer due diligence.

Strategic Work Plan Achievements

As discussed earlier in highlighting legislative and policy changes, the division conducted a self assessment using the tenets of the OGBS Statement of Best Practice. As a result of this self assessment, the Commission considers its regulatory regime, legislative suite and supervisory practices for the sector to be sound and to conform to the OGBS Best Practice.

In an effort to foster a strengthened private/ public sector relationship, the Commission established a specific liaison committee for the Fiduciary Services sector which comprises trust and corporate services providers. The Fiduciary Liaison Committee (FLC) aims to create better synergy between the Commission and practitioners in the sector, as well as address critical issues that impact TCSPs. Membership in the FLC is at the invitation of the Commission and members are selected and appointed to serve for varying periods. The Commission considers length of time in practice in the jurisdiction, overall industry experience and the quality of the compliance culture of the licensee to all be applicable and appropriate criteria in selecting persons to be nominated to serve on this and other liaison committees. Key Commission personnel act as resources persons to the FLC which generally meets several times per year as circumstances and sector developments require.

The division also rendered technical assistance to the Government on development of a framework for a National Deposit Insurance Scheme which is designed to protect BVI account-holders in the event of a bank failure in the Territory.

Because the U.S. tax initiative FATCA possesses the ability to impact BVI financial institutions which the Commission regulates and supervises, the Commission also participated in discussions on the likely impact on the Territory as well as provided technical assistance to Government.

Training

Training of the Division's staff is conducted to enhance core supervisory skill sets, and continue professional development. During 2012 staff received training on topics including: regulatory compliance, the application of macro-prudential policies and the supervision of systemically important banks, credit risk analysis, advanced credit risk measurement and management and conducting meetings with management. The commitment to training and participation in key discussions in keeping in line with the Commission's desire to be a part of international fora where discussions regarding the development of regulation in OFCs is being shaped.

In addition to the development opportunities outlined, the Division participated in various sector related meetings, conferences and similar forums hosted by supervisory bodies including the Association of Supervisors of Banks of the Americas (ASBA), the Caribbean Group of Banking Supervisors (CGBS) and the Group of International Finance Centre Supervisors (GIFCS). The general purpose of the Division's participation in these meetings was inclusion in discussions geared towards: regional and international initiatives affecting IFCs, the revision of the FATF Recommendations and Basel Core Principles and other issues critical to bank supervision. Continued participation in these events creates a gateway to experienced regional and international colleagues and counterparts that help to forge and sustain regulatory relationships.

03 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 and mutual funds that are recognised, registered and licensed under the Act.

Sector Overview

The global fund industry ended 2012 on a high note. According to statistics gathered from the Hedge Fund Aggregated Index ("HFAI") hedge fund industry assets rose to $2.601 trillion at the end of 2012, an increase of 5.9% over 2011. The HFAI provided that investor flows were negative in December 2012 as $9.5 billion were withdrawn; however positive returns drove the industry's assets under management higher for the year end 2012. The increase in global assets of the hedge fund industry, is an indication that there is positive growth in the mutual fund industry, not only with existing hedge funds, but also new funds. The jurisdiction is therefore likely to attract new mutual fund entities and increase the size of its regulatory portfolio.

Conversely, the year 2012 was a very challenging year for the jurisdiction's securities industry including its mutual funds. The jurisdiction's mutual fund industry continued to experience some contraction as mutual funds cancellations outpaced recognitions/registrations in every quarter of the year. One factor that contributed to the contracting was a change in the regulatory environment, which included new requirements under SIBA. Notably, a significant number of cancellations during the year were due to the improving economic climate globally. Many funds were able to realise investments that were previously il-liquid and properly close through a fund led request for cancellation. The proceeds were returned to investors and the funds were subsequently cancelled as there was no intent on the part of the directors to re-launch the funds.

The number of active Investment Business licensees remained largely unchanged for the years 2010 to 2012 although the Division continued to receive applications for licensing in new disciplines (created under SIBA) throughout the year.

The Commission was successful in bringing to fruition one of the key initiatives highlighted in the Division's plans for the year. Specifically, the Commission developed a more streamlined regime geared towards the fund management legacy business with less stringent requirements for appropriately classified licensees that pose significantly less risk. The new classification, Investment Business Approved Manager, is guided by the Investment Business (Approved Managers) Regulations, 2012 which were enacted on 10 December 2012. The Division envisages that the benefits of this regime will be seen in 2013 when service providers become more familiar and confident with the approach. The Division will continue to monitor the changes in the size of the jurisdiction's fund management industry and in consultation with the local industry, seek to find new and appropriate methods to meet regulatory objectives while differentiating the regulatory risk posed to the jurisdiction by products in the sector.

New Developments

During Q4 2012, the European Securities and Markets Authority (ESMA) embarked on consultation on Guidelines on Key Concepts of the Alternative Investment Fund Managers Directive (AIFMD). The Directive provides the legal framework for alternative investment funds in the European Union and their managers. The Commission, drafted an AIFMD Focus Group which comprises member of the private sector who are active practitioners in the area. The AIFMD Focus Group continued to monitor developments with the Directive, gauge the impact on the jurisdiction's mutual fund and fund management sectors, and develop key recommendations to govern the implementation of the Directive. It is expected that the AIFMD Focus Group will shortly complete its work and provide a report, including recommendations, to the Commission for consideration.

Key Legislative Developments

Throughout 2012, the Division continued to administer SIBA. As a result of the years of experience of administering this expanded legislation which governs the securities sector, the division has identified some areas for adjustment. The division has identified an urgent need to develop and adopt more stringent requirements for broker dealers, specifically those dealing in the foreign exchange market. The system for prudential reporting and returns needed to be strengthened and this end, the Division commenced the process of developing prudential standards as well as establishing an internal working group to address applicants and licensees dealing in the foreign exchange market.

The Commission previously requested a draft proposal for a streamlined regime for the handling of specific fund-related from its Securities and Investment Business Advisory Committee (SIBAC). During 2012, in consultation with SIBAC and the wider fund industry, the Commission developed a regime with less onerous regulatory requirements. This revised approach is geared toward licensing and approving entities conducting the legacy business of fund management and yielded the Investment Business (Approved Managers) Regulations, 2012.

Challenges

The administration of SIBA and in particular assessing complex applications such as those from broker dealers who operate in the foreign exchange market, exerted the greatest strain on the division's resources during the year. The complexity of these applications required the Division to assess how applications are assessed and its view of the different profiles of risk posed by entities that are regulated and supervised under SIBA. Members of the Division were assigned to research and make recommendations regarding the risk foreign exchange broker dealers pose to the jurisdiction. A further determination of how such risks could be mitigated through regulation and supervision given the unique classification and characteristics of the different segments of business was also contemplated. The Team produced a Risk Assessment paper which was subsequently presented to the Licensing and Supervisory Committee and the Board of Commissioners. With guidance from both the LSC and the Board, the Division continues to develop the regulatory mechanism for regulating and supervising these entities.

Issues of contravention of the legislation and the receipt of complaints from investors provided additional burden on the resources of the division. In conjunction with the Legal and Enforcement Division many of these cases have been successfully concluded but the most difficult ones remain active and resource intensive.

In addition to new concerns of regulatory contravention, the Division remained cognisant of existing problem cases that required attention and action by the Commission. The Division's effort to conduct a thorough review of these entities, specifically 'problem Funds' was and continues to be impacted by a shortage of resources. Notwithstanding, the Division intensified its efforts to maintain the Commission's service standards, especially in the processing of new applications (including approved manager applications) and other transactional business.

Training & Seminars

The Division continued in the Commission's tradition of providing relevant training to its staffers, many of whom were exposed to various overseas and local training and conferences. The Director and other regulatory staff attended the IOSCO Emerging Markets Committee and IOSCO annual training seminar and the Director attended the IOSCO Annual General Meeting held this year in Beijing. The Commission was also represented at the Inter-American Regional Committee by the Deputy Director. Attendance at the IOSCO meetings was of particular relevance given the significant changes IOSCO was undergoing in its structure. The Commission has always participated in IOSCO general meetings since it attained membership in the group. As an ordinary member of IOSCO the jurisdiction provided input into this restructuring through its participation at the regional committees. The jurisdiction also considered it important to attend these IOSCO meetings to deliver its position on the issue of membership and voting rights.

The Deputy Director, Investment Business continues to devote significant time to the jurisdiction's AML/CFT compliance regime as a key Commission resource through his attendance at FATF and CFATF Plenaries. This important role is providing AML/CFT expertise and leadership for the jurisdiction including serving as a member of the Expert Review Group for a number of mutual evaluation reports at several CFATF Plenaries.

The United Kingdom's regulatory landscape also underwent several changes during 2012. As a window to these significant changes to the UK model for the regulation of financial services business, a member of the Investment Business team attended the FSA's Annual International Seminar. The focus of this year's seminar was the pending transition of the UK to a new regulatory model dubbed the 'Twin Peaks'. The Commission was keen to observe and understand the UK's new approach. The new model will see the Financial Services Authority becoming two separate regulatory bodies in 2013; one 'peak' representing the Financial Conduct Authority ("FCA") and the other representing the Prudential Regulatory Authority ("PRA").

Statistical Analysis

During the year, a total of 382 mutual funds were cancelled, and 110 new entities were granted recognitions/registrations. Some cancellations were at the request of the licensees as funds matured and met their objectives. The 110 recognitions/registrations granted reflect the lowest per year figure recorded in the history of the jurisdiction's mutual fund regime and represents a 40% decline in fund certifications from 2011 and a 36% decline from 2010. At the end of 2012, the Division recorded 2,318 active mutual fund entities under its supervision; a decrease of approximately 22% from the record high number of 2,953 active mutual funds recorded in 2008 before the advent of the global financial crisis.

Mutual Funds and Investment Business Statistics

	As at Dec 31 2011	As at Dec 31 2012	% Change
Active Funds	**2590**	**2318**	**(10%)**
Professional Funds	1700	1590	(6.47%)
Private Funds	712	577	(18.96%)
Public Funds	178	151	(15.1%)
Active Licensees	**525**	**526**	**0**

The number of total SIBA licensees remained constant over the period however, which can be attributed to the new types of businesses that are now licensable under SIBA.

The Division, in consultation with the Policy, Research and Statistics Division, was able to produce the following guidelines: Guidelines for applying for an Exemption to appoint a Custodian or Fund Manager and Approved Investment Managers Regime Guidelines. Additionally, the Division drafted a number of other guidelines that it envisages will be issued in 2013.

04 INSURANCE

The Insurance Division of the Commission is responsible for the regulation and supervision of persons licensed by the Commission pursuant to the relevant legislation to carry on insurance business in or from within the Territory. This includes captive insurers, domestic insurers, insurance managers, insurance intermediaries (insurance agents and insurance brokers) and loss adjusters.

The business of regulating or supervising those persons so licensed is an on-going process which involves both off-site or desk based and on-site monitoring to ensure compliance by licensees with the relevant legislation, prudential standards and best practices.

The Insurance Act, 2008 and the Insurance Regulations, 2009 are specific to persons legal or natural that carry on insurance business in or from within the BVI. The Regulatory Code, 2009 is general to all regulatory divisions within the Commission but contains sections specific to each regulated sector.

In 2012 the Insurance Division experienced a number of challenges with respect to the insurance market, specifically, the captive insurance market. Despite the challenges, 2012 showed a marked increase in new captive insurer licence approvals over 2011 with fifteen (15) new applications being approved and twelve (12) new licenses issued by the end of the year. The number of license cancellations exceeded the number of new licenses issued resulting in a net decrease in captive insurers licensed and regulated by the Insurance Division by seventeen (17) at the close of the year. As at year end 2012 there were one hundred fifty – seven (157) captive insurers licensed by the Commission.

The following table shows statistical data as extracted from audited financial statements submitted for captive insurers to the Commission for the 2011 financial year:

The domestic insurance market in 2012 did not experience any changes in numbers as this market continues to remain relatively stable. There is continued interest being shown in this market by prospective insurers. There were thirty four (34) licensed domestic insurers at the end of the year, one (1) BVI insurer having discontinued out of the BVI to another jurisdiction.

Two of the licensed domestic insurers which are foreign insurers as opposed to BVI insurers, experienced financial difficulties in 2012; one (1) was eventually sold and the other was placed into liquidation.

Captive Insurers Financial Statistics - 2011	
Gross Written Premiums	$314,842,662
Net Written Premiums	$277,230,815
Claims Incurred	($146,011,530)
Underwriting Results	$52,507,761
Gross Assets	$2,697,102,009
Allowable Assets	$2,124,827,970
Net Worth	$1,258,325,698

05 INSOLVENCY

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 which include the Insolvency Rules, Insolvency Regulations and Code of Conduct.

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.

Sector Overview

The local insolvency industry has had a very active year as there were several Court cases in which decisions were made that have significant impact on practitioners and the way business is conducted. The industry saw the Eastern Caribbean Court of Appeal clarify in the Stiching Shell Pension Funds case, whether an unpaid redeeming member could be considered a creditor of the company, an issue which was left dangling after the Westford Special Situations Funds Limited case. There was also the case of Rubin v Eurofinance SA where the UK Supreme Court dealt with enforcements of foreign judgments on insolvency orders. Finally in the matter of Monarch Pointe Fund Limited practitioners were left uncertain as to the order of distribution to investors when dealing with an insolvent fund.

Internationally, sectors such as Retail and Real Estate continued to provide opportunities for practitioners in the area of restructuring and recovery. In economies with strong insolvency legislation, insolvency practitioners were able, through restructuring and turnaround work, to save many businesses.

Supervision and Interaction

During the year 3 new licenses were issued and there were 2 voluntary licence revocations . At the end of 2012 the Insolvency Services Division had 23 licensed insolvency practitioners under its supervision: 22 full licensees and 1 restricted licence-holder. The new licensees primarily represent the expansion of existing firms and replacement of Insolvency Practitioners who have relocated to other jurisdictions.

As part of its regulatory function, the Division reviews requests made to the Commission for the appointment of joint overseas insolvency practitioners as per section 483 of 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. In 2012, the Division consented to the appointment of 16 joint overseas insolvency practitioners.

Country of Appointed Joint Overseas IP	Number of Appointments
Hong Kong	7
United Kingdom	5
Singapore	2
Ireland	1
Cayman Islands	1

Staff Training

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

In 2012 members of the Division attended several conferences and training seminars.

- The 2012 Insol Regional Conference was instrumental as a resource in providing guidance to the Division in the conduct of cases that involved creditors and assets in multiple jurisdictions. Guidance was also provided on what key evidence specific courts look for when a practitioner is seeking remedies.

- The C5 Fraud, Asset Tracing and Recovery Conference provided invaluable information for the Division in the area of asset recovery. Tremendous benefit was gained on how to effectively carry out internet searches and conduct investigations of claw back actions.

- The International Association of Insolvency Regulators' (IAIR) Annual General Meeting and Conference provided an opportunity for Insolvency Regulators

Case Type	B/F	Opened	Closed	In Progress
Receiverships	34	1	1	34
Admin Receiverships	7	0	4	3
Company Creditor Arrangements	2	0	0	2
Provisional Liquidations	3	0	2	1
Liquidations - appointed by members	67	14	12	69
Liquidations - appointed by Court	122	20	3	129
Total	**235**	**35**	**32**	**238**

around the world to share their experiences and the division counts as participation as necessary. Discussions were held on natural disasters which affect countries in many ways and often lead to insolvency proceedings. A number of alternatives to bankruptcy were also discussed such as the no asset procedure and summary installment which may be possible options for the BVI to consider in future.

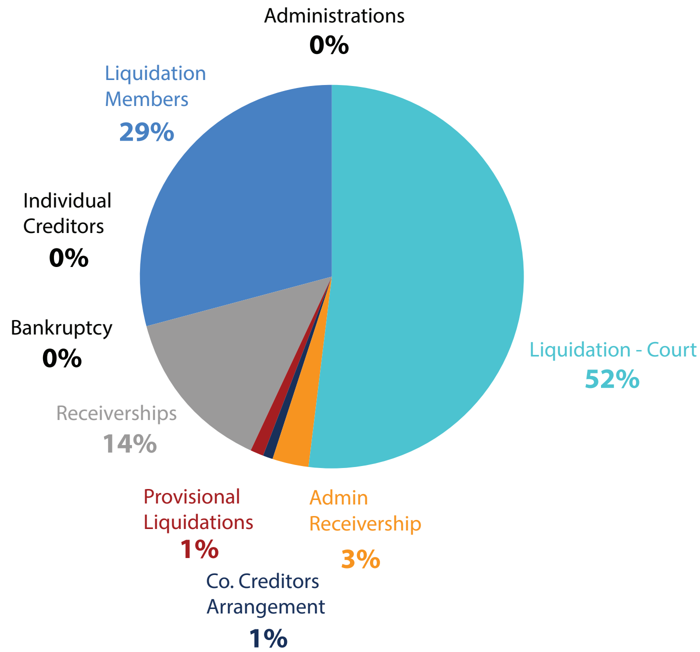
2012 Statistical Analysis

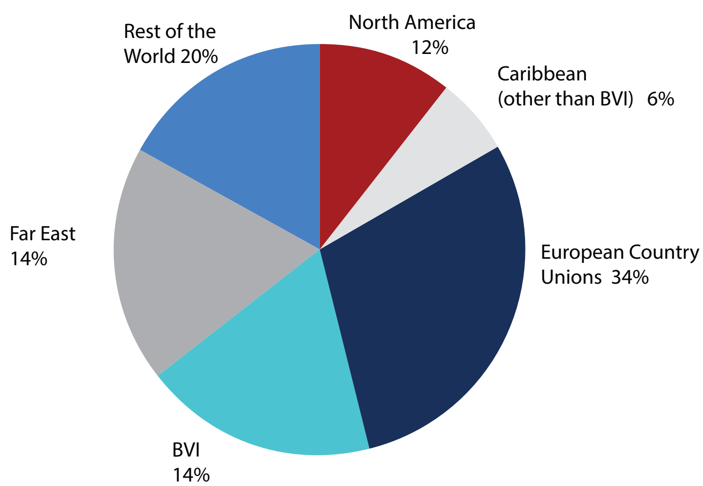
The Territory began the year with 235 cases in progress. During the year, 35 new cases were opened. 32 cases were closed in 2012 compared to 53 in 2011 resulting in 238 cases in progress at year end; an increase from 221 in 2011. This case load was handled by the 23 licensed Insolvency Practitioners and the Official Receiver.

Court appointed liquidations made up 52% of total cases in progress at the end of 2012, in comparison with 43% recorded in the previous year; Receiverships accounted for 14%, down from 20% in 2011; Members appointed liquidations amounted to 29%, equivalent to what was recorded in 2011 while Provisional liquidations accounted for 1% in 2012 reflecting an increase over 2011; Administrative Receiverships accounted for 3% in comparison to 5% recorded in the previous year and Company Creditors Arrangements accounted for 1% - same as 2011. There has been no activity with respect to Administrations, and Bankruptcy cases.

Analysis of the centres of operations from which new cases were drawn in 2012 shows that 34% of all new cases originated from European Union Countries; 14% from the Far East; 12% from North America; 14 % from the BVI ; 16% from the Caribbean (other than the BVI) while the remaining 20% originated from the rest of the world. Compared to 2011 there was a decrease in the number of new cases from within the European Union Countries, the Far East and the Rest of the world, but an increase in North America, BVI and the Caribbean (other than the BVI).

Cases in Progress (type)





BVI	Caribbean (Other than BVI)	European Union Countries	North America	Far East	Rest of the World	Totals
5	2	12	4	5	7	35

06 REGISTRY OF CORPORATE AFFAIRS

The Registry of Corporate Affairs (the Registry) administers the BVI Business Companies Act, the Partnership Act, the Trade Marks Act, the Registration of UK Patents Act and the registration of United Kingdom Trade Marks 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

New Incorporations of BVI Business Companies totaled 64,062 for 2012 decreasing only by 1.03% overall when compared with the number of new companies incorporated in 2011. The first half of 2012 saw 33,064 companies registered while registrations decreased by 6.2% during the second half of the year with 30,998 new companies recorded as being registered between July and December 2012.

As of 31st December, 2012 the cumulative number of BVI Business Companies registered, continued or re-registered totaled 799,868 reflecting 8% growth over 2011. Active companies totaled 459,005 however, marking a near 5% decrease in comparison to 2011. Globally, growth in new company registrations has slowed with only one offshore jurisdiction to record year on year growth in new company registration activity with a 1% increase between 2011 and 2012.

Conversely, new Limited Partnership formations increased from 36 in 2011 to 89 in 2012, showing a 30.88% increase. Total number of Limited Partnerships registered as of 31st December, 2012 reached 963 with 547 reported as active as of that date.

Post Incorporation Transactions

The majority of post incorporation transactions decreased in 2012 when compared with 2011. Requests for certificates of good standing continue to be a popular post registration activity and these increased as expected based on trends observed over previous years, totaling 52,978. Notices of completion of liquidations, appointment of liquidators and continuations out of the Virgin Islands all decreased in 2012, which had a positive impact on the Register as this resulted in fewer companies being removed from the register.

Registrar's Report

The BVI Business Companies Regulations, 2012 and the BVI Business Companies (Amendment) Act, 2012, came into force on 15th October, 2012. As with all amendments to the primary Act, BVI Business Companies Act and subsidiary legislation like the Business Companies Regulations, the changes are designed to provide additional flexibility and certainty for the numerous Business Companies on the Register.

Key among the changes introduced include: the ability of a company to register an additional foreign character name that is not a literal translation of its English name; guidance for the re-use of company names- particularly where the original named company has changed its name, been dissolved or has continued out of the jurisdiction. The amendments also ushered in changes to registration and release of charges and simplified the process for bulk filings of changes to Registered Office.

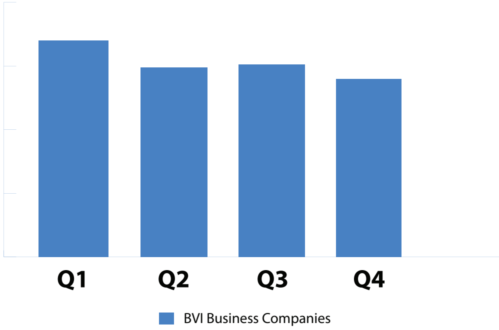
The Partnership Act was also amended in 2012 to allow for the recognition of foreign character names.

Incorporations and Registrations					
Type of Entity	**Q1 2012**	**Q2 2012**	**Q3 2012**	**Q4 2012**	**Total**
BVI Business Companies	**17,864**	**15,200**	**16,251**	**14,747**	**64,062**
Limited Partnerships	**18**	**15**	**20**	**36**	**89**

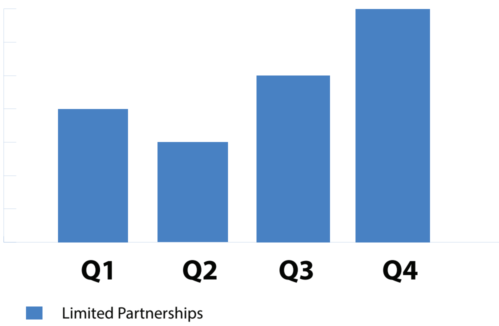
In the last quarter of 2012, the BVI Business Companies Approved Forms Guidelines were published. These Guidelines were developed to assist agents in providing the required and expected information in completing filings related to the various pre and post-incorporation transactions that may be submitted to the Registry for processing via the VIRRGIN platform.

Additionally, a new draft Trade Marks bill was also submitted to Cabinet for consideration during 2012.

BVI Business Companies
2012 Incorporations by Quarter



Limited Partnership
2012 Registration by Quarter



The Registry of Corporate Affairs (the Registry) administers the BVI Business Companies Act, the Partnership Act, the Trade Marks Act, the Registration of UK Patents Act and the registration of United Kingdom Trade Marks 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

New Incorporations of BVI Business Companies totaled 64,062 for 2012 decreasing only by 1.03% overall when compared with the number of new companies incorporated in 2011. The first half of 2012 saw 33,064 companies registered while registrations decreased by 6.2% during the second half of the year with 30,998 new companies recorded as being registered between July and December 2012.

As of 31st December, 2012 the cumulative number of BVI Business Companies registered, continued or re-registered totaled 799,868 reflecting 8% growth over 2011. Active companies totaled 459,005 however, marking a near 5% decrease in comparison to 2011. Globally, growth in new company registrations has slowed with only one offshore jurisdiction to record year on year growth in new company registration activity with a 1% increase between 2011 and 2012.

Conversely, new Limited Partnership formations increased from 36 in 2011 to 89 in 2012, showing a 30.88% increase. Total number of Limited Partnerships registered as of 31st December, 2012 reached 963 with 547 reported as active as of that date.

Post Incorporation Transactions

The majority of post incorporation transactions decreased in 2012 when compared with 2011. Requests for certificates of good standing continue to be a popular post registration activity and these increased as expected based on trends observed over previous years, totaling 52,978. Notices of completion of liquidations, appointment of liquidators and continuations out of the Virgin Islands all decreased in 2012, which had a positive impact on the Register as this resulted in fewer companies being removed from the register.

Registrar's Report

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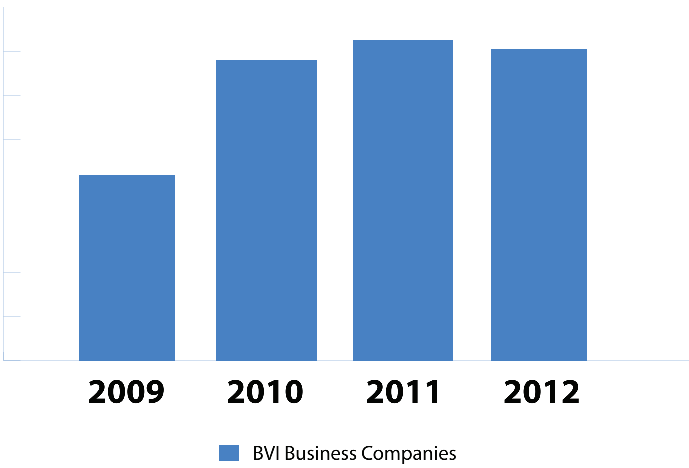
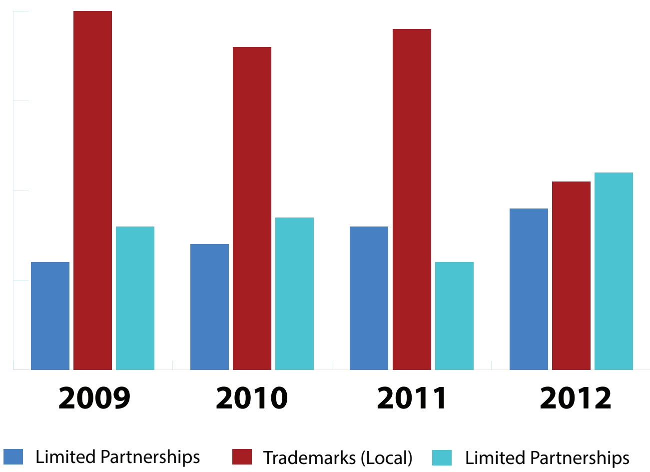
Additionally, a new draft Trade Marks bill was also submitted to Cabinet for consideration during 2012.

Total Incorporations/ Registrations	2009	2010	2011	2012
BVI Business Companies	47,477	59,623	64,729	64,062
Limited Partners	65	72	68	89
Trademarks (Local)	207	192	205	111
Trademarks (UK)	81	88	68	115

BVI Business Companies
Total Incorporations Year-on-Year (2009 - 2012)



Total Registrations
Year-on-Year (2009 - 2012)



NON-SUPERVISORY
DIVISIONS

07 LEGAL AND ENFORCEMENT

The Legal and Enforcement Division provides ongoing legal support to the COMMISSION's regulatory divisions, Committees of the COMMISSION, the Managing Director and the Board of Commissioners. The Division also executes requests for assistance from foreign regulatory and law enforcement authorities. The Legal Unit of the Division takes conduct of enforcement action against regulated persons that act in violation of the regulatory and anti-money laundering laws where the enforcement action involves court proceedings. The Enforcement Unit conducts investigations into violations of regulatory and anti-money laundering laws and breaches of international sanctions. In addition, the Deputy Director, Enforcement serves as Secretary to the Enforcement Committee.

Primary Responsibilities

The coordination and execution of requests for assistance by foreign regulatory and law enforcement authorities constitutes one of the Division's main responsibilities. The Division also makes requests for assistance to foreign regulatory authorities where assistance is required for the performance of the Commission's regulatory functions.

Complaints and reports relating to BVI companies from private individuals are received by the Division from time to time. Where such complaints or reports raise matters of supervisory concern or reputational risk to the Territory, the Division conducts preliminary investigations before referring such matters to the Enforcement Committee and/or any relevant regulatory, law enforcement or intelligence agency, as appropriate.

The Division provides advice on the interpretation and application of financial services and other laws to facilitate the work of the Commission and its regulatory divisions, and 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.

The Division also provides advice to the regulatory divisions on appropriate enforcement action to address regulatory breaches and similar concerns. Both Units of the Division are responsible for implementing the decisions of the Enforcement Committee (EC) in relation to enforcement action and keeping the EC and the Board abreast of developments in this regard.

The Division represents the COMMISSION in civil proceedings in the High Court, primarily applications in respect of the Commission's decisions on enforcement action and applications made under the BVI Business Companies Act, 2004, and is responsible for advising on the interpretation and application of all legislation governing the regulatory and supervisory functions of the COMMISSION. The Division is also asked to advise on other BVI and foreign legislation from time to time.

Supervisory Report

Requests for Assistance

The Commission receives both formal and informal requests for assistance from foreign regulatory or law enforcement authorities. Formal requests from foreign regulatory authorities typically seek information to facilitate the conduct of due diligence inquiries or investigations into breaches of foreign regulatory laws. For the year 2012 the Division received one hundred and four (104) formal requests from foreign regulatory authorities. It also received seventeen (17) informal requests for assistance.

The Division also received two hundred and forty-eight (248) inquiries, complaints and reports relating to BVI companies from private individuals, regulatory bodies, government agencies and law enforcement agencies that led to investigations and referrals to external agencies during the year.

In 2012, thirteen (13) matters were referred to the Financial Investigation Agency (FIA) under the Memorandum of Understanding (MoU) between the FIA and the COMMISSION. The cases related to companies alleged to be involved in investment fraud, tax evasion, tax avoidance, corruption, Ponzi schemes, forgery of documentation issued by the registry, fraud, unauthorised business, money laundering and advanced fee fraud schemes, breach of US sanctions and Internet fraud. Additionally, there were seven (7) requests 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.

Also within the gamut of the MoU the Commission filed thirty-three (33) Suspicious Activity Reports (SARs) with the FIA relating to cases of suspected fraud, Ponzi schemes, money laundering, violation of UN sanctions, tax evasion and corruption.

**Enforcement Investigations:-

At 31st December 2012, some 42 cases from 2012 remained open and under ongoing investigation.

Regulatory and Enforcement Action

In the course of 2012, fifty-one (51) matters were referred to the Division from both regulatory and non-regulatory divisions for advice on matters requiring regulatory and enforcement action.

Court Proceedings

The Division represented the Commission and/or the Registrar of Corporate Affairs in fifty-six (56) applications under the BVI BC Act in 2012. Forty-three (43) applications sought the revocation of the dissolution of companies; two (2) sought the termination of voluntary liquidation; nine (9) sought amendments to or rectification of the Memorandum and Articles of Association; one (1) was an application for an extension of time to deposit shares and one (1) was an application for the removal of a liquidator. In addition, there was one (1) application for approval of the transfer of business, one (1) application for judicial review, and two (2) applications for protection orders and declarations of trust.

Outlook for 2013

The Division intends to continue its training outreach to the Commission's staff with training on confidentiality and protected information, the requirements of administrative law and the application of the Enforcement Committee Guidelines.

The Division also intends to engage additional staff for the Enforcement Unit so that it can better assist the Commission in the discharge of its functions in a timelier manner. To enhance the performance of its functions, the staff of the Enforcement Unit is also scheduled to receive training in enforcement-based investigation and research in 2013.

Total Matters Referred

Regulatory Division/ Agency	Q1 2012	Q2 2012	Q3 2012	Q4 2012
Administration	1	0	0	0
Investment Business	1 4	15	22	9
Banks and Fiduciary Services	8	4	7	9
Insurance	16	12	19	6
Insolvency	0	1	0	0
Finance Division	1	0	0	0
Registry of Corporate Affairs	2	2	18	0
Regulation	6	4	7	3
Approved Persons Regime Unit	0	0	0	0
Enforcement	5	0	1	0
Managing Director	0	1	0	0
Total	**53**	**39**	**74**	**27**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
- Formal Requests	11	10	6	12	6	3	12	10	9	4	11	8	102
- Informal Requests	-	3	2	7	3	-	-	-	-	-	2	-	17
- Enforcement Investigations**	9	23	14	25	22	29	15	24	18	25	20	23	248
- Information share to FIA under MOU	-	2	-	-	6	-	2	-	-	1	2	-	13
- Information share from FIA under MOU	1	-	-	-	-	-	1	-	-	5	-	-	7
- Information share to counterpart regulatory authorities	-	-	-	-	-	1	-	2	1	-	-	-	4
- Information share from counterpart regulatory authorities	-	-	-	-	-	1	-	2	-	5	1	-	9
- Reports filed with RVIPF	-	3	-	-	1	1	2	-	1	1	-	-	9
- SAR's filed with FIA	-	7	-	5	4	1	3	2	-	4	5	2	33
Total	**21**	**48**	**22**	**49**	**42**	**36**	**35**	**40**	**29**	**45**	**41**	**33**	**442**

08 POLICY, RESEARCH AND STATISTICS

The Policy Research & Statistics Division is the strategic intelligence gathering and policy development arm of the Commission. Its mandate includes monitoring international regulatory and legislative developments, developing regulatory policies, researching topics related to the financial services industry and producing industry statistics. In addition, the Division, in conjunction with relevant regulatory Divisions, formulates responses to all surveys and questionnaires submitted by regional and international bodies in relation to the Territory's financial services sector, and takes the lead in all anti-money laundering and terrorist financing related matters as well as the planning and executing of in-house training and development aimed at institutional strengthening.

Sector Overview

CFATF Mutual Evaluation Follow-up

At the November 2012 CFATF Plenary which was held in the Territory, the BVI was removed from the CFATF mutual evaluation follow-up process. Removal from the process was a direct result of the Territory's substantive progress in addressing the deficiencies identified in its Mutual Evaluation Report through appropriate administrative and legislative reform. The Territory's focus in this area is now to address some remaining to bring the BVI into full compliance with all of the FATF Recommendations. The November 2012 Plenary was the Territory's second turn at hosting; the first being in 1999. Hosting the over 120 delegates of CFATF culminated in the Commission's Director, Policy Research and Statistics assuming the one year chairmanship of the CFATF on behalf of the Territory.

CFATF International Cooperation Review Group

The Director of the Division continued to represent the BVI as the Chair of the CFATF International Cooperation Review Group (ICRG), a group targeted with the responsibility for bringing all CFATF members to the desired degree of compliance with international AML/CFT standards. During 2012, members under CFATF ICRG review were required to develop action plans to outline how they intended to address the deficiencies identified in their Mutual Evaluation Reports. Furthermore, assessors were assigned to each jurisdiction to monitor and assess their compliance with the action plans and report back to the CFATF-ICRG and the Deputy Director assisted in this process by acting as assessor to one of these jurisdictions. In addition to the implementation of these action plans the ICRG undertook a high level mission to Surinam lead by the Chairman, in order to advance necessary AML/CFT reforms and receive the necessary political commitments to achieve such.

The Chairman also attended the FATF-ICRG and Plenary meetings in Paris in February 2012 and made representations on the progress being made by the CFATF-ICRG to bring its members to full compliance with the requirements of the AML/CFT standards. The FATF was appreciative and complimentary of the efforts made and results achieved by the CFATF and commended the organization for its efforts.

Legislative Developments

Part of the Division's responsibility, as representative of the Commission, is to collaborate with the Attorney General's Chambers (AGC) on the review of the Territory's financial services legislation. In 2012 legislative proposals addressing changes to the Territory's AML/CFT, investment business and Business Companies regimes was forwarded to the AGC for review and onward transmission to Cabinet and the House of Assembly for enactment.

Financial Services Legislation Enacted in 2012

AML Legislation

- Proceeds of Criminal Conduct (Amendment) Act, 2012
- Anti-money Laundering (Amendment) Regulations, 2012
- Anti-money Laundering and Terrorist Financing (Amendment) Code of Practice
- Anti-money Laundering and Terrorist Financing (Amendment) (No. 2) Code of Practice

Regulatory Legislation

- BVI Business Companies (Amendment) Act, 2012
- BVI Business Companies Regulations, 2012
- BVI Business Companies (Amendment of Schedule 1) Order
- Securities and Investment Business (Amendment) Act, 2012
- Investment Business (Approved Managers) Regulations, 2012
- Financial Services (Securities and Investment Business Fees) (Amendment) Regulations, 2012
- Partnership (Amendment) Act, 2012

Supervisory Report

Regulatory Developments

In 2012, the Division prepared for the Board of Commissioners' approval, an amendment to the Licensing and Supervisory Committee's Guidelines and Operating Procedures. The amendment addressed the delegation of authority to senior officers of the Commission in relation to the various financial services legislation and associated activities. These amendments sought to facilitate more efficient decision making at the division level for matters that are considered routine. The amendment also included new provisions for delegated authority under the Mutual Funds Regulations, 2010 and the Financial Services (Miscellaneous Exemptions) Regulations, 2010.

The Division also prepared the BVI Business Companies Approved Forms Guidelines which provide persons wishing to submit applications or notices under the BVI Business Companies Act with guidance on how this is to be carried out. With the use of VIRRGIN these forms and notices have been standardized, as persons wishing to submit such applications and notices must do so using this electronic platform. The scope of the transactions covered by the Guidelines includes pre and post-incorporation transactions.

Prompted by a request from the Investment Business Division, the Policy, Research and Statistics Division drafted the Approved Investment Managers Guidelines to provide guidance to the industry on the newly established Approved Investment Manager regime. This regime provides for a less onerous application process for qualified investment managers, as the regular processes applicable with respect to a person licensed as an investment manager under SIBA do not apply to a person approved as an Approved Investment Manager. The Approved Investment Manager regime takes account of established standards of regulation and supervision, provides a flexible and efficient mechanism for licensing purposes and is likely to spur growth within the funds industry in the BVI.

Statistics

Production of the Commission's quarterly Statistical Bulletin is the responsibility of the Policy Research and Statistics Division. This bulletin is a compilation of key statistical indicators collected by each regulatory Division that are used to illustrate the growth and performance of each sector of the industry, as well as data related to regulatory enforcement and international cooperation matters.

The compilation of the various AML/CFT statistics required to be maintained by the members of the Inter-governmental Committee on AML/CFT Matters is another important facet of the Division's statistical responsibilities. These statistics are maintained to ensure compliance with the FATF's 40 +9 Recommendations on Anti-money Laundering and Terrorist Financing.

Inter-governmental Committee on AML/CFT Matters

Established under section 50 the Anti-money Laundering and Terrorist Financing Code of Practice, 2008 ("the Code") the Inter-governmental Committee on AML/CFT Matters (IGC) promotes cooperation between the Territory's law enforcement and regulatory authorities in the fight against money laundering and terrorist financing. The IGC meets at least once a quarter to share information on activities which might have AML/CFT implications, to provide updates on any AML/CFT matters encountered by members and to deliberate on how best to coordinate efforts to effectively combat financial crime. The IGC comprises representatives of the Commission (including the Managing Director 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 the BVI Ports Authority. The Division is responsible for coordinating the activities of the Committee, and for the collection and analysis of AML/CFT statistics submitted by its members.

Joint Anti-money Laundering and Terrorist Financing Advisory Committee

The Joint Anti-money Laundering and Terrorist Financing Advisory Committee (JALTFAC) is established under the Proceeds of Criminal Conduct Act, 1997 . JALTFAC is responsible for providing advice on all AML/CFT matters, including the review of AML/CFT legislation as any changes to the Territory's AML/CFT regime must be discussed and reviewed by JALTFAC before implementation. The body differs from the previously referenced IGC in that it is comprised of representatives of regulatory and law enforcement authorities as well as private sector entities and professionals with a stake in AML/CFT matters. The Division is responsible for coordinating the activities of this Committee and all decisions made by JALTFAC are carried forward or coordinated by the Division for implementation.

During the year JALTFAC continued to focus its attention on addressing the issue of the monitoring and supervision of Designated Non-financial Businesses and Professions (DNFBPs) as this remains one of the few outstanding issues in relation to satisfying the requirements of the FATF's 40 +9 Recommendations. Additionally, members of JALTFAC who were assigned to the Government-led Committee established to consider the FATF Recommendation related to the monitoring and supervision of NPOs continued to participate in this exercise. The Committee continued to hold public consultation following which it was able to finalise the Non-Profit Organisations Act and sponsor its inclusion on the legislative agenda which saw it progress through to the House of Assembly in November 2012 when it was enacted.

During 2012, JALTFAC addressed the need to comply with Global Forum Peer Review requirements which called for a review and amendment of section 28 of the Code which deals with the maintenance of beneficial ownership information and beneficiary information in relation to trusts. The amendment requires trustees to now conduct CDD regardless of the risk profile of their client. JALTFAC further approved significant increases to the administrative penalties under the Code and to the fines and penalties under the Proceeds of Criminal Conduct Act, 1997 to ensure their effectiveness in making ML/TF activities appear less attractive.

JALTFAC also reviewed the new FATF Recommendations which came into effect in February 2012. These new Recommendations require the entire AML/CFT regime of the Territory to be reviewed. The Division has, therefore, begun a preliminary analysis on the extent to which the Territory's AML/CFT laws are to be revised.

Alternative Investment Fund Managers Directive (AIFMD) Focus Group

During 2012, the AIFMD Focus Group was established to monitor developments related to the Alternative Investment Fund Managers Directive developed by the European Securities and Markets Authority (ESMA) which provides the legal framework for alternative investment funds in the European Union and their managers. The AIFMD Focus Group was tasked, inter alia, with reviewing the nature, scope and restrictions of the Directive in relation to marketing EU and non-EU funds within the EU; reviewing the BVI legislative and funds regimes to determine the extent to which they meet the conditions of the Directive; and making proposals on measures that can be adopted to achieve the required level of compliance with the Directive to ensure the proper and effective marketing of BVI funds within the EU. The Division is represented on the AIFMD Focus Group by the Deputy Director and it is expected that the Focus Group's work will be completed during the first quarter of 2013 after which a report will be submitted to the COMMISSION for review.

Intellectual and Industrial Property Focus Group

The Division chairs and coordinates the work of the Intellectual and Industrial Property Focus Group which is charged with the responsibility of reviewing and revising the BVI's existing IIP Laws. The Focus Group is also charged with advising on appropriate new legislation to take into account current treaties on the subject, and determine how best the Commission can effectively administer the regime, for which it has responsibility. While the IIP Focus Group did not meet formally in 2012 the draft Trade Marks Bill, which was completed in 2011, was distributed for public consultation during the year and later finalised. It is anticipated that the Bill will be passed in 2013 and work will continue on developing the other aspects of IIP for which the Commission has responsibility.

Focus Group on the Development of New Legislation on Arbitration

The Focus Group on the Development of New Legislation on Arbitration (AFG) continued its work in earnest in 2012. The AFG is charged with the responsibility of reviewing and revising the existing arbitration laws and advising on appropriate new legislation that would take into account current and emerging standards in arbitration law, including established international treaties, the AFG produced a draft Bill which was submitted for public consultation and initial review by Government. Having received feedback on the draft Bill the AFG is now seeking to finalise this legislation as well as address the other aspects of its terms of reference. The AFG is also working diligently to ensure that the New York Convention, which is an integral part of any modern arbitration regime, is extended to the Territory to allow for the full implementation of the new Arbitration Act. This work is being coordinated by the Division as the Commission feels that the Virgin Islands is in a prime position to take advantage of the growing need for the establishment of an international arbitration centre to manage and administer commercial dispute proceedings.

AML/CFT Training

The Division has the responsibility for co-ordinating the Commission's in-house AML/CFT training which as required by the Code is conducted on an annual basis. In 2012 the Division took a different approach to its AML/CFT training programme. Persons who scored under 75% on their 2011 tests, as well as new employees hired after the training was conducted, were subjected to a rigorous twelve week programme covering a variety of specific AML/CFT related topics including basic Terminology, Internal Controls, Record Keeping, Introduced Business, Customer Due Diligence, PEPs, EU Sanctions and Embargoes, International Cooperation, the Risk Based Approach, Correspondent Banking and Wire Transfers and the Roles and Responsibilities of the Commission and FIA. At the end of this programme all persons who had participated in the 2011 training, including those who went through the 12-week programme in 2012, were exposed to a refresher course followed by the required testing. The result was an improvement in 74% of the test scores recorded over 2011.

2013 Outlook

Now that the Revised FATF standards on AML/CFT have been published significant legislative reform will have to be undertaken to ensure the Territory's AML/CFT laws are in compliance with these new standards and to ensure the BVI is ready for the Fourth Round of Mutual Evaluations. This review process will begin in earnest in 2013.

Based on the outcome of Phase II of the Global Forum's Peer Review Process additional legislative changes will be required to address any shortcomings identified during this Review process. The likely areas of reform will relate to business companies and partnerships as well as tax related matters.

With the anticipated passage of the new Trade Marks Act in 2013 the IIP Focus Group will focus its attention on the development of subsidiary legislation to supplement the Act as well as the development of additional legislation to address other aspects of intellectual and industrial property. It is also anticipated that the draft Arbitration Act will be finalised and advanced to Cabinet and the House of Assembly for consideration, thereby laying the foundation for the establishment of the BVI as an international arbitration centre.

In November 2012 the Director of the Division assumed the Chairmanship of the CFATF on behalf of the Territory. This added responsibility brings a new dimension to the work of the Division as not only will the Division continue its involvement with the CFATF ICRG and other CFATF working groups, it will provide support to the Director in his capacity as Chairman in all aspects of the work of the CFATF; primarily in relation to matters involving the CFATF Steering Group which is led by the Chair. It will also continue liaising and working with all the Divisions to develop new policies relevant to their work, including effecting reforms wherever considered necessary, and will continue to support the IGC and JALTFAC.

09 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.

Corporate Communications and Media Relations

The Commission in observing its organisational values is keen to maintain transparency and accessibility to its operations. In 2012, the Commission through its Corporate Communications Department to maintained effective communications with the media, industry practitioners and market participants. Regular targeted communications enhanced public awareness of the Commission and its functions and kept practitioners and the regulated community aware of changes in regulatory scope and supervisory approaches employed by the Commission.

During the year the Commission published: Advisory Warnings (33), Public Statements (19) Industry Circulars (6) and Press Releases (8) in addition to responding to dozens of media requests from local and international media outlets. Media and public inquiries were also handled by the Corporate Communications team in response to the hundreds of requests for information routinely received via the Commission's website and by email. The majority of public inquiries related to the process for obtaining information regarding BVI Business Companies.

The Corporate Communications team also provided leadership in media relations to Commission employees through the hosting and conduct of specific media relations and interview training. The training which was conducted at the Commission exposed middle level and senior managers to interview techniques and preparation skills and provided client facing employees with tools to manage media requests and their presence as front line employees.

To further its media relations function, the Corporate Communications team also arranged and managed numerous interviews of key Commission employees, as well as their participation in providing written articles and presentations for local and international publications and speaking engagements.

Other Corporate Communications functions include maintaining the hundreds of pages of content on the Commission's website and internal intranet BEAM.

In 2012, the Commission established an Editorial Team which was sanctioned by the Board and the Corporate Services Division is represented on the team by the DMD, Corporate Services. The editorial team is tasked with drafting and arranging the publication of articles on the work of the Commission to aid a better understanding by the general public.

Event Management

A centre of Excellence for events management at the Commission is maintained by the Corporate Services Division. The team executed a recognition dinner hosted by the Board of Commissioners to help the Commission celebrate the 10th Anniversary of the passage of the FSCA in May. The dinner also coincided with a farewell to the Director, Legal and Enforcement who demitted office at the same time.

The Territory hosted 120 delegates for the XXIII CFATF Plenary in November and the Deputy Managing Director, Corporate Services was appointed Chairman of the Host Coordinating Committee by Cabinet of the Virgin Islands. With the DMD, Corporate Services as Chair of the Coordinating Committee and the Director, Policy as incoming Chairman of the CFATF, the Commission team led the Territory's hosting of the event. The Corporate Services Team managed and oversaw the venue preparation, arrangements for hosting delegates and execution of the event over the 4 days.

The Commission's annual Meet the Regulator (MTR) forum continued in 2012 and the Corporate Communications team as is customary spearheaded arrangements for the popular industry only event. The year's first MTR featured a key address by the Managing Director.

Further assistance was provided directly to the Elmore Stoutt High School when the corporate services team took the lead in delivering a Commission presence at the School's annual Career Expo. The team recruited volunteers from other Commission divisions to deliver short presentations to students at the high school and to engage small groups in discussions on the varied career in public service available in the financial services sector both directly in regulation and supervision and wider.

In March, the Commission participated in the Territory's programme of events commemorating to Her Majesty the Queen's Golden Jubilee as the DMD, Corporate Services arranged and hosted a lunch for the Duke of Gloucester during his official visit. The Commission's guests at the luncheon included Commission employees and a number of young professionals in the financial services industry.

In support of the Ministry of Education's initiative to introduce a financial services course at the secondary school level, the Commission with the assistance of the Corporate Services Division participated in a number of workshops organised by the Ministry to prepare educators. The MD, DMD, Corporate Services and other Commission Directors and Deputies participated in the workshops and the larger Summer Institute for over 200 secondary school teachers.

Primary school students also featured on the Commission's education agenda when we hosted students from the Enis Adams Primary School. Several students spent the day with us as part of the school's Career Awareness Day and the Corporate Services team organised a program of activities for the students including observation of a LSC meeting, tours of the Registry and other areas of the Commission and lunch with the DMD, Corporate Services.

Facilities

The Corporate Services team has been providing leadership in the Commission's initiative to acquire and open a representative office in the Far East. As part of the preparations the DMD, Corporate Services accompanied by the Facilities Manager and the Information Technology Manager, travelled to Hong Kong in mid October. The visit provided an opportunity to advance acquisition of premises and to make necessary arrangements for the technology and telecommunications infrastructure which has complex and unique requirements.

While in the Asia Pacific, the DMD, Corporate Services also took advantage of the opportunity to conduct a familiarization visit of arbitration centres. The courtesy visits were prompted by the keen interest of the Commission's Arbitration Focus Group of which the DMD, Corporate Services is a member. The visits, to the Hong Kong International Arbitration Centre and the Singapore Arbitration Centre, both provided an opportunity to learn about the structure and observe operations for the benefit and information of the focus group.

Finance

The Commission's annual Revenue and Expenditure budget is drafted by the Financial Controller after the receipt items for consideration from all Commission Directors. Director submissions are based on the anticipated program of work for the upcoming fiscal year. The draft budget is then reviewed and amended by the Finance sub-committee of the Board of Commissioners which includes the Chairman and one other member, the Managing Director, Deputy Managing Director, Corporate Services and the Financial Controller. The revised draft budget is then presented to the full Board of Commissioners for approval and presentation to Government's Cabinet.

All expenditure from the Commission, including budgeted expenditure, is subject to strict financial controls including rules and procedures to govern procurement. The Financial Controller prepares a monthly financial summary of revenue and expenditure for review of the Board monthly and the Commission's management accounts are reviewed by independent auditors annually as required by legislation.

Revenue and Expenditure for the fiscal year 2012 are shown in the financial statements which have been produced by the Commission's Auditors BDO British Virgin Islands.

Information Technology

Information technology is a key tool for the Commission in maintaining its effectiveness and efficiency of operations. The Commission's mission critical application continues to be the VIRRGIN system which handles information receipt and processing for the Registry of Corporate Affairs. In 2012, the IT Team recorded 98% up time for VIRRGIN which continues to services over 300 unique users daily and more during Registry peak periods. Up time for other important IT services such as email and network access were also near 100%. The Information Technology team continues to prepare for project kickoff for the VIRRGIN III system which will automate applications receipt and processing for supervisory divisions.

Business Continuity plans that address the availability of technology services in the event of business interruption at the Commission and generally in the Territory continues to be a focus for the department. During the year, the team tested continuity measures for VIRRGIN and confirmed the ability for the Commission to provide electronic Registry services in a number of adverse conditions.

As part of efforts to increase the use of technology to improve efficiency and lessen the environmental impact of operating a paper-based office environment, the Commission upgraded conducting meeting documents using electronic and document delivery. The new application which is used for Board of Commissioners meetings as well as LSC and EC meetings is a secure, single purpose application designed specifically to manage electronic documents for meetings. With the application, meeting organisers have the ability to tailor meeting documents to the attendees and attendees have the ability to make personal notes and to review past meeting documents for reference.

10 HUMAN RESOURCES

The main objective of the Human Resources Department (HRD) is to fulfil the organisational needs of the Commission and its staff through the recruitment, development and retention of high performing employees and generally assisting applicants and employees with all phases of the employment process. 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.

Staffing and Recruitment

Hires - Full Time	9
Hires - Temporary	11
Transfers	1
Study Leave	3
Departures	5

One of the functions of the HRD is to oversee the recruitment, interviewing, selection and evaluation of COMMISSION staff. In 2012, The HRD processed 92 applications for employment, including requests for summer, temporary and full-time positions. As a result, nine new employees were recruited into full-time positions. Additionally, 12 promotions were approved during the year.

Through the annual Summer Employment Programme, eleven college/university students were offered temporary assignments. The programme is part of the Commission's continued effort to provide persons pursuing a tertiary education primarily in the areas of business, finance or economics with hands-on experience and requisite exposure to the financial services sector from a regulatory perspective.

Retention of quality staff is important to the Commission. 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. This retention is reflected in the Commission's growing maturity, as almost 60% of the current staff has been employed with the Commission for at least six years.

Years	Number of Employees	Percentage of Employees
>3	30	20.7%
3-5	29	20%
6-8	34	23.4%
9+	52	35.9%
Total	**145**	**100%**

Compensation Administration

The HRD continues to provide support and advice to staff on various benefits-related matters and is responsible for overseeing the effective administration of the Commission health insurance and pension/retirement plans. The percentage of employees enrolled in the Commission-sponsored health insurance plan in 2012 remained at 89 percent while the pension/ retirement plan continued to have an employee participation rate of 97% with 3% of the staff being contract employees who, due to their terms of employment, are excluded from participation in the plan.

Training and Development

The Commission believes that ongoing training is essential not only to staff members' individual development, but also to ensuring the organisation's continued ability to effectively service the financial services industry and satisfy is legislative mandate. As such, over 50% of the staff was exposed to a variety of professional development opportunities in 2012 through attendance and participation in training workshops, seminars and conferences facilitated both locally and overseas.

Two employees, who were pursuing studies abroad, with financial sponsorship of the Commission, successfully completed their programmes of study in the areas of law and finance while one employee continues to pursue tertiary education overseas.

Employee Relations

During the course of 2012 the Human Resources Division successfully coordinated a number of events geared toward fostering greater cohesiveness among staff, including an Employee Appreciation evening, a health walk and the Commission's seventh Annual Christmas Party for FSC Kids. A pleasant time was had by all staff who participated in these events. The Division also organised free breast health screening for staff for the first time in 2012. The screening which, was part of the Territory's observance of Breast Cancer Awareness month, was done onsite making it feasible for staff to embrace the opportunity and take advantage of this health and wellness initiative.

2013 Outlook

Looking ahead, the Human Resources Division will seek to develop more structured training and development opportunities by identifying training needs and interests of staff, and implementing appropriate programmes to meet those needs. The Department will also focus on enhancing employee benefits to include offering added wellness programmes and developing a voluntary retirement incentive plan for staff.

11

FINANCIAL STATEMENTS

BRITISH VIRGIN ISLANDS
FINANCIAL SERVICES COMMISSION

Audited Financial Statements

For The Year Ended December 31, 2012

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. James Wadham	Commissioner
Mr. Robert Mathavious	Managing Director, ex officio Commissioner

REGISTERED OFFICE

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

COMMISSION SECRETARY

Ms. Annet Mactavious

INDEPENDENT AUDITORS

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

Tel: (284) 494 3783
Fax: (284) 494 2220
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Tobacco Wharf
Road Town
Tortola VG1110
British Virgin Islands

Independent Auditors' Report

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

We have audited the accompanying financial statements of the British Virgin Islands Financial Services Commission (the "Commission"), which comprise of the statement of financial position as at December 31, 2012, and the related statements of comprehensive income, changes in reserves, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Commission as at December 31, 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

BDO Limited

September 24, 2013
Tortola, British Virgin Islands

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Statement of Financial Position
As at December 31, 2012
Expressed in United States Dollars

	Notes	2012	2011
ASSETS			
Non-current assets			
Fixed assets	3,4	1,256,885	1,273,960
VIRRGIN project under development	4	386,401	386,401
		1,643,286	1,660,361
Current assets			
Regulatory deposits	5	8,098,747	7,892,404
Cash and cash equivalents	6	15,412,535	17,089,687
Time deposits	7	5,038,887	5,020,035
Financial assets at fair value through profit or loss	8	2,951,369	2,898,031
Other receivables and deposits	9	569,716	473,885
		32,071,254	33,374,042
TOTAL ASSETS		**$33,714,540**	**$ 35,034,403**
RESERVES AND LIABILITIES			
Capital reserves			
Contributed capital	10	3,993,900	3,993,900
Property & equipment reserve	10	1,643,286	1,660,361
Total capital reserves		5,637,186	5,654,261
Revenue reserves			
Training reserve	10	400,000	400,000
Loan revolving reserve	10	165,000	165,000
Future capital expansion reserve	10	8,500,000	8,500,000
Refunds reserve	10	50,000	50,000
Enforcement reserve	10	2,000,000	2,000,000
Contingency reserve	10	1,377,512	658,947
Total revenue reserves		12,492,512	11,773,947
Total reserves		18,129,698	17,428,208
Current liabilities			
Trade and other payables	11	2,261,551	1,870,809
Deposits on account	12	2,224,544	1,842,982
Distribution payable to Government	13	3,000,000	6,000,000
Regulatory deposits from licensed entities	5	8,098,747	7,892,404
Total liabilities		15,584,842	17,606,195
TOTAL RESERVES AND LIABILITIES		**$33,714,540**	**$35,034,403**

Signed on behalf of the Commission on September 24, 2013

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, 2012
Expressed in United States Dollars

	Notes	2012	2011
INCOME			
Fees collected on behalf of the Government	6	204,755,396	200,019,882
Less: Fees due to the Government	6	(182,010,807)	(178,019,757)
Fees retained by the Commission		22,744,589	22,000,125
Other income		94,641	187,250
Interest income		244,465	189,763
Unrealised movement on financial assets at fair value through profit or loss		(17,942)	2,473
TOTAL INCOME		23,065,753	22,379,611
EXPENSES			
Advertising		10,861	6,066
Conferences and seminars		397,233	132,634
Contributions		129,332	100,632
Depreciation	3	939,042	797,130
Financial Investigations Agency funding		500,000	500,000
Insurance		82,330	91,679
Licenses and fees		59,882	43,586
Literature and reference		100,342	110,543
Maintenance and hire		400,965	464,733
Memberships and subscriptions		92,681	51,767
Miscellaneous		15,573	167
Office expenses		245,814	220,120
Professional services		1,454,264	1,578,004
Public relations		10,779	6,917
Rent and lease		973,641	932,449
Staff costs	14,18	12,071,943	11,302,426
Travel and subsistence		953,786	835,804
Telephone and communications		654,366	672,172
Utilities		271,429	264,119
TOTAL EXPENSES		19,364,263	18,110,948
SURPLUS BEFORE GOVERNMENT DISTRIBUTION		3,701,490	4,268,663
Distribution to Government	13	(3,000,000)	(4,000,000)
SURPLUS FOR THE YEAR		**$ 701,490**	**$ 268,663**

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, 2012
Expressed in United States Dollars

	Opening balance	Surplus for the year	Transfers	Closing balance
2012:				
Surplus for the year	-	701,490	(701,490)	-
Contributed capital	3,993,900	-	-	3,993,900
Property & equipment reserve	1,660,361	-	(17,075)	1,643,286
Training reserve	400,000	-	-	400,000
Loan revolving reserve	165,000	-	-	165,000
Future capital expansion reserve	8,500,000	-	-	8,500,000
Refunds & drawbacks reserve	50,000	-	-	50,000
Enforcement reserve	2,000,000	-	-	2,000,000
Contingency reserve	658,947		718,565	1,377,512
	$ 17,428,208	**$701,490**	**$ -**	**$ 18,129,698**

	Opening balance	Surplus for the year	Transfers	Closing balance
2011:				
Surplus for the year	-	268,663	(268,663)	-
Contributed capital	3,993,900	-	-	3,993,900
Property & equipment reserve	1,290,556	-	369,805	1,660,361
Training reserve	400,000	-	-	400,000
Loan revolving reserve	165,000	-	-	165,000
Future capital expansion reserve	8,500,000	-	-	8,500,000
Refunds & drawbacks reserve	50,000	-	-	50,000
Enforcement reserve	2,000,000	-	-	2,000,000
Contingency reserve	760,089		(101,142)	658,947
	$17,159,545	**$268,663**	**$ -**	**$ 17,428,208**

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, 2012
Expressed in United States Dollars

	2012	2011
CASH FLOW FROM OPERATING ACTIVITIES		
Surplus for the year	701,490	268,663
Adjustment to reconcile net surplus to net cash from operating activities before working capital changes:		
Depreciation	939,042	797,130
Interest income	(244,465)	(189,763)
Unrealised movement on financial assets at fair value through profit or loss	17,942	(2,473)
Operating surplus before working capital changes	1,414,009	873,557
(Increase) decrease in other receivables and deposits	(86,588)	14,233
Increase (decrease) in trade and other payables	390,743	(3,598)
Increase (decrease) in deposits on account	381,562	(15,190)
(Decrease) increase in distribution payable to Government	(3,000,000)	4,000,000
Net cash (used in) generated from operations	(900,274)	4,869,002
CASH FLOW FROM INVESTING ACTIVITIES		
Increase in time deposits-net	(18,852)	(22,035)
Purchase of financial assets at fair value through profit and loss-net	(71,281)	(2,895,558)
Acquisition of fixed assets-net	(921,967)	(1,166,935)
Interest received	235,222	172,825
Net cash used in investing activities	(776,878)	(3,911,703)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,677,152)	957,299
CASH AND CASH EQUIVALENTS		
At beginning of year	17,089,687	16,132,388
At end of year	**$ 15,412,535**	**$ 17,089,687**

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
For The Year Ended December 31, 2012
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 (with the exception of the revaluation of financial assets at fair value through profit or loss) and are expressed in United States ("US") dollars.

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

- **Improvements to IFRSs**. Issued in May 2010, the improvements contain numerous amendments to IFRS, which are considered non-urgent but necessary. The improvements result in accounting changes for presentation, recognition or measurement purposes; or they are terminology or editorial changes only. These improvements have no significant impact in the Commission's accounting practice.

- **IAS 24 (revised), *Related Party Disclosures***. The revision clarifies the definition of related parties.

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

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

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

- **IAS 1 (amendment), *Presentation of Financial Statements*.** Amendments to IAS 1 require companies preparing financial statements in accordance with IFRSs to group together items within other comprehensive income (OCI) that may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements (effective for accounting period beginning on or after July 1, 2012).

- **IAS 19 (amendment), *Employee Benefits*.** The amendments will provide investors and other users of financial statements with a much clearer picture of an entity's obligations resulting from the provision of defined benefit plans and how those obligations will affect its financial position, financial performance and cash flow (effective for accounting period beginning on or after January 1, 2013).

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

2. ACCOUNTING POLICIES (Continued)

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

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

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

- **IFRS 9, Financial Instruments.** Addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch (effective for accounting period beginning on or after January 1, 2015).

- **IAS 32, Financial Instruments: Presentation.** The amendments address inconsistencies in current practice when applying the offsetting criteria. They clarify the meaning of "currently has legally enforceable right of set off" and that some gross settlement systems may be considered equivalent to net settlement (effective for annual periods beginning on or after January 1, 2014)

- **IFRS 13, Fair value measurement**. Aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP (effective for accounting period beginning on or after January 1, 2013).

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

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

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
For The Year Ended December 31, 2012
Expressed in United States Dollars

2. ACCOUNTING POLICIES (Continued)

2.4 Fixed assets

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

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

2.5 VIRRGIN project under development

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

2.6 Regulated deposits from licensed entities

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

2.7 Cash and cash equivalents

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

2.8 Time deposits

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

2.9 Financial asset at fair value through profit and loss

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

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

2.10 Fair value hierarchy

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

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
For The Year Ended December 31, 2012
Expressed in United States Dollars

2. ACCOUNTING POLICIES (Continued)

2.10 Fair value hierarchy (continued)

- Quoted prices (unadjusted) in active markets for identical financial assets and financial liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the financial assets and the financial liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2);
- Inputs for the assets or liabilities that are not based on observable market data (unobservable inputs) (Level3).

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

2.11 Revenue recognition

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

2.12 Taxation

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

2.13 Foreign currency translation

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

2.14 Leases

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

2.15 Pension plan

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

2.16 Financial instruments

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

2.17 Use of estimates

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

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
For The Year Ended December 31, 2012
Expressed in United States Dollars

3. FIXED ASSETS

As of December 31, 2012:

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

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
For The Year Ended December 31, 2012
Expressed in United States Dollars

3. FIXED ASSETS (Continued)

As of December 31, 2011:

Cost	**Leasehold Land**	**Motor Vehicles**	**Furniture & Equipment**	**Computers & Software**	**Leasehold Improvements**	**Total**
Cost, opening balance	130,000	159,503	2,096,986	8,734,389	2,056,917	13,177,795
Additions	-	-	108,788	969,124	89,023	1,166,935
Cost, ending balance	130,000	159,503	2,205,774	9,703,513	2,145,940	14,344,730
Accumulated depreciation						
Accumulated depreciation, opening balance	12,382	114,483	1,850,337	8,300,047	1,996,391	12,273,640
Depreciation	2,065	25,260	135,313	580,754	53,738	797,130
Accumulated depreciation, ending balance	14,447	139,743	1,985,650	8,880,801	2,050,129	13,070,770
Net book value	**$ 115,553**	**$ 19,760**	**$ 220,124**	**$ 822,712**	**$ 95,811**	**$ 1,273,960**

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
For The Year Ended December 31, 2012
Expressed in United States Dollars

4. VIRRGIN PROJECT UNDER DEVELOPMENT

As of December 31, 2012, 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 (2011: $386,401) relates to the uncompleted Phase III which is expected to be finished by December 31, 2013. The estimated costs to completion of the project, excluding any additional costs, are S$1,161,304 (equivalent to $948,669) (2011: $894,320).

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 $1,734,150 (2011: $1,305,536) and fixed income securities $6,364,597 (2011: $6,586,868) 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

	2012	2011
Cash held in Government Trust Account	4,032,130	5,410,645
Payable to Government	(1,711,381)	(3,594,049)
Net cash held in Government Trust Account	2,320,749	1,816,596
Cash in operating accounts	12,753,299	14,993,887
Cash in insolvency account	338,487	279,204
Total cash and cash equivalents	**$ 15,412,535**	**$ 17,089,687**

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, 2012, the Commission retained 10.5% (2011: 10.5%) of revenue up to the projected revenue stream and thereafter, the Commission retained 7.5% (2011: 7.5%) of any revenue in excess of the projected revenue stream. This resulted in cash of $1,711,381 (2011: $3,594,049) being held on behalf of the Government as at December 31, 2012.

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7. TIME DEPOSITS

Represents short term placements with the local depository banks whose maturity dates, 361 days (2011: 361 days), are more than three months from the placement date but less than one year from the financial statement reporting date with an average interest rate of .38% (2011: .38%).

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012	2011
Government and agency securities	1,746,632	2,236,928
Corporate bonds	1,204,736	661,103
	2,951,369	**$ 2,898,031**

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

9. OTHER RECEIVABLES AND DEPOSITS

	2012	2011
Loan to employees	30,043	17,796
Travel advances	112,119	94,167
Interest receivable	45,917	36,675
Prepaid expenses	378,753	320,260
Miscellaneous receivables	2,884	4,987
	$ 569,716	**$ 473,885**

10. RESERVES

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

Capital reserves

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

Revenue reserves

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

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11. TRADE AND OTHER PAYABLES

	2012	2011
Accounts payable and accrued expenses	312,754	179,210
Insolvency surplus reserve	327,477	270,224
Deferred revenue	278,666	286,158
Employee deductions and benefits payable	1,342,654	1,135,217
	2,261,551	**$ 1,870,809**

Employee deductions and benefits payable includes accrued unpaid vacation benefits totalling $886,231 (2011: $717,512) payable to the Commission's employees.

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

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

12. DEPOSITS ON ACCOUNT

In 2006, the Commission introduced a new internet-based information system (VIRRGIN) that allows companies to administer transactions online. As a result of this development, companies are required to deposit funds with the Commission in advance of effecting an online transaction. As at December 31, 2012, the balance on this account amounted to $2,224,544 (2011: $1,842,982).

13. DISTRIBUTION PAYABLE TO GOVERNMENT

On September 24 2013, the Board of Commissioners approved a distribution to Government of $3,000,000 (2011: $4,000,000) from surplus earned by the Commission during the year ended December 31, 2012.

14. STAFF COSTS

	2012	2011
Wages and salaries	9,064,023	8,529,396
Allowances and benefits	2,284,788	2,100,939
Employment costs	264,941	237,778
Payroll taxes	458,191	434,313
	$12,071,943	**$ 11,302,426**

The average number of full time employees in 2012 was 142 (2011: 142).

During the year ended December 31, 2012, the Commission paid $1,245,917 (2011: $1,262,483) for current service costs toward a defined contribution pension plan (the "Plan"), which has been included in allowances and benefits.

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15. 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).

16. 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 $948,669 (2011: $894,320) as at December 31, 2012, plus maintenance and support costs of S$931,399 (equivalent to $717,270) as at December 31, 2012 (2011: S$931,399 equivalent to $721,648).

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:

2013	910,940
2014	873,140
2015	457,340
2016	304,893
2017	-
	$3,516,759

Contingencies

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

17. FINANCIAL RISK MANAGEMENT

Financial risk factors

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

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

Financial assets of the Commission include cash and cash equivalents, financial assets at fair value through profit or loss, time deposits, regulatory deposits, other receivables and deposits. Financial liabilities include trade and other payables, deposits on account, distribution payable to government and regulatory deposits from licensed entities.

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17. FINANCIAL RISK MANAGEMENT (Continued)

17.1 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, 2012, the foreign exchange rate was $0.8169 (2011: $0.77010) per S$, with the average exchange rate for the year ended December 31, 2012 being $0.8003 (2011: $0.79626) per S$. Had the Singapore dollar foreign exchange rate strengthened against the US dollar by 1% (2011: 1%) with all other variables remaining constant, the overall costs to complete the project, including maintenance/support costs, would increase by $20,927 (2011: $16,116). A weakening of 1% in the Singapore dollar against the US dollar, with all other variables held constant, would have an equal but opposite effect.

(ii) Interest rate risk

Cash flow interest rate risk

The Commission's exposure to the risk of changes in market interest rates relates primarily to the Commission's cash and cash equivalents and time deposits. As at December 31, 2012 approximately 61% (2011: 63%) of the Commission's assets were held in bank accounts, with floating interest rates.

Cash flow interest rate sensitivity analysis

With all other variables held constant, given a 25 basis point increase in the market interest rate, the Commission's surplus would increase by $51,129 (2011: increase by $55,290). A decrease of 25 basis points in the market interest rate, with all other variables held constant, would decrease the Commission's surplus by an equal amount.

Fair value interest rate risk

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

Fair value interest rate sensitivity analysis

With all other variables held constant, given a 25 basis point increase in the yield rate of government and agency securities and corporate bonds, the Commission's surplus would decrease by $36,236 (2011: $54,371). A decrease of 25 basis points in the yield rate, with all other variables held constant, would increase the Commission's surplus by $37,395 (2011: $56,800).

17.2 Credit risk

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

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

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17. FINANCIAL RISK MANAGEMENT (Continued)

17.2 Credit risk (continued)

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

	2012	2011
Aa1	2,723,422	2,512,910
Aa2	2,517,961	2,508,269
A2	10,780,569	12,712,388
B2	1,075,332	575,428
Baa3	14,404,255	14,591,162
	$ 31,501,539	**$ 32,900,157**

17.3 Liquidity risk

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

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

	On Demand	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
As at December 31, 2012					
Trade and other payables	886,231	1,375,321			2,261,552
Deposit on account	2,224,544				2,224,544
Distribution payable to Government	3,000,000				3,000,000
Regulatory deposits	8,098,747				8,098,747
	$ 14,209,522	**$ 1,375,321**	**$ -**	**$ -**	**$ 15,584,843**
As at December 31, 2011					
Trade and other payables	717,512	1,153,297	-	-	1,870,809
Deposit on account	1,842,982	-	-	-	1,842,982
Distribution payable to Government	6,000,000	-	-	-	6,000,000
Regulatory deposits	7,892,404	-	-	-	7,892,404
	$ 16,452,898	**$ 1,153,297**	**$ -**	**$ -**	**$ 17,606,195**

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18. DEFINED CONTRIBUTION PENSION PLAN

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

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