

The British Virgin Islands Financial Services Commission

FSC



ANNUAL REPORT
2017

TABLE OF CONTENTS

For more details on the FSC,
please visit our site:
www.bvifsc.vg



// 01

ABOUT US

3	Our Mission
3	Our Values
4	Strategic Aims
5	Our Logo
6	Chairman's Statement
8	Board of Commissioners
10	Executive Management and Division Heads

// 02

SERVICES

Regulatory Overview

13	Registry of Corporate Affairs
16	Registry Highlights
18	Micro Business Company
20	Banking and Fiduciary Services
26	Investment Business
31	Insurance
34	BVI Financial Services Commission (HK) Limited

Non-Supervisory Divisions

39	Legal & Enforcement
41	Policy, Research and Statistics
46	Corporate Services
50	Human Resources
53	Financial Statements

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:

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

WE

PLEDGE //

 <p>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</p>	 <p>Integrity To always endeavour to do the right thing, recalling the values and principles of the FSC in every action and decision</p>
 <p>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</p>	 <p>Accountability To be responsible for addressing the financial needs and concerns of the business community</p>

STRATEGIC

AIMS //



1.

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



2.

To ensure that all entities we authorise and supervise are operating in compliance with BVI legislation, regulation and international standards of best practice



3.

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



4.

To conduct ongoing review of financial services legislation and make recommendations for changes, where applicable



5.

To ensure that the FSC operates effectively and efficiently



6.

To identify and deter abuses and breaches of legislation



7.

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



8.

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

OUR LOGO

THE LIGHTHOUSE



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



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



IT IS MY PLEASURE TO REPORT TO THE GOVERNMENT AND PEOPLE OF THE BRITISH VIRGIN ISLANDS THROUGH THE HONOURABLE PREMIER AND MINISTER OF FINANCE CONCERNING THE ACTIVITIES OF THE COMMISSION DURING 2017.



ROBIN GAUL - CHAIRMAN

The Territory suffered two devastating hurricanes in 2017, and praise must be given to the staff of the Commission and for the operating and backup systems in place which allowed the continuance of Registry and operating systems within a matter of days with little overall negative effects to the viability of operations. The displacement of many of the TCSPs however had a major impact on their ability to properly service their existing and new clients, and in part this depressed revenue potentials.

Against this backdrop, the results for 2017 are positive and reflect total fees collected on behalf of Government of \$200 million, up \$6 million from the previous year, and net payments to Government of \$175.4 million, up \$5.5 million. Commission income has been sufficient to cover operational costs, and permit a distribution to Government in the amount of \$1 million.

In accordance with section 27 of the Act, I present this report on the operation and activities of the Commission for 2017, together with the enclosed auditor's report and accompanying financial statements.

Robin Gaul
Chairman

BOARD OF COMMISSIONERS



Mr. Robin Gaul
Chairman



Mr. Colin O'Neal
Deputy Chairman



Mr. Carl Hiralal
Member



Mr. Robert Mathavious
Managing Director/CEO



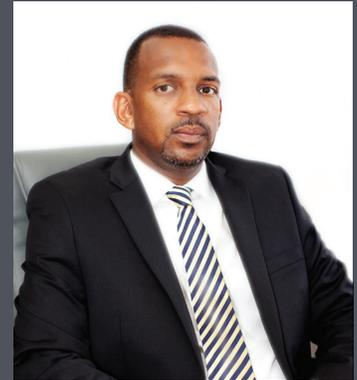
Ms. Carlene Romney
Member



Mr. Andrew Bickerton
Member



Ms. Denise Reovan
Member



Mr. Ian Smith
Member

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 by the Financial Services Commission Act, 2001.

In October 2014, the Board welcomed new members as long-serving inaugural members retired from service. The Premier and the Chairman extended heartfelt gratitude to the retiring members. New members attended their first meeting on the morning of 21 October. The composition below represents the Board of Commissioners at the close of 2017.

BOARD MEMBERS

Mr. Robin Gaul (Chairman)

Mr. Colin O'Neal (Deputy Chairman) (6 February 2014 - 5 February 2017)

Mr. Jonathan Fiechter (1 October 2014 - 30 September 2017)

Mr. Robert Mathavious

Mr. Richard Peters (1 October 2014 - 30 September 2017)

Mr. Edward Price (1 October 2014 - 30 September 2017)

Ms. Denise Reovan

Mr. Ian Smith

Mr. Carl Hiralal (1 October 2017 - Present)

Mr. Andrew Bickerton (1 October 2017 - Present)

Ms. Carlene Romney (1 October 2017 - Present)

Cabinet

Board of Commissioners

Robin Gaul (Chairman), Colin O'Neal (Deputy Chairman), Denise Reovan, Ian Smith, Jonathan Fiechter, Edward Price, Richard Peters

FSC (HK) Ltd.

Asia Representative

Leon Wheatley



Robert A. Mathavious

Managing Director/CEO



Jennifer Potter-Questelles

Deputy Managing Director - Corporate Services



Kenneth Baker

Deputy Managing Director - Regulation



Cherno Jallow, QC

Policy, Research and Statistics Division



Annet Mactavious

Human Resources Manager



Dawn Smith

Legal and Enforcement Division

Policy, Research and Statistics Division

Director

Cherno Jallow, QC

Deputy Director

M. Alva McCall

Human Resources Division

Director

Annet Mactavious

Deputy Director

Carolyn Romney-Peters

Legal and Enforcement Division

Director

Dawn Smith

Deputy Director: Legal

Stephen Grayson

Deputy Director: Enforcement

Diana Nedvidek

Board Secretary

Annet Mactavious

**Corporate Services
Division**

Director

Jennifer Potter-Questelles

Finance

Director

Sheldon Scaliffe

Registry of Corporate Affairs

Director

Myrna Herbert

Deputy Director

Lydia George

**Banking, Insolvency and Fiduciary
Services**

Director

Kenneth Baker

Deputy Director: Fiduciary

Simone Martin

Investment Business Division

Director

Glenford Malone

Deputy Director

Insurance Division

Deputy Director

Trevecca Hodge

Executive Management Team

Robert Mathavious

Managing Director/CEO

Jennifer Potter-Questelles

Deputy Managing Director - Corporate Services

Kenneth Baker

Deputy Managing Director - Regulation

Dawn Smith

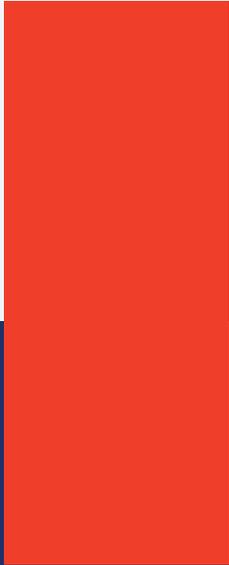
Director - Legal and Enforcement (Legal Counsel)

Cherno Jallow, QC

Director - Policy, Research and Statistics

Annet Mactavious

*Director - Human Resources
Secretary, Board of Commissioners*



REGULATION

AND SUPERVISION



REGISTRY OF CORPORATE AFFAIRS



The Registry of Corporate Affairs (the Registry) in 2017 continued its objective to provide customers with efficient and quality services while facilitating the Incorporation/Registration of Companies, Limited Partnerships, Trade Marks and Patents.



The primary function of the Registry is registration of BVI Business Companies, Limited Partnerships, Trade Marks and Patents and the administration of the legislation that relates to these. The Registry facilitated the amendment of several key pieces of legislation to allow for the adequate administration and to ensure that its mission was more efficiently carried out.

2017 can be considered a successful year for the Registry demonstrated by our strengths and commitment to providing quality service to the industry following the territory's unprecedented disaster brought on by the hurricanes of September.

Despite the challenges of 2017, 32,493 new BVI business companies were incorporated and 95 new Limited Partnerships were registered during the year. Annual fee renewals for 2017 totaled 373,349. Following the 2016 legislative amendment that now requires BVI companies to file register, at the end of 2017 493,685 BVI companies had successfully made the necessary filings.

Business Interruptions and Continuity Measures

Like all other areas of the Commission, the Registry's operations were affected by the passage of hurricanes Irma and Maria in September. The Commission took swift action to ensure continuity of business and the Registry was able to resume operations with limited hours on the third business day following Irma on Monday September .

The Registry operated limited hours for an extended period of time but was able to supplement services from BVI through the provision of services with the assistance of Registrars at the Commission's Hong Kong office. These arrangements facilitated the usual submission and processing of transactions for BVI business companies operating globally, The Financial Services (Continuity of Business) Act, 2017 provided extended deadlines for time sensitive filings which would have fallen due in the days immediately after the initial impact of the storms where business was comprehensively interrupted throughout the Territory. These arrangements provided for delays experienced by trust and corporate services providers and the Registry and resulted in minimal instances of legislative contraventions.

In late 2017, the Registry's Client Services Unit was enhanced through the implementation of a comprehensive customer relationship management and help desk system. The system was introduced to facilitate more accountability in managing incoming queries and in better meeting client expectations. To further improve service

delivery and improve client experience, the Registry also introduced a revised document handling and management procedures to users. The new procedures again seek to improve accountability in document handling and to reduce transaction completion time.

The Registry continues to rely on the Commission's premier application, VIRRGIN for administering the BVI Business companies Act and facilitating the thousands of electronically filed transactions generated monthly under the provisions of the legislation. Notable VIRRGIN enhancements in 2017 related to multi-company or batch filings for changes to registered agents and offices as well as extensions of time to file registers of directors.

The Registry also debut using VIRRGIN functionality, the beta availability of e-certificates as a default document for filings which result in the delivery of a certificate from the Registry. The provision of e-certificates means that TCSPs, their clients and applicable third parties, are able to receive certificates in real time without the need to wait for physical documents.

Intellectual Property

The Office of the Registrar of Trade Marks, Patents and Copyright (the "Office"), which is mandated to administer intellectual property legislation throughout the territory, continues to take steps towards further modernization of its operations. There have been several challenges which range from internal and administrative to public awareness of intellectual property rights and intellectual property rights enforcement which the Office continues to address.

Administrative Challenges

The absence of an electronic filing system, which would allow for the efficient filing, review, search and processing of the applications is the primary internal challenge which the Office has faced in meeting its mandate. Discussions remain ongoing for the development of a registration system to manage all intellectual property filings, processes, searches and registrations in line with the requirements of the current trade marks legislation.

Public Awareness

In 2017 the Office was challenged to address the publication of misinformation about copyright registration in the territory. The Office covered a series of private meetings with an industry stakeholder to address copyright protection and the current legislative framework and to better inform the interested parties.

Through its interactions with stakeholders, and other observations, the Office realised that there is an immediate need to increase public awareness about intellectual property rights. The approach will be multi-faceted and target several demographics from school-aged children to senior citizens. The Office envisions that its public awareness campaign would challenge accepted cultural and/or social norms. The public education campaign will address the nature of registrable and enforceable IP rights, benefits of IP right registration in the territory as well as the threats which IP crimes pose to the public's health and safety.

Achievements

Notwithstanding the demands which manual processing has placed on the Office's resources, the Office was able to continue its multi-phasic Register Clean-Up Project. The Register Clean-Up Project seeks to update the trade marks register through the audit, reclassification and digitization of trade mark files, so that they are compliant with the modern trade marks legislation. At the end of 2017 over 5,000 trade mark registration files were reviewed.

As part of its Registry Clean-Up Project, the Office also reviewed its file management procedures and has implemented enhanced file management with an increased emphasis placed on data integrity and security. More than 75% of the trade mark registration files are now subject to the enhanced file management procedures. It is anticipated that the entire registry of intellectual property files will undergo enhanced file management by the end of 2018.

Over 1,000 expired or abandoned trade mark registrations were removed from the trade mark register through the Register Clean-Up Project.

The advent of hurricanes Irma and Maria, which greatly affected the Caribbean Region, brought unique challenges/ opportunities for the Office. In an effort to accommodate and adequately serve displaced registered trade mark agents, the Office was able to implement electronic submission of all filings. This has provided an opportunity for the office to be more efficient and sustainable in the delivery of its services.

Activities

In addition to the administrative advancements the Office achieved in 2017, the Office was also able to strengthen its international relationships. The Office participated in a multi-national/ multi-agency strategy and collaboration workshop on anti-counterfeiting held at the International Trade Mark Association Meeting in Barcelona, Spain. Common challenges such as the general lack of public awareness of Intellectual Property (IP) rights and the need for capacity building in related government agencies were identified.

The benefits of collaboration between organisations to secure protection for intellectual property rights were highlighted, as the link between serious organized crime and IP theft is often understated. The Office's ongoing discussions with HM Customs to develop an IP rights protection and enforcement regime in the territory were commended to be in line with best practices. However the Office identified a need to engage the Royal Virgin Islands Police Force (RVIPF) to determine the role which it could play in IP rights enforcement in the territory.

Through these discussions the Office was able to learn more about the advantages which simultaneous recordation in both an IP Office registry and customs registry has provided.

The Office was also able to make key contacts within international border protection agencies and law enforcement. Through one of these contacts the Assistant Registrar for Trade Marks, Patents and Copyright was able to attend the Intellectual Property Rights Center in Washington, D.C. to discuss enforcement of intellectual property rights from a multi-agency approach in November. After learning more about the approach taken by other jurisdictions the Office was encouraged to continue its joint efforts with H.M. Customs and to seriously consider the role which the RVIPF may play in

assisting to enforce IP rights. The Office was reminded of the need for regular IP training as best practice for stakeholders and IP enforcement agencies. In an effort to continue to develop the industry, the Office should consider how to connect the IP rights holders with the relevant enforcement agencies, for example through the development of an IP right recordation system. This could facilitate the sharing of information to assist in the protection of registered IP rights at our borders and within our shores.

Intellectual Property Rights Enforcement

The Office has continued its collaborations with H.M. Customs to develop mechanisms to combat counterfeiting and piracy trade in the BVI as well as provide a framework for the enforcement of intellectual property rights by rights holders. The Office and H.M. Customs are working together the draft forms and regulations which would assist rights holders in the protection of their intellectual property rights and establish clear and seamless procedures for the investigation of reported breaches and the enforcement of those rights. Through this collaboration we are hoping to establish a robust IP rights protection and enforcement program for the British Virgin Islands.

REGISTRY HIGHLIGHTS

ROCA

The Registry of Corporate Affairs primarily administers the BVI Business Companies Act, 2004, the Limited Partnership Act, 1996, the Limited Partnership Act, 2017, the UK Patents Act, 1925, the Trade Marks Act, 2015 and the Trade Mark Rules, 2015. It is responsible for ensuring that entities doing business in and from within the Territory are duly registered and maintains the required Registers of Companies.

32,493

TOTAL COMPANY
INCORPORATIONS IN
2017

BVI BUSINESS COMPANY INCORPORATIONS (BY QUARTER)

8,538

Q4 2017

7,639

Q3 2017

7,621

Q2 2017

8,695

Q1 2017

2017 NEW INCORPORATIONS/FORMATIONS - LIMITED PARTNERSHIPS

27

QUARTER 4

23

QUARTER 3

22

QUARTER 2

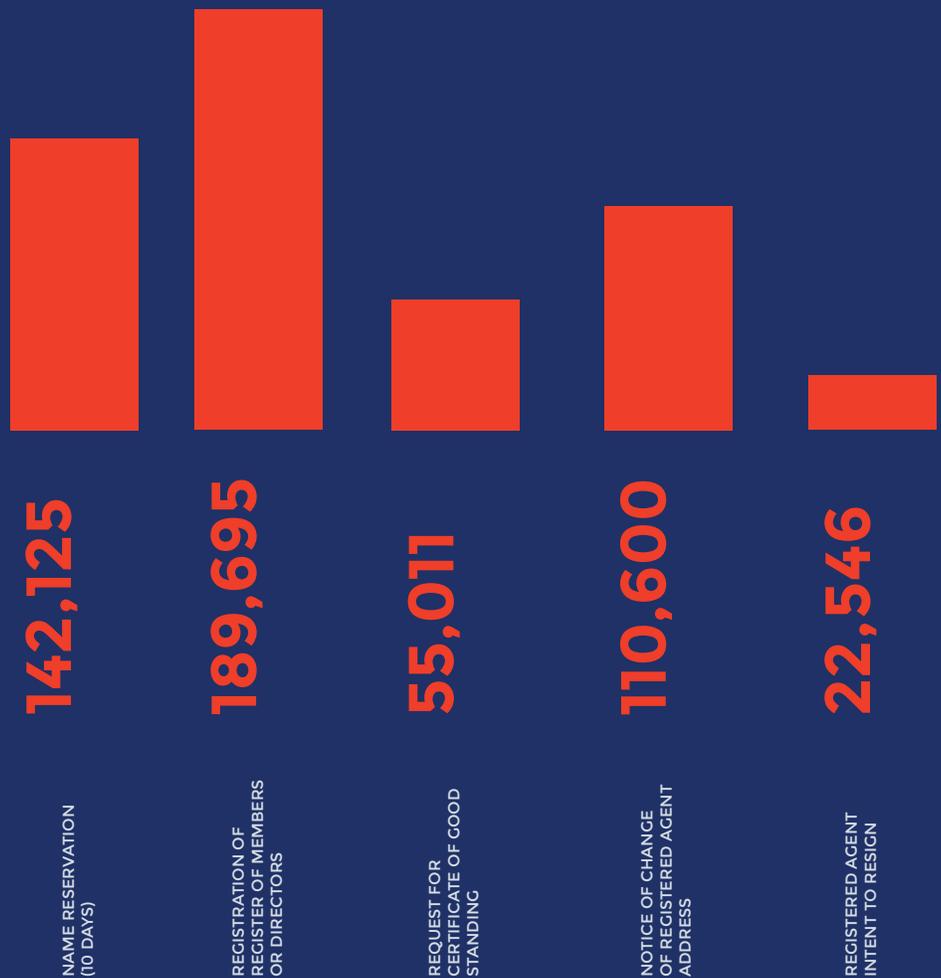
16

QUARTER 1

THE LIMITED PARTNERSHIP ACT, 2017

The Limited Partnership Act, 2017 (“The new act”) was enacted in December 2017 and applies to all newly formed BVI limited partnerships. The limited partnership provisions of the 1996 Partnership Act continue to apply to limited partnerships which were formed prior to the commencement of the new Act and which have not re-registered under the aforementioned Act.

TOP 5 BUSINESS COMPANY TRANSACTIONS FOR 2017



The “MBC”

MICRO BUSINESS COMPANY

QUICK FACT

A Micro Business Company is governed by the Micro Business Companies Act, 2017 (MBC) which was enacted by the Legislature of the Virgin Islands. The MBC Act provides for the incorporation, management and operation of micro business companies, for the relationships between micro business companies and principals and for the relationship with Registered Agents.

ABOUT THE MBC

The Micro Business Companies Act was enacted in November, 2017 by the House of Assembly. The MBC Act provides for the registration and administration of microbusiness companies, a new BVI corporate structure. The MBC offers limited liability and simple formation and to microbusinesses. The MBC also offers a less complex corporate structure which appeals to Micro Small and Medium Enterprises (MSMEs) where the owner/principle is the sole director. The BVI MBC is the territory’s first corporate structure specifically targeting MSMEs. It is also the first corporate or financial services solution developed to match the legislative framework to take advantage of increased availability of technology.

The MBC structure permits a maximum of six natural shareholders; a principal and up to five participants. Instead of traditional corporate constitutional documents, the MBC features a single page company charter. Other features include the ability to convert to a traditional BVI business company when the business needs evolve or it no longer meets the criteria for MBC eligibility.

CHARACTERISTICS OF MBC'S

- No regulated business under a financial services legislation
- Less than \$2m in revenue and not more than 10 employees
- Maximum of 6 shareholders (a principal and 5 participants)

REQUIRED FILINGS

- Annual Return
- Interim Returns
- Annual Fee

APPLICATION PROGRAMMING INTERFACE (API's)

In support of the innovation embedded in the MBC Act, The Commission has provided Application Programming Interfaces to allow for more efficient transactions and seamlessly improve customer experiences.

MBC TRANSACTIONS

- Register an MBC
- Generate/amend business charter
- Disposition of shares
- Filing notice of termination/resignation as Registered Agent
- Filing notice of change of Registered Address of MBC
- Filing notice of appointment of Voluntary Liquidator
- Filing notice of intent to resign as Voluntary Liquidator
- Transformation from MBC to BC
- Filing of Annual Return
- Filing of Interim Return
- Extension of time
- Annual Fee payment
- MBC Company Search
- Restoration of struck off MBC

MBC FEATURES

1. LIMITED LIABILITY

2. SUPPORTS eCOMMERCE

3. PROMOTES

ENTREPRENEURSHIP

4. FORMAL & EFFECTIVE

BUSINESS ENVIRONMENT



Monitoring of the banks' growth, profitability, asset quality, liquidity and capitalization continues to be exercised. The Banking Unit continues to maintain open dialogue with the banks and the home supervisors of branch and subsidiary banking licence holders that operate within the jurisdiction.

Regulatory Outlook

Balance Sheet Analysis

The banking sector's total asset size this quarter at approximately \$2.37 billion remains comparable to Q3 2017's performance of \$2.21 billion. The balance sheet experienced significant change QoQ with increases in cash items of 12%, Loans & Advances of 2%, Other Assets of 40%, deposits of 14%, Accrued Liabilities of 14% and Loss Reserves of 611%, which was offset by a decline by 97% in Investments and 328% in Other Liabilities.

Income Statement Analysis

Retained earnings decreased (112%) YoY to -\$39 million from \$34 million (\$73 million). The primary factor for this substantial decline in the jurisdiction's retained earnings is due to increased provisioning for loan losses, increased operating expenses and LIBT's write-off of \$53 million in related debt as an operational expense. LIBT is a restricted class I holder that primarily facilitates related transactions. These related transactions are financed with LIBT's working capital and not deposits solicited from residents of the BVI. A Net Loss of (\$39.0) million was due to increased provision for losses YoY to \$13.5 from \$5.6 and increased operating expenses YoY to \$81.9 from \$20.6.

Asset Quality Analysis

There was a significant increase in Non-performing loans (NPLs) by 32% due to the three months credit moratorium program (three months of non-payments) initiated by the Banks to assist clients with anticipated hardship due to losses arising out of the September hurricanes. The portfolio remain comparable QoQ at \$75 million or 5% of total loans and advances. Loan loss reserves increased 611% to \$18.5 million compared to last quarter's \$2.6 million.

Capital and Liquidity Analysis

Capital levels at 42% remain above the regulatory requirement, decreasing by 1% from last quarter's 43%. Liquidity financial soundness indicators experienced improvement QoQ due to the overall increases in cash holding by banks as well as increases in loans and advances. Liquid assets as a percentage of short term liabilities plus total deposits at 47% indicates that the banking sector will be able to satisfy primary short term liabilities and current obligations including demands for deposits.

Industry

Engagement

Engagement with the industry and participation in international forums and conferences was an integral function of the Banking Unit in 2016 and will continue into 2018. Due to the September hurricanes, the Banking Unit issued a questionnaire to the banking industry intended to gather data on the operations of the banks post Hurricane Irma. The questionnaire required the banks to provide the Commission information on cash levels, operational issues, loss of human resources and other resources, and client relief programs. The objective of the engagement was to compare and analyze (i) the issues specific to individual banks and (ii) the issues that affect the entire banking sector.

Development of Banking Unit Internal Processes

Continued engagement with Regional and International Bodies - Basel II Implementation: The Caribbean Technical Assistance Committee's (CARTAC) assistance to the Caribbean Group of Banking Supervisors (CGBS) with Basel II implementation continued in 2017. The BVI is able to use the resources and the progress of the CARTAC/CGBS initiative for its own adoption of the Basel II Standard. At present the banks are engaged in a parallel run of Basel II compliant prudential returns. After review of the parallel run submissions, it was found prudent to revise the form so that it will be easier to customize and adjust in the future and that the information extracted will be in a format that is easier to analyse. The Banking Unit prepared the alternative Basel II compliant prudential return as planned during Q3 2017 and is presently taking advantage of the Commission's internal accounting and auditing resources to review the newly drafted Basel II forms intended to replace the ones currently in the ongoing parallel run phase. It is expected that the new draft forms will be introduced in 2018.

MONEY SERVICES BUSINESS ANALYSIS

Regulatory Outlook

The Commission at present has two money services business licensees. During Q4, 2017 the Banking Unit conducted prudential site visits of the money service businesses to assess the current operating environment three months post the September hurricanes. The report highlighted potential safety hazards and status of branches and representative office locations. The fourth submission of the draft MSB prudential returns were submitted by the MSBs for Q4 2017.

The Banking Unit continues to analyse the results of the prudential returns and to make revisions to the form to ensure that the appropriate information is prioritized for reporting and that the required thresholds promote transparency in the reporting. The Banking Unit will continue to make improvements over time to the draft MSB prudential returns in order to improve the data collected as well as improve offsite monitoring processes of the MSBs.

Fiduciary Services

The Financial Services (Fees) (Amendment) Regulations, 2017, which was Gazetted on 23rd February 2017, took effect on 1st July 2017. New fees were introduced and some existing fees were increased. Some of the changes apply to trust and corporate service providers.

On 8th May 2017, the Deputy Managing Director, Regulation on behalf of the Commission signed the Multilateral Memorandum of Understanding (MMOU) between Members of the Group of International Financial Centre Supervisors (GIFCS) for the Exchange of Information and Co-operation and Consultation. The MMOU provides the basis for liaison and exchange of information between GIFCS members in connection with the supervision of Trust and Corporate Service Providers groups. Thirteen member regulatory organizations, including the BVI, formally committed to the MMOU and a further five members are working towards full signatory status within the next three years.

The Secure Search (Beneficial Ownership) System Act, 2017 came into force on 30th June 2017. It requires corporate service providers to hold beneficial ownership information in the Virgin Islands. It also requires the BVI to provide beneficial ownership information to relevant UK authorities within 24 hours of a standard request and within an hour of an “urgent” request.

The Beneficial Ownership Secure Search System (BOSSs) went live on 30th June 2017. Prior to that date, trust and corporate service providers were required to upload their clients’ beneficial ownership information to the platform. BOSSs can be searched by the Financial Investigation Agency (FIA), a BVI competent authority, with information available within 24 hours, or more quickly if needed.

The Financial Services (Continuity of Business) Act, 2017 was passed in the House of Assembly on 16th November 2017. It was deemed to have come into effect on 7th September 2017 and remained in force until 31st December 2017. The Act was introduced in light of the September hurricanes that disrupted many businesses in the financial services sector.

The Financial Services (Continuity of Business) (Extension) Order, 2017 was Gazetted on 22nd December 2017. It extended the operation of the Financial Services (Continuity of Business) Act, 2017 beyond the 31st day of December 2017 for a period of 3 months, ending on 31st March 2018.

Hurricanes Irma and Maria devastated the Virgin Islands on 6th September and 19 - 20th September 2017, respectively and disrupted the financial services sector. The common theme from Fiduciary Services licensees was that their offices were damaged and that staff who were relocated to other jurisdictions were working remotely via VIRRGIN while premises were being repaired. A few licensees survived intact but experienced communications challenges.

The Regulatory Divisions assumed responsibility for the compliance inspection monitoring effective January 2017 and are to ensure that timely monitoring reports are submitted to EC. In this regard, on 10th April 2017 Ms. Marsha Wheatley, who was seconded to the Compliance Inspection Unit in 2010, transferred back to the Division to monitor Fiduciary Services licensees.

After the passage of hurricanes Irma and Maria in September, all members of the Team were accounted for and were safe despite having suffered heavy personal losses.

Although the number of employees rose to 10 persons in April 2017, it was reduced to nine persons after hurricane Irma and remained there as at 31st December 2017.

Post	No. of Employees as at 31-Dec-2016	No. of Employees as at 31-Dec-2017
Director, Banking, Insolvency & Fiduciary Services	1	1
Acting Deputy Director, Fiduciary Services*	1	1
Senior Regulator	1	3
Regulator II	1	0
Regulator I	3	3
Regulatory Cadet	1	1
Administrative Assistant	1	0
Total	9	9

Summer Interns – The Team was ably assisted three summer students in 2017:

Table 2 – Summer Interns

Summer Intern	Duties	Start Date	End Date
1	Completed the data entry of Prudential Returns and assisted with the risk assessment of licensees	16 th May 2017	15 th August 2017
2	Assisted with filing and the risk assessment exercise	6 th June 2017	31 st August 2017
3	Assisted with reviewing Compliance Officers Reports, the Compliance Officer Project and preparing Particulars Sheets	3 rd July 2017	31 st August 2017

An exercise to review job descriptions commenced in May 2017 and is ongoing. The exercise will make recommendations for additional human resources. However, the Fiduciary Services Team recommends that the revisions should form part of a wider Operational and Organizational Assessment which would recommend, inter alia, work flows, records management procedures, operational efficiencies and performance measures to ensure that the Commission is operating at a high level of efficiency and effectiveness.

Event	Date	Attendee(s)
Offshore Alert Conference, Miami, Florida	30th April - 2nd May 2017	Anatalie Anthony
The Caribbean Basin Anti-Money Laundering & Financial Crime Conference, Miami, Florida	5th – 7th April 2017	Isha Hodge

Internal Training

On 7th February 2017, staff from the Fiduciary Services Team attended the Commission’s internal training entitled “You are the Regulator-Taking an inward look at the Financial Services Commission”. The training was organized by the Corporate Services Division to sensitize staff about the Commission, its 2017 work plan and strategic goals; it was geared towards employees that have been with the Commission for three years or less and highlighted the importance of the Commission to the Territory and on maintaining confidentiality within the workplace.

On 29th March 2017, training commenced for the Team on the Commission’s Risk Assessment Framework.

GIFCS Regulatory College

The inaugural GIFCS Regulatory College was held in the UK from 24th – 27th April 2017. A representative of the Fiduciary Services Team gave a presentation on the licensee’s activities in the BVI. The Director, Banking, Insolvency & Fiduciary Services, also attended along with the former Deputy Director, Fiduciary Services who was the Co-Chair of the Regulatory College.

Committees and Working Groups

A Senior Regulator of the Fiduciary Services Division was appointed as a member of the Commission’s Financial Stability / Crisis Management Working Group. The Group’s responsibilities were to conduct research and to draft instructions (for an amendment to the Regulatory Code) to give effect to the new powers as it relates to crisis management and resolution, as set out in section 4A(1) of the Financial Services Commission Act.

Two team members were appointed by Cabinet as members of the National Risk Assessment Public Education Committee in April 2014. They continued their contributions to the work of the Committee up to July 2017 when the National Risk Assessment exercise ended. All members of the Committee were commended for their hard work and dedication.

Statutory Filings

In 2017, the Team received and processed a total of 745 filings (Table 4). The high number of filings is attributable to measures implemented by the Team to monitor filings and follow up with delinquent licensees and issue penalties where relevant. Efforts to ensure that all licensees comply with their regulatory obligations are ongoing.

Table 4 – Statutory Filings

Filings	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Total
Compliance Officer Reports	19	32	86	124	261
Audited Financial Statements	17	30	50	11	108
Prudential Returns	7	176	13	180	376
Total	43	238	149	315	745

Compliance Officer and Compliance Officer Reports Project

Phase III of the exercise to ensure submission of all outstanding annual Compliance Officer Reports for the years 2013, 2014 and 2015 and to ensure that all licensees have appointed a compliance officer or applied for an exemption was completed in August. Breakdowns in communication between some licensees and their registered agent made the execution of this exercise difficult. However, as a result of the exercise, the Team received one application to appoint a compliance officer and seven applications for compliance officer exemptions.

The Team manually entered data from 376 prudential returns for December 2016 and June 2017. The data from the December 2016 returns was used by the Policy Research and Statistics Division to prepare the “Report

and Analysis of the BVIFSC (December 2016) Fiduciary Returns”. The Division also made extensive comments on the Report before it was presented to the Board of Commissioners.

The Team was charged with the implementation of the recommendations made by BVI National Risk Assessment (“NRA”) exercise in regard to Trust and Corporate Services Providers (“TCSPs”). The three recommendations and the level of implementation as at 31st December 2017 are summarized below.

Recommendation 1: TCSPs to review Policies and Procedures

On 24th April 2017, the Team issued 181 letters to all licensees requesting a director of each licensee to respond as indicated below:

confirm by 12th May 2017 that they would review the Licensee’s policies and procedures to ensure that the four recommendations outlined in the Commission’s letter are fully implemented in the Licensee’s policies and procedures; and

to confirm by 30th June 2017 that the four recommendations in the Commission’s letter are fully implemented within the Licensee’s policies and procedures.

Recommendation 2: TCSP’s to obtain beneficial ownership (“BO”) information of each client

On 29th December 2016, the Team issued a letter, along with a Pre-Assessment Questionnaire, to 134 Registered Agents (“RAs”) to ascertain their level of compliance with Regulation 7 of the AMLR. The deadline for submitting the completed Pre-Assessment Questionnaire was 6th January 2017. Onsite reviews of 16 of the 17 RAs which reported 100% compliance as at 31st Dec 2016 commenced on 24th April 2017. The project was ongoing as at 31st December 2017.

Recommendation 3: Risk Assessment of Licensees

The exercise to risk-assess the licensees commenced in May 2017. As at 31st December 2017, the Team had assessed 167 licensees.

The Team also handled all the ancillary work associated with the Policies and Procedures Project and the Beneficial Ownership Project, including acknowledging receipt of responses, writing approval letters, following up with licensees, analyzing data, records management and writing LSC, EC and Board papers.

NRA RECOMMENDATIONS - SUMMARY OF WORK DONE IN 2017

181 LETTERS ISSUED



NRA Recommendation 1 - Policies and Procedures - 181 Letters Issued in December 2016

176 RESPONSES RECEIVED



NRA Recommendation 1 - Policies and Procedures - 176 Responses Received - re 12-May Deadline

159 RESPONSES RECEIVED



NRA Recommendation 1 - 159 Responses Received - re 30-June Deadline

134 LETTERS AND QUESTIONNAIRES



NRA Recommendation 2 - BO Information Project - 134 Letters and Questionnaires Issued

16 ONSITE REVIEWS CONDUCTED



NRA Recommendation 2 - BO information Project - 16 Onsite Reviews Conducted

167 LICENSEES ASSESSED



NRA Recommendation 3 - Risk Assessment of Licensees - 167 Licensees Assessed

The Team responded to 280 regulatory search requests from the Legal & Enforcement Division.

In November 2017, BVI House Asia published information on “How to Become a Registered Agent” on their website. The information was produced by the Team and is also available in Mandarin Chinese.

INVESTMENT BUSINESS



Although the BVI remains a popular funds jurisdiction regionally, the fund sector within the BVI has been steadily contracting for several years. Professional funds continue to retain the greatest numbers in terms of registered funds however, cancellations of professional funds continue to far surpass the number of professional fund applications received quarterly. Additionally, in terms of new registrants, the industry seems primarily focused on professional funds and approved funds who have both consistently dominated the type of fund applications received.

The number of mutual fund applications received in 2017 (85 applicants) were consistent with numbers received in 2016 (83 applicants).

	Qtr 4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Fund Applications	36	14	9	26	18	19	28	18
Professional Fund	13	4	2	9	13	2	9	7
Private Fund	2	2	0	1	0	6	3	2
Public Fund	0	0	0	0	0	0	0	0
Foreign Fund	0	0	0	0	0	0	0	0
Incubator Fund	7	3	3	6	3	4	5	5
Approved Fund	14	5	4	10	2	7	11	4
Funds Granted/ Deemed	30	11	13	26	18	16	26	22
Professional Funds	12	3	8	7	12	3	8	8
Private Funds	2	2	0	2	0	4	2	4
Public Funds	0	0	0	0	0	0	0	0
Foreign Funds	0	0	0	0	0	0	0	1
Incubator Funds	7	4	1	7	2	4	4	5
Approved Funds	9	2	4	10	4	5	12	4
Funds Cancelled	27	24	32	112	60	295	90	56
Professional Funds	19	21	22	75	40	223	72	35
Private Funds	8	2	8	34	14	66	13	11
Public Funds	0	1	2	1	6	6	4	9
Foreign Funds	0	0	0	0	0	0	0	0
Incubator Funds	0	0	0	1	0	0	0	1
Approved Funds	0	0	0	1	0	0	1	0
Funds under Remit	1,499	1,496	1,509	1,528	1,614	1,656	1,935	1,999
Professional Funds	1,007	1,014	1,032	1,046	1,114	1,142	1,362	1,426
Private Funds	340	346	346	354	386	400	462	473
Public Funds	48	48	49	51	52	58	64	68
Foreign Funds	6	6	6	6	6	6	6	6
Incubator Funds	41	34	30	29	23	21	17	13
Approved Funds	57	48	46	42	33	29	24	13

For the fifth consecutive year, the number of mutual funds under remit have decreased. The Division noted a 7% decrease in funds regulated between the years 2016-2017 and a 35% difference in the number of funds regulated in 2017 when compared to 2012.

2017 cancellation figures are significantly lower than cancellation figures in 2016. However, the number of cancellations is still significantly higher than the number of applications received and recognitions granted and as such, the number of funds under regulatory remit with the Division has continued to decline.

The Securities and Investment Business Act, 2010 gives the Commission (and ultimately the Division) the responsibility and authority to regulate the Securities sector in the BVI. The Commission's regulatory powers span 7 categories of licence; Dealing in Investments (whether as Agent or Principal), Arranging Deals in Investments, Investment Management (this includes management of Segregated Portfolios, Mutual Funds, Pension Schemes, Insurance Products and the Management of Other Types of Investments), Investment Advice (including and excluding advice to mutual funds) Custody of Investments (including and excluding mutual funds) and Administration of Investments (including and excluding mutual funds). At present, the Commission has not issued any licenses under its Category 7, Licence to Operate and Investment Exchange category of licence. Regulations needed to properly regulate this segment of the market are currently being developed by the Division.

The Division's activities in relation to the supervision of Investment Business Licensees consists of 1) processing applications and making recommendations to the LSC on the issue (or non-issue) of a licence; and 2) ongoing supervision and regulation of the activities of the licensees.

The Division considers the supervision of investment business licensees to be the most complex of the Investment Business products regulated by the Division. This is owing to the nature, complexity and many times the size of entities which operate in this area. Specifically, the Division has noted that entities licensed under category 1 (which typically engage in broker type activities) present a higher level of risk. Therefore, in keeping with the risk-based approach, the Division expends its highest amount of its resources to the supervision of entities operating in this space.

The Division has noted a 20% decrease in the number of entities regulated in this area since 2014. In analysis of trends relating to Licence applications received and cancellation of licences, the Division expects the decline in the number of licensees regulated by the Division

to continue. Specifically, the number of applications submitted has decreased significantly from 2016, with 2017 seeing 66% less applicants. The Division also noted an increase in the number of licensees cancelled in 2017 by 25%.

In review, the Division notes that the number of licensees licensed under each sub category have remained consistent over the past 4 years. The largest changes in numbers regulated have been seen in Categories 3B (Managing Mutual Funds), Category 3E (Managing Other Types of Investments) and Category 4A (Investment Advice to Mutual Funds). The Division attributes the decrease in persons licensed under these categories to the enactment of the Approved Managers Regime where persons operating in this area, who meet the relevant criteria, benefited in converting to the lighter touch regime.

The Division continues to pursue enforcement action

Initiative	Description of Undertaking
National Risk Assessment	Implementation of the Recommendations
VIRGIN III Software	Development and testing of this software.
Risk Based Supervisory Framework	Implementation of Framework by the Commission
Crisis Management Framework	Development of framework
Compliance Officer Functions	Development of framework for analyzing the Compliance function of licensees
Financial Literacy	Member of programme engaged in the development and execution of the financial literacy programme

against entities for their failure to submit audited financial statements within the relevant timeframe, as well as the issuance of penalty notices relating to filing of statutorily required Mutual Funds Annual Returns (MFAR).

Initiative	Description of Undertaking	Date
Risk Based Supervision conference	Training on implementing a Risk Based approach to Supervision	April 2017
FinTech Regulation and Regulatory Training	Technical Committee meeting and Training for the Caribbean Group of Securities Regulators (CGSR)	May 2017
Offshore Alert	Financial Intelligence & Investigations	May 2017
Bank Resolution and crisis Management Stimulation	Bank Resolution Process and Resolution Options	July 2017
Risk Assessments	Training in the Commission's risk assessment of licensees model	Aug 2017
Caribbean Association of Credit Union Supervisors Regional Workshop		Sept 2017

Legislative Amendments for Segregated Portfolio Companies

During the year, the amendments to the Segregated Portfolio Companies (SPC) Regime were finalized. It is anticipated that these amendments, which included amendments to the BVI Business Companies Act, 2004 and the Segregated Portfolio Companies Regulations, 2016, will be brought in to force in early 2018. The amendments would, in essence, allow for any BVI BC to be incorporated as a Segregated Portfolio Company.

Licensing and Operation of an Investment Exchange

A team within the Division is currently undertaking research on the regulatory landscape and environment of various investment exchanges with the goal of developing a licensing and supervisory regime relevant for entities that intend to operate under Category 7 (Operation of an Investment Exchange) of SIBA. The Division has slowly been progressing this matter however, it is anticipated that the Division will put forward its first proposal on regulating this area by third quarter 2018.

Resourcing

At the end of the year, the Division's team consisted of eleven (11) persons; the Director, two (2) Senior Regulators, five (5) persons in the position of Regulator II, two (2) persons in the position of Regulator I and two (2) Regulatory Cadets. During the second quarter of 2017, Ms. Allene Gumbs who was a Senior Regulator with the Division transferred to the Policy, Research and Statistics Department.

Two interns were assigned to the Division during the summer. In addition to being introduced to the general functions of the Division and the Commission, the interns provided much needed assistance with the input of information into the Mutual Funds Annual Returns Platform (MFAR) and the recording of filed Financial Statements.

In 2018, the Division expects the supervisory demands of the Division to be even greater. This will be especially so when the Commission, in conformity with the Risk Based Supervisory Framework, introduces the concept of Relationship Managers. Additionally, many of the supervisory tools used by the regulators rely heavily on manual input and analysis which continues to require a demanding effort from staff. Management will continue to assess tasks with a view to automating more functions so that resources are better utilised.

Foreign Fund Regulations

The Division considered the level of oversight required for foreign funds and presented a proposal for the development of relevant regulations. The proposal was approved by the Managing Director and is with the Policy, Research & Statistics Division for development. It is hoped that the draft regulations will be circulated to relevant industry bodies for comments and consultation during 2018.

Risk Based Assessments

As a part of the 2017 work plan, the Division was tasked with risk assessing all licensees. These assessments are in conformity with the Commission's Risk Based Approach to Supervision Framework which was implemented in 2017. The Division completed risk assessments of all licensees at the end of the first quarter 2017. Additionally, the Division continues to carry out risk assessments on all Applicants for licensing as well as current licensees

as new relevant information becomes available. The risk assessments form an integral part of the desk based monitoring, and the results of the framework frame the Commission's ongoing relationship with licensees. In this regard, Relationship Managers will be appointed to all licensees with a risk rating of Medium High or higher in 2018. The Relationship Managers will be required to know these higher risk licensees intimately, as a means of curtailing the risk they present as licensees.

Desk Based Monitoring

The Division's 2017 work plan required the Division to create a framework for the desk based monitoring of its licensees. In 2017, the Division's progress to address this has been two fold; 1) Risk assessments and 2) Prudential returns. As noted in paragraph 24, the Division commenced use of the Commission's new risk assessment framework in 2017. The application of the framework, and in essence, the risk assessment, allows the Division to continually integrate, measure and record a licensee's strengths and weaknesses. This guides the Division in the application of resources regarding the supervision of said licensees.

In addition to the developments with the risk assessments of licensees, the Division also progressed the development of its Prudential Returns. An outline of the Returns were provided to the Managing Director, for which approval to proceed was agreed. It is anticipated that the draft Returns will be turned over for progression to the Policy, Research and Statistics unit in early 2018. It is envisaged that the returns will be ready for implementation by mid-year 2018. The Returns will allow the Commission to receive relevant and structured information about licensees regularly. The Division has requested that the development of these Returns involve the use of an electronic platform for submission. This would allow the information to be manipulated more efficiently, reported more accurately and reported more timely. The Returns will serve as one of the inputs for risk assessment and will therefore help to improve the supervisory approach applied.

Regulating in a FinTech area

Throughout the year, and especially the latter half of 2017, there was a noted increased interest in inquiries regarding the use of BVI companies in the FinTech space. This increased interest seen locally is reflective of the changing landscape of financial services which is being redefined by financial technology. In 2018, more resources will be contributed towards the monitoring of this space with a view to understanding how the changing landscape affects our investments and securities industry both from a risk perspective and the potential for opportunities for growth and innovation perspective.

Inspection of Complex Licensees

The Division continues to be faced with the challenge of developing an inspection guide for those licenses licensed under Category 1 and 2 of SIBA. These licensees are usually engaged in broker type services which encompasses scopes of risk beyond traditional business lines of the Division and for which our current inspection processes had been developed around. The Division will endeavor to progress work surrounding the design of an inspection guide for these types of licensees. It is important that the Commission begins inspecting these licensees for compliance with relevant laws and risks posed to the Regulatory regime and the development of these guidelines will be critical in this regard.

Complaints

In 2017 the Division received a number of investor complaints from retail investors trading on platforms offered by licensees licensed under Category 1 (Dealing in Investments). Significant resources continue to be expended in seeking to address these complaints, which for the most part appear to be trade disputes between licensees and clients, where licensees act in accordance with their rules and regulations as stipulated in their client agreements. During 2018 the Division intends to increase the supervision of many of the licensees operating in this sphere as their business activities encompass a level of inherent risk which requires enhanced monitoring. Those licensees who have received numerous complaints (unresolved as well as resolved) will be targeted for recommendations of thematic inspections and/or desk based reviews, with an aim of determining whether these licensees are operating in a fair and equitable manner.

Mutual Funds Annual Return Platform

In June 2017, an improved version of the MFAR platform was launched. The original platform was plagued with many technical glitches which included difficulties with usability by industry participants and limitations with the interrogation of the system for varying reports. Initial reports stemming from the launch of the new platform, indicate a more user friendly platform regarding industry input. It is also anticipated that many of the functions involving data interrogation and manipulation have been improved and these functions will be tested in early part of 2018 as MFAR reports are drafted.

Hurricane Irma

In September 2017, the Territory was severely damaged by the passage of hurricane Irma. Although the physical premises of the Commission were undamaged, regulatory divisions were not in operation for approximately 2 weeks after the storm. While this caused some backlog initially, the Division managed to alleviate said backlog within a few days of the Commission's official re-opening. In order to facilitate entities that were displaced during the storm, the Division processed requests received via emails, as many of the resident industry participants (and their staff) had been relocated outside of the BVI. By the end of 2017, the Division noted that all functions had returned to pre-Irma normalcy and many of the entities with which the Division engaged in business with, had returned to the BVI. The Division saw no staff departures as a result of the storm.

INSURANCE



The Insurance Division of the Commission is responsible for the regulation and supervision of persons licensed by the Commission through the Insurance Act and other applicable pieces of financial services legislation. Those licensed to conduct insurance business and related activities include: domestic insurers, captive insurers, insurance intermediaries (insurance agents and insurance brokers), insurance managers and loss adjusters. Regulation and supervision of the sector involves desk-based (off-site) and on-site monitoring to ensure compliance by licensees of BVI legislation, prudential standards and internationally accepted best practices.

The relevant legislation administered by the Insurance Division includes the Insurance Act, 2008, the Insurance (Amendment) Act, 2015, the Insurance Regulations, 2009, the Insurance (Amendment) Regulations, 2015 and the Regulatory Code, 2009. The Insurance Guidelines, 2016 were also issued by the Commission to compliment the provisions of the Act and the Regulations.

Special legislation namely the Financial Services (Continuity of Business) Act, 2017 was enacted to provide measures for conduct, operation, licensing, regulation and supervision and generally for continuity of financial services business in the Virgin Islands following the passage of Hurricane Irma and for other matters connected therewith.

CAPTIVE INSURANCE

BVI licensed captive licensees at the close of 2017 stand at 111.

The captive sector continues to experience a decline in the total number of licensees.

Legislative changes were enacted in 2016 to provide greater flexibility for those active in or interested in utilizing the captive insurance sector however, the Division has noted a slow reception to these changes with one new license issued in one of the two new classes of captives. Two captive insurers continue to be wound up pursuant to the provisions of the legislation; the joint liquidators previously appointed continue to act.

DOMESTIC INSURANCE

BVI licensed domestic insurers now stand at 40.

Three catastrophic events namely the August 7 2017 Flood and Hurricanes Irma and Maria affected the domestic market in 2017. These events caused severe damage to the territory's electrical and telecommunications infrastructure, residential and commercial properties, marine assets and automobiles which generated a high volume of claims being submitted to insurers. During the processing of claims, complaints were received from policyholders and the public of dissatisfaction and unfair treatment relating to the insurance policies and being unable to access funds from the insurance settlement.

The Territory implemented a compulsory National Health Insurance (“NHI”) initiative in 2016. As a result of the NHI being the primary insurer, some licensed domestic insurers continue to experience a reduction in their health insurance line of business.

Interest and inquiries continue to be received by the Division from prospective entrants to the domestic market for all lines of business.

One domestic insurer continued to wind up its business in the Territory and is progressing through the liquidation process.

Companies	No. of Insurance Licensees
Captives	111
Domestic	40

Due to the catastrophic events of 2017 domestic insurers engaged loss adjusters which were flown into the Territory to assess the high volume of claims. A registration process was implemented wherein a number of loss adjusters were registered under the Financial Services (Continuity of Business) Act, 2017.

Intermediaries	No. of Insurance Licensees
Insurance Agents	15
Insurance Brokers	4
Insurance Managers	11
Loss Adjusters	3

The Division’s human resources in 2017 comprised a team of 5; the Director, Insurance passed away during the year.

The Division continued to be actively involved with various liaison groups. The Domestic Insurance Advisory Council which was constituted in 2015 continued to meet to discuss issues and concerns in the domestic market, means of educating the public and the impact of the catastrophic events of 2017.

The Captive Insurance Advisory Council, a group of private and public sector representatives, continued to meet to discuss the state of the captive insurance industry and to provide recommendations for improving the captive insurance industry including the promotion of legislative changes.

The Financial Services (Continuity of Business) Act, 2017 included a provision for the establishment of an Insurance Tribunal which was formed to mediate claims following the catastrophic events of 2017. The functions of the Insurance Tribunal are to receive and investigate reports from persons who are aggrieved by a decision of an insurer with respect to a claim, to mediate between an insurer and the insured with an objective of enabling an amicable settlement between the insurer and the insured and to advise an insured of its options in the event that the insurer and the insured are unable to reach an amicable settlement. Since the inception of the Insurance Tribunal a number of complaints and disputes relating to claims filed with insurers were considered.

Members of the Division received training provided by regional and international bodies including: International Association of Insurance Supervisors (IAIS), Group of International Insurance Centre Supervisors and Caribbean Association of Insurance Regulators (“CAIR”). The CAIR training covered Capital Adequacy from a regional perspective establishing a Risk-Based Capital Regime for the insurance sector and Disaster Risk Financing in the Caribbean Insurance Industry. The Division along with a representative from the Legal and Enforcement Division continued to participate in a peer assessment group with the IAIS on International Exchange and Supervisory Cooperation which covered the jurisdictions legal authority and power to obtain and exchange supervisory information in respect of legal entities and groups,

including the relevant non-regulated entities of such groups, exchange of information with other relevant supervisor, timely and comprehensive responses to supervisors and overall assessment of how international cooperation requests are handled. The jurisdiction received an overall rating of 'Largely Observed'.

Attendance and participation in events hosted by the afore-mentioned bodies afforded members of the Division the opportunity for professional development, networking and to gain experience that in making recommendation for changes to regulatory approaches taken in the sector.

The Insurance Division meets with BVI Finance, the body responsible for marketing and promoting the territory's financial services to collaborate on an approach for representing the territory at insurance industry events global.



The BVI Financial Services Commission (HK) Limited ("FSCHK") is a company incorporated in Hong Kong that represents the regulatory interests of the BVI Financial Services Commission (the "Commission") throughout the Asia Pacific Region. FSCHK was incorporated in Hong Kong on 29 January 2014, and began operations in April 2014.



Introduction

The Commission is the principal authority for regulating and supervising financial services business operating in and from within the British Virgin Islands.

FSCHK operates as a representative office of the Commission and provides local regulatory assistance, liaison services and clarification on financial services regulatory matters to financial services professionals, BVI licensed firms and other professional intermediaries throughout Asia. FSCHK is committed to educating Hong Kong and Asia based financial services professionals on the features of BVI vehicles and other ancillary products and services offered by the British Virgin Islands and its regulatory regime.

In April 2015, the Commission started to roll out regular services through FSCHK to its licensees with a presence in Asia. The initial provision of services was aimed at the needs of trust and corporate services providers. In September 2017, when Hurricane Irma severely impacted BVI businesses, the FSCHK served as the contingency site providing certificates and documents issued from the Registry of Corporate of Affairs to all users. Consequently, the Commission granted, on a temporary basis, full functionality to all VIRRGIN HK users (VIRRGIN Lite). The scope of services offered through VIRRGIN Lite is continuously reviewed to best serve client needs.

The British Virgin Islands has had a long and mutually beneficial relationship with clients in Asia-Pacific for over 30 years. The BVI Business Company and its predecessor the BVI International Business Company have enjoyed much success and popularity in the Asia-Pacific region.

Hong Kong and Singapore are leading international financial centers with a high concentration of financial institutions and financial service intermediaries. Hong Kong is known as a financial services hub for the North Asia Region, including Greater China, Japan and Korea whereas Singapore serves mostly the South Asia Region, including Indonesia, Malaysia, Philippines, and Thailand. End-users usually gain access through these two hubs for offshore financial services.

Besides the Commission, the Government has also established its representative office, BVI House Asia, in Hong Kong. Both units cooperate on activities and playing their part in promoting and educating the Asia-Pacific region on BVI financial products and services. Through BVI House Asia, located in Wanchai, Hong Kong: the Commission and Government share office premises, one member of staff and some facilities.

Operation and Activities

Framework

As FSCHK is a corporate body with its operation in Hong Kong, it complies with the local laws and regulations. In summary, FSCHK is in good standing by carrying out the below actions:

- Business Registration has been completed and renewed on an annual basis;
- Stephenson Harwood is appointed as Company Secretary, maintaining corporate records and submitting Annual Return to the Companies Registry of Hong Kong;
- BDO, as group auditor, also conducts the financial audit for FSCHK;
- A notification from the Inland Revenue Department Hong Kong was received for “not required to submit Profits Tax return until further notice.” Thus, reporting on Profits Tax is not required at present;
- Reporting on Salaries Tax return in respect of the annual tax reporting obligations concerning an employer for its employees is carried out in a timely manner;
- Employer’s contribution to Mandatory Provident Fund and compulsory insurance cover for employers are met consistently;
- Work Visa for the Asia Representative, who is a non-permanent Hong Kong resident, is valid.

A Bank Account with Bank of Communications is maintained to support FSC HK’s daily operations.

Regular Services

The FSCHK is a collection point for various certificates issued by the Registry of Corporate Affairs since 2015. The popularity of this service has steadily increased annually. Along with the grant of limited access of VIRRGIN, known as VIRRGIN Lite, to eligible HK users in late 2016, the service rendered from FSCHK has become more and more complementing with the workflow of HK based users. Functions available to VIRRGIN Lite users include name reservation, company search, request for Certificates of Good Standing and Certifications.

In September 2017, the British Virgin Islands received catastrophic damage by Hurricane Irma. The hurricane temporarily suspended business operations and other ancillary services. As a contingency measure, the Commission removed geographic restrictions to VIRRGIN and VIRRGIN Lite to allow users to resume business operations through the remainder of the year.

In 2017, the FSCHK issued 18,025 certificates to the various agents.

CERT_DESC	No. of Certs
Certificate of change of Name (Certified)	16
Certificate of change of Name (Duplicate)	20
Certificate of continuation	2
Certificate of continuation (Certified)	1
Certificate of Discontinuance (Duplicate)	3
Certificate of Dissolution (Certified)	1
Certificate of Dissolution (Duplicate)	5
Certificate of Good Standing	13,910
Certificate of Good Standing(LP)	5
Certificate of Incorporation (Certified)	189
Certificate of Incorporation (Duplicate)	335
Certificate of Incorporation (Original)	2,904
Certificate of Limited Partnership	4
Certificate of Merger (Certified)	2
Certificate of Partial Release of Charge (Duplicate)	1
Certificate of Re-Registration(Schedule 2)(Duplicate)	1
Certificate of Registration of Charge (Certified)	2
Certificate of Registration of Charge (Duplicate)	4
Certificate of Release of Charge (Duplicate)	6
Certificate of Restoration (Duplicate)	1
Certified Certificate of Incorporation (Name Change)-IBC- Sec 11	4

Meetings and Conferences

Below are the public meetings and conferences attended by the Asia Representative during the year:

*Corporate Registers Forum
6-10 March 2017, Hong Kong*

The 13th Annual Conference of the Corporate Registers Forum, hosted by the Hong Kong Companies Registry, was held in Hong Kong from Monday 6th March to Friday 10th March 2017. It was themed “Corporate Registries – Challenges and Opportunities, Today and Tomorrow” and programmed with a tour of the Companies Registry and the Hong Kong Stock Exchange.

*Corporate Governance Roundtable
13 Mar 2017, Hong Kong*

A one-day conference entitled “Corporate Governance Roundtable” held by the Companies Registry of Hong Kong with an aim to engage regulators, business leaders and professionals in a discussion about the latest developments in the management of companies such as corporate transparency, effective board leadership and risk management.

Leon Wheatley, the then Asia Representative of FCSHK delivered a speech to the attendees with assurance that the British Virgin Islands has continued to take steps towards increasing the level of its transparency as well as to enhance international cooperation capabilities and efficiency.

*Vistra Roundtable
26 Apr 2017, Hong Kong*

A forum hosted by Vistra (a BVI licensee) for release of its report, “Vistra 2020: The Uncertainty Principle: The State of the Trust, Fund and Corporate Services Industry 2017”.

CERT_DESC (Cont'd)

No. of Certs

Certified Certificate of Incorporation (Name Change)-IBC- Sec 11	4
Certified Certificate of Incorporation - IBC - Sections 14 & 15	51
Certified Copy of Certificate of Incorporation - Local	1
Duplicate Certificate of Incorporation (Name Change)-IBC- Sec 11	8
Duplicate Certificate of Incorporation - IBC - Sections 14 & 15	92
Memorandum & Articles (certified)	204
Memorandum & Articles (stamped)	24
Register of Charge (certified)	1
Register of Charge (stamped)	1
Register of Directors (certified)	7
Register of Directors (stamped)	218
Register of Members (stamped)	2
TOTAL	18,025

Liaison/Information Dissemination

FCSHK frequently receives inquiries from market practitioners and also the general public. The request for information range widely and includes from availability and procedures of services, operation and legal framework of BVI financial vehicles, licensing requirements for BVI financial service providers. FCSHK continues to provide relevant information and liaison service for all inquiries.

To facilitate information dissemination, FCSHK has historically leveraged on BVI House Asia’s website and publication channels to relay the Commission’s Industry Update and relevant notification to the Asia community.

ICAC International Seminar on Financial Investigation
9-10 May 2017, Hong Kong

A seminar hosted by Commissioner of the Independent Commission against Corruption (ICAC), themed “Cutting the Financial Vein of the Corrupt”.

China Offshore Summit
23-26 May 2017, Shenzhen, China

A programme designed by China Offshore & local practitioners to educate Chinese financial intermediaries on the effective use of tax planning and asset management tools available in low-tax jurisdictions.

Presentation at Vistra Hong Kong
9 Aug 2017, Hong Kong

Sitting in presentation on key findings from CE Report conducted by BVI House Asia

China Offshore Summit
1-2 Nov 2017, Shanghai, China

A programme designed by China Offshore & local practitioners to educate Chinese financial intermediaries on the effective use of tax planning and asset management tools available in low-tax jurisdictions.

STEP Asia Conference 2017
7-8 Nov 2017, Singapore

An Asia-focused conference hosted by STEP for matters surrounding trust, private wealth management and succession.

Financial Report

The financial position of the FSCHK remains strong. The Commission wholly funds the operations of the FSCHK. Its activities are non-revenue generating as no fee attracting services are provided by the office. The FSCHK maintains a bank account in Hong Kong for meeting operational expenses and other obligations including but not limited to, event management expenses, public education, communications and public relations, staff and employment expenses, office supplies, information technology, transportation and travel, and business development.

Given the above pattern, money movements are in relatively small amounts and fixed timeframe. In the future, it is foreseeable that external communication and activities will increase, in terms of frequency and variety.

Human Resources

The staff at FSCHK consists of the Asia Representative and Executive Assistant while the Chief Operating Officer divides her time between FSCHK and BVI House Asia.

The Asia Representative serves as the head of the office, responsible for general business, especially for establishing business directions, building relationships and collaboration with external parties.

The Executive Assistant, with primary duty for administrative functions including the provision of certificates, also is responsible for contact customer management, correspondence, the Asia Representative’s calendar; and other matters as necessary.

The Chief Operating Officer assists with company compliance, liaises with external parties, office management and also backing up regular service provided by FSCHK.

The human resources are considered adequate for the time being. However, Hurricane Irma has taught us that the volume of work may increase unexpectedly. If in future, FSCHK expands the scope of service it may be necessary to revisit the existing staffing complement.

Although the services in HK are only a small part of the corporate affairs, it is crucial for staff in both locations to understand and appreciate the full picture of how their work can benefit or impact each other. Asia overall is a fast-paced business environment, and people often approach FSCHK right after a new arrangement is announced, FSCHK’s liaison function can be boosted if relevant and timely data is provided to the market.



NON-SUPERVISORY

DIVISIONS



LEGAL AND ENFORCEMENT DIVISION



The Legal Unit is in-house counsel to the Commission. The Unit provides Advice and Litigation services to the Managing Director, the Board of Commissioners and the administrative and the regulatory divisions within the Commission. During 2017 the Unit handled 158 requests for legal advice on compliance inspection reports, contravention of legislation and the review of documents. In all cases where enforcement action has been proposed, Legal have advised on the regulatory and legislative breaches and the powers available to the Enforcement Committee.

The Legal Unit

Counsel's Role

The Legal Unit is in-house counsel to the Commission. The Unit provides Advice and Litigation services to the Managing Director, the Board of Commissioners and the administrative and the regulatory divisions within the Commission. During 2017 the Unit handled 158 requests for legal advice on compliance inspection reports, contravention of legislation and the review of documents. In all cases where enforcement action has been proposed, Legal have advised on the regulatory and legislative breaches and the powers available to the Enforcement Committee.

The Unit also had responsibility for dealing with 120 litigation cases comprising chiefly of applications to the Court to restore dissolved companies and including a number of ongoing cases where the Commission has applied to the Court for the appointment of a liquidator in a BVI company regulated by the Commission. Following the disruption caused in the Territory by the September 2017 hurricanes, the High Court did not commence hearings until January 2018 and the Commercial Court sat in St Lucia, conducting hearings by telephone and video link. This caused significant difficulties to Legal however we took steps to ensure that our cases were progressed during this period and to ensure that they were ready for final hearings as soon as the courts resumed hearings in the BVI.

During 2017 the Legal Unit also provided legal services to the Trade Marks registration Unit at the Registry of Corporate Affairs as well as provided advice and drafting services to the administrative divisions on leases and contracts entered into by the Commission.

The Enforcement Unit

Matters are referred to our Enforcement Unit to investigate financial services regulatory breaches arising under the Territory's financial laws. The Unit also gathers intelligence and cooperates with domestic and international law enforcement agencies through membership of the Financial Crime Information Network ("FIN-NET") and under the international cooperation provisions in our legislation. FIN-NET facilitates the sharing of financial crime related intelligence between law enforcement, regulators and government departments. The Unit's investigation work ranges

from regulatory breaches, for example involving entities providing unauthorised financial services, to cases where BVI companies are being used as vehicles for unlawful Forex trading where overseas investors are at risk of losing considerable sums. The Unit also receives and investigates complaints received by the Commission.

During 2017, 51 individual complaints were received by Enforcement, the more serious of which concerned fraudulent behavior involving financial services business being conducted by entities purporting to be registered or licensed BVI companies. Most complaints lodged with the Commission were in relation to internet investment frauds, in some instances, involving the use of forged licences.

FINANCIAL SERVICES APPEAL BOARD MATTERS

During 2017 the Financial Services Appeal Board did not receive any new appeals against decisions made by the Commission. The Board did not deal with any appeals in 2017. Of the appeals concluded in 2017, one appeal succeeded and is now the subject of an appeal by the Commission to the High Court against the Appeal Board's decision, and the other matters were adjourned for hearings in 2018.

INTERNATIONAL COOPERATION MATTERS

Legal has primary responsibility for dealing with incoming and outgoing international cooperation requests received and issued by the Commission. During 2017 the Commission received 47 formal incoming requests plus 112 incoming request from FIN-NET for a total of 159 incoming requests and issued 3 formal outgoing request plus 2 outgoing request to FIN-NET for a total of 5 outgoing requests to other regulators.

The requests arise mainly under our obligations as a signatory and member of the International Organization of Securities Commissions' (IOSCO) Multi-Lateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information but also involve other requests from international financial regulatory and law enforcement agencies and from FIN-NET.

POLICY, RESEARCH AND STATISTICS



The Policy Research & Statistics Division (“the Division”) is responsible for developing policies, guidelines and legislation that allow for the effective regulation and supervision of the jurisdiction’s financial services industry, including the internal processes of the Commission relating to regulation and supervision. In fulfilling these responsibilities during the year 2017, the Division continued to monitor developments in global regulation and legislative reform, research issues affecting the local and global financial services industry, produced industry statistics and coordinated reforms to meet international standards.

The passage of Hurricanes Irma and Maria during the year 2017 severely impacted the jurisdiction’s public and private infrastructure and consequently the timely progression of matters within the Division. Matters that were slated for action by the Division during the year 2017 had to be postponed, due to the limited operational times and the reduction in staff in the months immediately following the hurricanes. In addition, new initiatives had to be prioritised to facilitate the continuity of financial services business in the jurisdiction during the arduous period. Notwithstanding, the Division was able to progress a number of matters and initiate actions for other matters to facilitate completion within 2018.

Legislative Developments

One of the Division’s key functions is to develop financial services legislation relevant to the Commission as both the jurisdiction’s financial services regulator and the registry of corporate entities. This function is fulfilled through the drafting of Bills, Regulations and other subsidiary legislation for review by the Attorney General’s Chambers and onward transmission to Cabinet for approval and the House of Assembly for enactment. Recommendations for the development of legislation are based on gaps identified via benchmarking exercises against international standards, issues identified in the administration of financial services legislation, the entrance of new types of financial services products and services within the market, or emerging trends within the local, regional or international financial services sector. During the year 2017, the Division developed new legislation and amended existing legislation to address issues and introduced new opportunities within the jurisdiction’s framework.

The following new financial services legislation were developed during 2017:

Micro Business Companies Act, 2017 (“MBC Act”)

The MBC Act introduced a new type of company regime that affords small businesses, particularly start-up businesses, the legal advantage of creating a corporate entity with limited liability. In addition, the electronic web-based nature of conducting transactions under the MBC Act facilitates the incorporation and registration of these companies at considerably low costs to a small business. The MBC Act also promotes transparency with respect to these companies as information on MBCs, including their principal and participants, will be publicly available.

Financial Services (Continuity of Business Act), 2017 (“COB Act”)

The COB Act was developed in response to the catastrophic effects to the Virgin Islands caused by the passage of Hurricanes Irma and Maria in 2017. The COB Act consequently sought to vary or forgo certain legislative provisions in facilitating the continuity of financial services business in the jurisdiction, while maintaining the integrity of the supervisory regime. The COB Act also established the Insurance Tribunal, which serves as a mediator in insurance claim disputes between the insured and the insurer. The COB Act was transient in nature, taking effect as of 6th September 2017 and ceasing effect on 31st March 2018, although the provisions in relation to the Insurance Tribunal will remain in effect until ceased by virtue of an Order made by the Minister of Finance.

During the course of 2017, the Division progressed amendments to existing financial services legislation, through the following:

Financial Services (Fees)(Amendment) Regulations, 2017 (“Fees Regulations”)

The Fees Regulations amends the Financial Services (Fees) Regulations, 2010. The amendment essentially assigns new fees and increases existing fees relevant to provisions under the Financial Services Act, 2001, the Regulatory Code, 2009 and other regulatory legislation. The Fees Regulations also streamlines the fees applicable for similar provisions across all regulatory legislation.

Financial Services Commission (Amendment) Act, 2017 (“FSC Amendment Act”)

The FSC Amendment Act modifies the provision that required all enforcement action to be published, now granting the Commission the discretion to determine which enforcement actions should be published and the period of time for which any enforcement action should remain published.

BVI Business Companies Act (Amendment of Schedules) Order, 2017 (“BVIBCA Amendment of Schedules Order”)

The BVIBCA Amendment of Schedules Order increases the annual fees for certain subsets of companies.

During the course of 2017, the Commission within its designated authority, issued the Anti-money Laundering and Terrorist Financing (Amendment) Code of Practice, 2017. The amendment inserted four (4) new jurisdictions to the list of recognised jurisdictions for the purposes of the Anti-money Laundering and Terrorist Financing Code of Practice, 2008.

While the Division was able to progress a number of legislative matters, as cited above, the impact of the active hurricane season hindered the Division’s ability to fully progress its 2017 legislative agenda. The Division, however, made strides in obtaining internal Board level approval with respect to the following amendment legislation (which were enacted in 2018). These include:

Financial Services (Amendment) Act, 2018

This Act will allow corporate entities to perform compliance functions on behalf of a licensee.

BVI Business Companies (Amendment) Act, 2018

This Act allows unregulated BVI Business Companies (BVIBCs) to be established as Segregated Portfolio Companies and requires BVIBCs to have their Registers of Directors filed with the Registry of Corporate Affairs in order to obtain a Certificate of Good Standing.

Banks and Trust Companies (Amendment) Act, 2018

This Act introduces 2 new classes of licences, to perform trust and company management business for a limited number of trusts and family businesses. The Act also requires subsidiaries of licensees to obtain their own licences (separate from the parent company) to provide trust and company management services and facilitates the provision of registered agent services to MBCs.

Company Management (Amendment) Act, 2018

This Act is similar to the provisions of the Banks and Trust Companies (Amendment) Act, 2018, also requiring subsidiaries to obtain separate licences and facilitating the provision of registered agent services to MBCs.

Segregated Portfolio Companies (BVI Business Company) Regulations, 2018

Segregated Portfolio Companies (Insurance) Regulations, 2018

Segregated Portfolio Companies (Mutual Funds) Regulations, 2018

Each of these regulations formally establishes the relevant segregated portfolio framework by prescribing requirements for incorporation or registration as a segregated portfolio company, ongoing approvals and obligations as a segregated portfolio company and relevant fees applicable to the segregated portfolio companies.

Development of Policies, Guidelines and Forms

The Division has the responsibility for developing policies relating to the functions of the Commission, as well as guidance for industry participants. In addition, the Division is responsible for developing relevant application forms to facilitate the administration of new legislation and policies. During the course of the year 2017, the Division developed the following:

Financial Services (Continuity of Business) Act, 2017 Frequently Asked Questions

These FAQs were designed as short-form, practical guidance on how to interpret and apply the Financial Services (Continuity of Business) Act, 2017.

Particulars of Loss Adjusters Form

This form was developed in conjunction with the Insurance Division as a registration process for Loss Adjusters entering the Virgin Islands to perform these insurance related services following the passage of Hurricanes Irma and Maria. This emanated from the COB Act, which disapplied the licensing requirements for loss adjusters during the period which the COB Act remained in effect, and instead allow a registration process.

During the course of the year, the Division commenced with the development of a number of policies and guidelines, which remained in varying stages of development by the end of the year. These included:

- Exemption Guidelines for Licensees in Run-off, Solvent Liquidation or Insolvent Liquidation
- Anti-money Laundering Guidance for the Financial Services Sector
- Amendment of Onsite Inspection Manual
- Amendment of the Guidelines and Operating Procedures of the Enforcement Committee
- Application Forms for Segregated Portfolio Companies Regime.

Support to the Regulatory Divisions and Registry of the Commission

Given the responsibility for developing relevant legislation, policies and forms, the Division maintains a close working relationship with regulatory divisions, as well as the Registry of Corporate Affairs to develop solutions to resolve issues as identified by the persons administering the various segments of the financial services regime. In addition, the Division also provides specific policy support by reviewing documents produced by the divisions and the Registry to ensure policy consistency. The Division also advises on matters not directly addressed by the regulatory laws and therefore need policy direction, and provides assistance in addressing industry queries regarding both regulatory and registry legislation.

Assessment Evaluations

The Division is tasked with the function of coordinating efforts with respect to evaluations to which the jurisdiction is subject for financial services purposes. The Virgin Islands was slated for such international reviews in 2018 and 2019. However, due to the severity of the damage caused by the 2017 hurricanes, there have been changes in the progression of the evaluation process.

Group of International Financial Centre Supervisors (GIFCS)

The Virgin Islands was slated for a GIFCS assessment of its regulatory framework relevant to Trust and Company Services Providers in 2018. This assessment has however been postponed to an undetermined date. Notwithstanding the delayed assessment, the Division in conjunction with the Fiduciary Services Division intends to concentrate efforts, in identifying any gaps in the current framework and pursue the development of relevant amendments in existing regulation, where applicable. The continued pursuit of such developments will aid in the jurisdiction's readiness to undergo the evaluation within the new re-scheduled timeframe.

Caribbean Financial Task Force (CFATF)

The Virgin Islands was slated for a 2019 CFATF review of its AML/CFT framework against the requirements of the FATF Recommendations and Methodology. This has been postponed to 2021. Although the delayed assessment provides some additional time for preparation, continued efforts to maintain the integrity of the AML/CFT Regime remains an ongoing priority of the Division. During 2017, the Division initiated activities with a view to aligning the jurisdiction with the requirements of the FATF Recommendations and Methodology. This included embarking on a benchmarking exercise to compare the jurisdiction's current legal framework against the requirements of the FATF Recommendations. Once this exercise is completed, the Division will progress relevant amendments to the legislation that currently comprise the AML/CFT Framework. In addition, with the completion of the National Risk Assessment (NRA) exercise and the finalisation and production of the NRA report in 2016, the Division in 2017 commenced discussions with regulatory divisions to implement policies and procedures to address the deficiencies identified for the Commission within the NRA report.

Coordination of and Engagement with Financial Services Liaison Groups

The Division coordinates substantive amendments to legislation and the issuance of guidelines with several

advisory bodies which comprise Commission staff and industry professionals. During the year, the Division continued to convene meetings with these advisory bodies:

Company Law Review Advisory Committee (CLRAC)

CLRAC is comprised of Commission staff and industry professionals and has been established as a consultative body for the review of legislation and guidelines pertaining to company law within the British Virgin Islands. Being comprised of industry practitioners, CLRAC also provides a platform through which industry representations concerning company law can be made and reviewed.

Inter-governmental Committee on AML/CFT Matters (IGC)

The IGC promotes cooperation between the Territory's law enforcement and regulatory authorities in the fight against ML/TF. 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 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 (JALTFAC)

JALTFAC is an advisory body tasked with ensuring the stability of the jurisdiction's financial sector and comprises both public and private sector members. JALTFAC meets on a quarterly basis and is often consulted on matters concerning the Territory's AML/CFT regime. The Division is responsible for coordinating the activities of the Committee.

Council of Competent Authorities (CCA)

CAC is a body of the domestic authorities comprising the FSC, AGC, FIA, ITA and Governor's Office. CAC is responsible for coordinating and promoting compliance with domestic and international cooperation matters, including compliance with established standards. The body meets on a regular basis. The Division is responsible for coordinating the activities of the Council.

Other Liaison Groups

The Division also sits on, and provides necessary guidance to, the Securities and Investment Business Advisory Committee (SIBAC), the Captive Insurance Advisory Committee (CIAC) and the Intellectual Property Advisory Group (IPAG) respectively coordinated by the Investment Business Division, the Insurance Division and the Trade Marks Unit of the Registry of Corporate Affairs.

Collection of Statistical Data

The Division is responsible for the collection and collation of statistical data from regulatory Divisions/Units of the Commission, as well as the Registry of Corporate Affairs. This data is collated and utilised to produce the Commission's quarterly Statistical Bulletin. The statistics 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 IGC is another important facet of the Division's statistical responsibilities. These statistics are maintained to ensure compliance with the FATF's 40 Recommendations on Anti-money Laundering and Terrorist Financing.

Miscellaneous Activities

Questionnaires and Surveys

The Division during the year responded to a number of questionnaires and surveys relating to the jurisdiction's financial services sector. Such surveys included the GIFCS Summary Statement Survey, World Bank Entrepreneurial Surveys and CARTAC Surveys relating to regulated sectors. Surveys are usually completed in consultation with relevant Divisions/Units and/or Registry of Corporate Affairs.

Fiduciary Services Prudential Returns

During the year, the Division collated and analysed data received with respect to Prudential Returns for the semi-annual period ended December 2016; the results of which were detailed in a report. The Division also took

steps to revamp the current Fiduciary Services Prudential Returns, to be implemented in 2018.

Working Groups

The Division's staff during the year, also participated in various Commission-wide established working groups and teams.

During the year 2017, the Division created and filled the position of Principal Policy Research and Statistics Officer to fulfil some of the responsibilities of the Deputy Director, who departed the Commission in 2016 on a secondment with the Government of the Virgin Islands.

Following the passage of Hurricane Irma, one of the Division's temporary Administrative Cadets departed the jurisdiction and a Senior Policy Research and Statistics Officer temporarily relocated. Although there was a reduction in resources during this period, the Division re-appropriated its assignments in order to address priority matters as a matter of urgency. In addition, at the end of the year, the Division's other temporary Administrative Cadet also departed the Commission.

With the said changes, the staff complement at the end of 2017 comprised the following:

- (1) Director, Policy Research and Statistics;
- (1) Principal Policy Research and Statistics Officer
- (3) Senior Policy Research and Statistics Officers;
- (2) Assistant Policy Research and Statistics Officers; and
- (1) Executive Assistant.



46
Professional
Workers



158
legal advice
handled in
2017

Finance

The Finance Department assists the Commission to achieve its objects in a wide range of areas. Its role is to help the Commission shape and deliver its regulatory remit by providing high-quality advice and services, particularly in the realm of fiscal and economic matters.

The Finance Department issues monthly reports to management and the Board of Commissioners on the Commission's financial status and activities. They include reports on revenue, expenditure, cash flow, the performance of investment products and the overall financial position at a given point in time.

The Finance Department is also charged with proposing and enforcing policies and procedures to encourage compliance with accounting standards and best business practices, and to achieve financial success. Our People – The key to the Finance Department carrying out its remit is its people. The Director, Finance oversees four team members; an Accounts Payable Manager, Staff Accountant, Accounts Officer and a new addition to the team in May 2017, an Accounts Assistant/Cadet. Initiatives were made during the year to increase the flexible capacity of the team which involved working on subject matters within Finance that was not under their direct remit. This initiative helped to foster some resilience in our service offering during periods when there was not a full compliment. This initiative will continue to build the team's skills and experiences.

Budget and financial management services and advice

The Finance Department is responsible for delivering and managing the annual budget. During the year the Finance Department oversaw a \$25.9MM (2016: \$29.3MM) expenditure budget comprised of \$24.1MM (2016: \$26.5MM) for operating expenditures and \$1.8MM (2016: \$2.7MM) for capital expenditures. In 2017 the Commission realised expenditures of \$23.9MM. That was \$2MM or 8% below budget estimates. In 2017 \$22.6MM was realised in operating expenditures which was \$1.5MM or 6% within budget estimates. Capital expenditures of \$1.3MM were \$500k or 28% below budget estimates.

The Finance Department is also responsible for collecting fees on behalf of Government. The 2017 budget projections for those fees were \$187.9MM (2016: \$209.5MM). Actual receipts (excluding those to the sole credit of the Commission) amounted to \$197.8MM (2016: \$192MM) which was \$9.9MM or 5% above budget projections. Out of those fees the Finance Department transferred \$175.4MM (2016: \$169.8MM) to Government pursuant to the retention agreement between the Commission and the Government for 2017.

From its retention of fees collected on behalf of the Government (2017: 11.5%, 2016: 11.5 %) and other collections, the Commission had available \$25.1MM (2016: \$24.4MM) in direct revenue to fund the Commission's operations. After operating expenditures the Commission generated an operating surplus of \$1.03MM (2016: \$177K).

During the year the Finance Department also prepared the 2018 budget that was subsequently approved by the Board and Government.

Management and Accountability

The Department's operations are subject to analysis from external bodies. In 2017 the Commission engaged an external auditor to assess the financial statements of the Commission for the year ended December 31, 2016. The external audit includes considering internal controls, evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made. The external auditor issued an unqualified report on those statements on December 18, 2017.

Investment Funds Administration

The Finance Department also administers the Commission's brokerage accounts. In 2017 the Commission established a local brokerage account which at the end of 2017 had a market value of \$8MM. Those funds were namely comprised of regulatory deposits held on behalf of licensees. The investments were held in US Treasury bills.

Financial support and technical assistance to Government

The Commission is tasked with providing financial support for several Government initiatives and bodies and the department is charged with overseeing those appropriations. The Commission made financial contributions to the 2017 operations of the Financial Investigation Agency, BVI International Arbitration Centre and Financial Services Institute at H. L. Stoutt Community College amounting to approximately \$2.7MM.

Impact of 2017 Hurricanes

The mode of operations for the Department immediately after the storm was not severely impacted. Our offices were still intact with minimal damage. Our financial systems were up and running in a few days. Procedures were put into action to facilitate the inner workings of the Commission and to accommodate the Industry.

Information Technology

As in previous years, the FSC continues its relentless approach to remain at the cutting edge of technology to boost business efficiency. The challenges related to cyber security are a harsh reality that we face daily. In many instances we have refocused our efforts on customer service and achieving complete redundancy of all critical services to improve response times to clients. All aspects of our operations were taken into consideration and priorities set as we moved to strengthen our infrastructure and availability of service. A priority during the year was to reassess high probability, high potential risks to our environment. This included assessing potential disruptions from internal triggers and designing preventative measures to curtail possible damage.

The IT Unit accomplished a major milestone with the successful deployment of a new Helpdesk ticketing system. The system allows us to track VIRRGIN reported issues from beginning to resolution and provides for tracking SLA's to improve accountability. This tool enabled us to quantify volumes, types, frequencies and most importantly for management it created immediate performance metrics for staff supporting our flagship application. Ultimately, the tool shows gaps and presents opportunities for improving our overall customer service. Due to the almost instant success of the tool we also redirected most of the external communications through the tool, streamlining our responses directly to external clients and improving response times. This then allowed management to focus efforts on areas where clear gaps were identified and to assign resources where needed.

The team proudly deployed an online annual returns application eliminating the need for users to fill out a spreadsheet and email their submission to the Commission. This process for BVI mutual funds previously required members of staff to do data entry of all returns and clearly was not an efficient way of capturing the data. Now the data entry is being done once by the licensee and the data is available immediately after submission to do reporting and analysis as needed. We have eliminated a layer of effort that introduced errors and have now reduced the time and effort for resources in house to accomplish this data gathering exercise.

One significant new product development during the year was Micro Business Companies (MBC) Act which required the design of a new system. This new application (and new product) required the full product development life cycle. Through not as complex as our VIRRGIN application, the project was challenging and exciting as we explored new technological avenues. The MBC product and system is the Commission's debut of offering Application Programming Interface (APIs) to external clients and qualified third party vendors. The provision of APIs provide external clients the ability to develop mobile applications that ingrate with Commission applications to make accessibility to BVI corporate structures more efficient. With a very aggressive time line our IT team successfully brought to life a UAT and Production environment based on the specifications provided by the developers. Phase One of the application was demoed and introduced to the industry in Mid-2017 and the foundation for our next and newest corporate structure was laid.

No one can talk about 2017 without mentioning the ordeal that we went through on September 6th. The IT Team was certain that we would have to activate our full Disaster Recovery Plan as the entire territory grappled with the reality of devastation beyond our wildest imaginations. Despite the largest and strongest Cat 5 hurricane the team had the Commission up and functional within 2 business days while most of the territory struggled to find personal shelter and for many a space to conduct business. Our underground fibre optic connectivity remained active whilst everything above ground seemed lost and unrepairable. Our core systems and power backups allowed us to be ready to accept transactions and process them. Prior to the storm, the decision was made to remove geographic restrictions

for VIRRGIN I anticipation of communication disruption locally. Financial Services Practitioners that had left the territory took immediate advantage of our business continuity to open up VIRRGIN and filed transactions remotely.

Even if being prepared for a disaster was never a thought, more than ever it will forever be at the forefront of our minds now. After the storms had passed we spent the rest of the year revisiting every aspect of our infrastructure and fast tracked an upgrade that was in progress. This was to ensure that we have the very best resources available to us for 2018 and beyond. It also allowed us to repair any casualties of the storms and to initiate the procurement of better resources i.e. better satellite phones for communication when all telecommunication is lost.

Finally, with the loss of the Government's Central Administration Complex we have become their resource for meetings; some requiring video conferencing, presentation and audio resources.

As our journey to full recovery continues we remain vigilant in our quest to remain technologically sound. Our technology which was once defined by legislations and has now taken a more proactive approach and is driving our businesses or Incorporation and Regulation

Facilities

The Facilities unit undertook a number of improvement measures in 2017 to help boost the efficient operating capacity of the Commission. Facilities in particular played a critical role in resuming and maintaining operations after the significant business interruption events of September.

Early in the year, the staff complement of the unit was increased by one for a dedicated three person team. With an additional persons assigned, the team is able to respond directly to more maintenance and troubleshooting requests. This is critical to maintaining daily operations as the Commission's premises now stretch across four active buildings. The fourth building which will house the conference and training centre was

delayed as a result of the business interruptions and is expected to come online next year.

The Unit continued formal and informal training during the year including the advancement of full OSHA safety training for the employees. Particular attention to OSHA compliant practices has further reduced incidents of employees being injured on the job to negligible levels with no incidents recorded in 2017. This was particularly welcomed given the conditions on premises and in the immediate vicinity immediately after the storms.

Business disruptions after the passage of the hurricanes in September were drastically minimized due to the fervent preparations by the Facilities and other Operations Units. Our contingency plans were successfully executed and allowed the Commission to resume service with reduced hours on Monday xx September. The significant challenges related to physical and communications infrastructure in the Territory challenged our robust business continuity plans. While the Commission did not experience significant damage, having had the opportunity to review our plans and actions we have recorded many lessons and have started to make changes to our business continuity plans to strengthen them further.

Physical building security, additional redundancy for power systems, cooling capacity and accessibility and availability of key employees are areas where we continue to review and revise our planning and capacity to strengthen the Commission's ability to respond to a catastrophic business interruption.

Operations

The Operations unit of the Commission provides traditional back office services to support the full functioning of the Commission to achieve its statutory obligations. Like all other Commission divisions and the Territory at large, the unit experienced a year that fully tested its resolve and resiliency. The Operations unit is continuously tested by the Commission's rapid expansion of functions and services designed to better meet serve the needs of the financial services industry.

Process reengineering and procedures documentation particularly in relation to imaging and records management were undertaken early in the year. As a result of the reengineering efforts employed in relation to imaging traditional paper files for BVI business companies, the team was able to upload transactions forty per cent fast and reduce the error rate by twenty-five percent. The imaging project remains a critical part of the Commission's business continuity strategy. New equipment purchases to better manage the preparation of legacy files for digitization were also part of a successful strategy to improve the imaging output.

A division wide effort to developing revised standard operating procedures was partially interrupted by the momentum lost after the impact of the hurricanes in September 2017. The process continues in 2018.

HUMAN RESOURCES



The goal of the Human Resources Division (“HR”) is to help the Commission achieve its strategic mission, while ensuring that employees are engaged and motivated to help the Commission succeed. HR supports and upholds Commission’s goals by doing its utmost to foster a positive and engaging work environment while identifying and responding to the changing needs of the Commission. To ensure HR’s efforts are successful it seeks to identify issues and execute corrective measures as effectively as possible.

Employment

Staffing

The Commission’s staff population at the end of 2017 was 158; 154 regular full-time employees, three contract employees and one temporary employee. The below statistics show the actual number of employees in regulatory and non regulatory roles at 31 December 2017:

2017 Total Number of Employees by Category

Regulatory	38
Non Regulatory	120
TOTAL	158

In 2017, the Commission staff was reduced by 12 which included the departure of two very senior employees. One contract employee’s engagement with the Commission ended and the other senior employee sought employment within the local financial services sector.

Three employees were seconded during the course of the year. One employee was seconded to a statutory agency, one to BVI Financial Services Commission (HK) Limited and the other was seconded to central government.

Following the historic weather events which occurred in September 2017, the Commission responded to employees’ need for time away from work to allow them to address their individual situations. The Commission provided option for persons, who desired, to take a short-term leave of absence. A small number of employees – four in total – took advantage of this flexible employment arrangement. Prior to that, one employee had commenced leave of absence in August for professional development purposes.

Recruitment

- Human Resources received and processed 185 applications/ inquiries for long-term Employment.
- Seven (7) positions were posted in 2017. Four positions were filled, one by internal promotion. Three positions remained open at the end of the year.

- Forty-Three (43) applications for temporary/ summer employment were received; 18 summer interns were accommodated.
- There were 13 new hires, a negligible decrease from 2016.

The Professional Cadet Programme, which is part of the Managing Director’s Office portfolio, was revived in 2017. Following a series of interviews, offers were extended to seven persons to join the Commission as part of the programme. Five persons commenced employment in October 2017; their start dates were delayed due to business interruption following the hurricanes. Given that the Commission’s premises were not impacted and business was not directly/immediately affected, the Commission honoured its commitment to the candidates. The other two candidates relocated following the hurricanes, one temporarily but who is likely to take up employment at the Commission at a future date, and the other on a more permanent basis.

Compensation Administration

Except in cases of promotion, there were no salary adjustments in 2017. Across the Commission, 24 employees were promoted, one of which was a promotion on transfer.

Benefits Administration

The Human Resources Division continued to render assistance to staff by processing employee loans, medical claims, and pension payments. In 2017 a total of eight employee loans were approved and processed, approximately 21 insurance claims were submitted on employees’ behalf to the Commission’s group medical insurance (private) provider and nine pension refund/payout were made to employees who separated from the Commission.

With the consent and approval of the Pension Plan’s Board of Trustees, the Commission offered Pension Plan Participants the option to withdraw funds from their individual pension accounts post Hurricanes Irma and Maria. This special one-time offer was extended to assist persons with critical financial needs having suffered personal losses due to the impact of the Hurricanes on the Territory. Transactions were processed for 68 Plan Participants.

The chart below shows the distribution of the funds that was withdrawn by Plan Participants from their individual pension accounts:

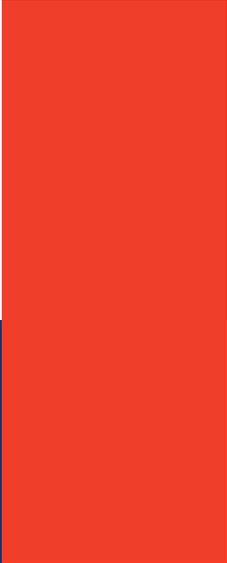
Training and Development

During the course of 2017, training opportunities extended to employees included the following:

2017 Training	
Seminar/Workshop	# of Employees
FATF Plenary/RTMG Project Team	1
(CRF) Registers Forum	1
Captive Insurance Companies Association (CICA)	1
Ragan Speechwriters Conference	2
Offshore Alert	7
FATF Standards Training	1
FATF FINTECH and REGTECH Forum	1
Bank Resolution Workshop and Simulation Exercise	2
Compliance Aid & AMLFC Conference	3

Employee Relations

Through the Employee Assistance Programme (“the EAP”), Commission employees received counseling following the unfortunate demise of a senior employee during the third quarter of 2017. Six employees also embraced the opportunity to utilise the services provided via the EAP to seek professional counseling sessions between mid-September and November in an effort to better cope with the trauma which they experienced in the aftermath of the 2017 hurricanes.



FINANCIAL

STATEMENTS





**BRITISH VIRGIN ISLANDS
FINANCIAL SERVICES COMMISSION**
Audited Consolidated Financial Statements
For the Year Ended December 31, 2017



BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Table of Contents For the Year Ended December 31, 2017

	<u>Pages</u>
Directory	2
Consolidated Financial Statements	
Independent Auditor's Report	3
Consolidated Statement of Financial Position	4
Consolidated Statement of Comprehensive Income	5
Consolidated Statement of Changes in Equity	6
Consolidated Statement of Cash Flows	7
Notes to the Consolidated Financial Statements	8 - 24

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Directory For the Year Ended December 31, 2017

BOARD OF COMMISSIONERS

Mr. Robin Gaul	Chairman
Mr. Jonathan Fiechter	Deputy Chairman
Ms. Denise Reovan	Commissioner
Mr. Ian Smith	Commissioner
Ms. Carlene Romney	Commissioner
Mr. Andrew Bickerton	Commissioner
Mr. Carl Hiralal	Commissioner
Mr. Robert Mathavious	Managing Director/CEO, 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
www.bdo.vg

PO Box 34
Sea Meadow House
Tobacco Wharf
Road Town
Tortola VG1110
British Virgin Islands

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of the British Virgin Islands Financial Services Commission and its subsidiaries (the "Group"), which comprise of the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of comprehensive income, changes in reserves and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Tortola, British Virgin Islands
October 23, 2018

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

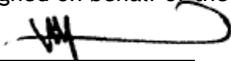
Consolidated Statement of Financial Position

As at December 31, 2017

Expressed in United States Dollars

	Notes	2017 \$	2016 \$
ASSETS			
Non-current assets			
Property and equipment	4	6,155,035	7,099,880
Projects under development	5	1,197,901	386,401
Total non-current assets		7,352,936	7,486,281
Current assets			
Regulatory deposits	7	9,407,031	8,735,634
Cash and cash equivalents	8,19	18,775,173	16,211,294
Time deposits	9	5,181,817	5,120,734
Other receivables and deposits	11	565,466	1,347,290
Total current assets		33,929,487	31,414,952
TOTAL ASSETS		41,282,423	38,901,233
RESERVES AND LIABILITIES			
Capital reserves			
Contributed capital	12	3,993,900	3,993,900
Property and equipment reserve	12	7,352,936	7,486,281
Total capital reserves		11,346,836	11,480,181
Revenue reserves			
Training reserve	12	400,000	400,000
Loan revolving reserve	12	165,000	165,000
Future capital expansion reserve	12	7,500,000	7,500,000
Refunds reserve	12	50,000	50,000
Enforcement reserve	12	2,000,000	2,000,000
Contingency reserve	12	1,671,604	1,512,594
Administrative penalties fund reserve	12	2,092,906	1,636,166
Total revenue reserves		13,879,510	13,263,760
Total reserves		25,226,346	24,743,941
Current liabilities			
Trade and other payables	13	2,267,627	2,124,643
Deposits on account	14	3,381,419	3,297,015
Distribution payable to Government	15	1,000,000	-
Regulatory deposits from licensed entities	7	9,407,031	8,735,634
Total liabilities		16,056,077	14,157,292
TOTAL RESERVES AND LIABILITIES		41,282,423	38,901,233

Signed on behalf of the Commission on October 23, 2018


Chairman


Managing Director

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

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Consolidated Statement of Comprehensive Income For the Year Ended December 31, 2017 Expressed in United States Dollars

	Notes	2017 \$	2016 \$
INCOME			
Fees collected on behalf of the Government	8	200,090,702	193,756,051
Less: Fees due to the Government	8	(175,395,655)	(169,851,534)
Fees retained by the Commission		24,695,047	23,904,517
Other income	16	164,901	171,663
Interest income		118,906	132,486
Net changes in fair value on financial assets at fair value through profit or loss	10	-	(1,903)
TOTAL INCOME		24,978,854	24,206,763
EXPENSES			
Advertising		-	21,869
BVI House Asia funding		233,523	236,389
Conferences and seminars		37,059	150,917
Contributions		1,075	3,871
Depreciation	4	1,440,952	1,403,809
Financial Investigations Agency funding		500,000	500,000
Financial Services Institute funding		300,000	221,336
Insurance		78,547	152,476
International Arbitration Centre funding		1,833,837	1,094,724
Licenses and fees		87,701	68,059
Literature and reference		95,509	100,563
Maintenance and hire		736,315	714,644
Memberships and subscriptions		97,458	98,834
Miscellaneous		22,144	9,316
Office expenses		186,858	191,513
Professional services		1,574,232	1,239,354
Public relations		68,686	78,018
Rent and lease	20	1,312,828	1,172,167
Staff costs	18	13,928,851	15,027,229
Travel and subsistence		417,829	736,951
Telephone and communications		722,061	591,060
Utilities		277,724	216,725
TOTAL EXPENSES		23,953,189	24,029,824
SURPLUS BEFORE GOVERNMENT DISTRIBUTION AND ENFORCEMENT PROCEEDS		1,025,665	176,939
Distribution to Government	15	(1,000,000)	-
SURPLUS BEFORE ENFORCEMENT PROCEEDS		25,665	176,939
Enforcement proceeds	17	456,740	1,062,436
SURPLUS FOR THE YEAR		482,405	1,239,375

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

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Consolidated Statement of Changes in Reserves
For the Year Ended December 31, 2017
Expressed in United States Dollars

	Opening balance \$	Surplus for the year \$	Transfers \$	Closing balance \$
2017:				
Surplus	-	482,405	(482,405)	-
Contributed capital	3,993,900	-	-	3,993,900
Property & equipment reserve	7,486,281	-	(133,345)	7,352,936
Training reserve	400,000	-	-	400,000
Loan revolving reserve	165,000	-	-	165,000
Future capital expansion reserve	7,500,000	-	-	7,500,000
Refunds & drawbacks reserve	50,000	-	-	50,000
Enforcement reserve	2,000,000	-	-	2,000,000
Contingency reserve	1,512,594	-	159,010	1,671,604
Administrative penalties fund reserve	1,636,166	-	456,740	2,092,906
	24,743,941	482,405	-	25,226,346
2016:				
Surplus	-	1,239,375	(1,239,375)	-
Contributed capital	3,993,900	-	-	3,993,900
Property & equipment reserve	7,407,284	-	78,997	7,486,281
Training reserve	400,000	-	-	400,000
Loan revolving reserve	165,000	-	-	165,000
Future capital expansion reserve	7,500,000	-	-	7,500,000
Refunds & drawbacks reserve	50,000	-	-	50,000
Enforcement reserve	2,000,000	-	-	2,000,000
Contingency reserve	1,988,382	-	(475,788)	1,512,594
Administrative penalties fund reserve	-	-	1,636,166	1,636,166
	23,504,566	1,239,375	-	24,743,941

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

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Consolidated Statement of Cash Flows For the Year Ended December 31, 2017 Expressed in United States Dollars

	2017 \$	2016 \$
CASH FLOW FROM OPERATING ACTIVITIES		
Surplus for the year	482,405	1,239,375
Adjustment to reconcile net surplus to net cash from operating activities before working capital changes:		
Depreciation	1,440,952	1,403,809
Interest income	(118,906)	(132,486)
Gain or loss on disposal of property and equipment	-	(20,000)
Net changes in fair value on financial assets at fair value through profit or loss	-	1,903
Operating surplus before working capital changes	1,804,451	2,492,601
Decrease (increase) in other receivables and deposits	781,824	(814,927)
Increase (decrease) in trade and other payables	142,984	(106,870)
Increase in deposits on account	84,404	827,972
Increase (decrease) in distribution payable to Government	1,000,000	(4,000,000)
Net cash flows from (used in) operating activities	3,813,663	(1,601,224)
CASH FLOW FROM INVESTING ACTIVITIES		
Increase in time deposits - net	(61,083)	(40,738)
Proceeds from sale (purchase of) financial assets at fair value through profit and loss	-	3,037,683
Acquisition of property and equipment	(496,107)	(1,482,806)
Costs for projects under development	(811,500)	-
Proceeds from sale of property and equipment	-	20,000
Interest received	118,906	132,486
Net cash (used in) from investing activities	(1,249,784)	1,666,625
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,563,879	65,401
CASH AND CASH EQUIVALENTS		
At beginning of year	16,211,294	16,145,893
At end of year	18,775,173	16,211,294

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

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2017

Expressed in United States Dollars

1. ORGANISATION AND OBJECTIVES

The British Virgin Islands Financial Services Commission (the “Commission” or the “Parent”) was established under the Financial Services Commission Act, 2001 (the “Act”) on December 31, 2001. The Act established the Commission including its subsidiaries (collectively referred to as the “Group”) 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. SIGNIFICANT ACCOUNTING POLICIES

2.1 Presentation of financial statements

(i) International Financial Reporting Standards (IFRS)

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (IASB).

(ii) Accounting convention

The consolidated financial statements are prepared under the historical cost convention.

(iii) Presentation and functional currency

The financial statements are presented in United States Dollars, which is the Group's functional and presentation currency.

(iv) Significant accounting estimates and judgement

The preparation of the consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. Management is also required to exercise its judgement in the process of applying Group's accounting policies. Estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Significant judgments, estimates and assumptions made by management in the preparation of these consolidated financial statements are disclosed in Note 3.

2.2 IFRS compliance and adoption

(i) Standards, amendments and interpretations to existing standards effective and relevant to the Group

- **Amendment to IAS 7 Statement of Cash Flows: Disclosure Initiative.** The amendments require entities to provide disclosure that enables users of financial statements to evaluate changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). The amendments are applied prospectively. Entities are not required to present comparative information for earlier periods when they first apply the amendments.

The application of these amendments has had no impact on the Group's consolidated financial statements.

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Consolidated Financial Statements For the Year Ended December 31, 2017 *Expressed in United States Dollars*

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 IFRS compliance and adoption (Continued)

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

- **IFRS 9, Financial Instruments (as revised in 2014).** In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The new standard introduces new requirements for the classification and measurement of financial assets and financial liabilities, impairment methodology and general hedge accounting. IFRS 9 introduces a logical approach for classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. The revised financial liability provisions maintain the existing amortised cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss - in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income (OCI) rather than within profit or loss.

The new model also results in a single impairment model being applied to all financial instruments. The impairment model under IFRS 9 reflects expected credit losses, as opposed to incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model aligns the accounting treatment with risk management activities. Greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of nonfinancial items that are eligible for hedge accounting (effective for annual periods beginning on or after January 1, 2018).

The new standard is to be applied retrospectively for annual periods beginning on or after January 1, 2018. The Group plans to adopt the new standard on the required effective date and will not restate comparative information.

The Group does not anticipate that the application of the IFRS 9 will have significant impact on the financial position and/or financial performance of the Group.

- **IFRS 15, Revenue from Contracts with Customers.** IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 18 *Transfer of Assets from Customers* and SIC-31 *Revenue - Barter Transactions Involving Advertising Services*. IFRS 15 specifies how and when an entity will recognise revenue as well as requiring such entities to provide users of financial statements with informative and relevant disclosures. The standard provides a single principle based five step model to be applied to all contracts with customers. Its core principle is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted.

The Group will continue to assess the potential effect of IFRS15 on its consolidated financial statements.

- **IFRS 16 Leases.** IFRS 16 was issued in January 2016 and it replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 *Leases* and the related interpretations when it becomes effective.

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Consolidated Financial Statements For the Year Ended December 31, 2017 *Expressed in United States Dollars*

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 IFRS compliance and adoption (Continued)

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

IFRS 16 distinguishes leases and services contracts on the basis of whether and identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and no interest portion which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or financing lease.

Furthermore, extensive disclosures are required by IFRS 16.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or modified retrospective approach. The standard's transition provisions permit certain reliefs.

The Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements.

The amendments are effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. An entity may apply the amendments to transfers that occur after the date of initial application and reassess the classification of property assets held at that date or apply the amendments retrospectively, but only if it does not involve the use of hindsight.

- **IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration.** The Interpretation clarifies that the transaction date to be used for translation for foreign currency transactions involving an advance payment or receipt is the date on which the entity initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation applies when an entity pays or receives consideration in a foreign currency and recognises a non-monetary asset or liability before recognising the related item.

The interpretation which is effective for periods beginning after January 1, 2018 and has not been adopted early by the Group, is not expected to have material effect on the Group's consolidated financial statements.

2.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Commission and its subsidiaries. Control is achieved when the Commission:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Commission reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Consolidated Financial Statements For the Year Ended December 31, 2017 Expressed in United States Dollars

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of consolidation (Continued)

When the Commission has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give the practical ability to direct the relevant activities of the investee unilaterally. The Commission considers all relevant facts and circumstances in assessing whether or not the Commission's voting rights in an investee are sufficient to give it power, including:

- the size of the Commission's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Commission, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Commission has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Commission obtains control over the subsidiary and ceases when the Commission loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Commission gains control until the date when the Commission ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are set aside under the reserves accounts. Total comprehensive income of subsidiaries is also closed to the reserves accounts.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

2.4 Property and equipment

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

Leasehold land	63 years
Motor vehicle	5 years
Furniture and equipment	3 years
Computer and software	3 years
Leasehold improvements	5 years

At the end of each reporting period, the Group is required to assess whether there is any indication that an asset may be impaired. If there is an indication that an asset may be impaired, then the asset's recoverable amount must be calculated. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gain and losses on disposals are determined by comparing the proceeds with the carrying amounts of the assets and are recorded in the statement of comprehensive income.

2.5 Projects under development

Costs incurred on the Virtual Integrated Registry and Regulatory General Information Network ("VIRRGIN") and Micro Business Companies ("MBC") projects 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 and MBC projects are expensed in the period to which they relate.

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Consolidated Financial Statements For the Year Ended December 31, 2017 *Expressed in United States Dollars*

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Financial assets

The Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. The Group has not classified any of its financial assets as available-for-sale.

(i) *Fair value through profit or loss*

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

(ii) *Loans and receivables (continued)*

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortized cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable.

The Group's loans and receivables comprise regulatory deposits, cash and cash equivalents and other receivables.

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three month or less .

Regulatory deposits are carried at costs and consist of current deposits held at commercial banks and US Treasury Bills with maturity dates of one year or less.

(iii) *Held to maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity where the Group has the intention and the ability to hold in the long-term or until maturity. After initial measurement, held-to-maturity investments are measured at amortised cost using the effective interest method.

Time deposits and treasury bills with maturities of greater than three months from the acquisition date have been classified as held-to-maturity investments.

2.7 Financial liabilities

Financial liabilities include trade and other payables, deposits on account, distribution payable to Government, due to Government and regulatory deposits from licensed entities.

Financial liabilities are recognised when the Group becomes a party to the contractual terms of the instrument. All interest-related charges are recognised as an expense in the statements of comprehensive income.

Accounts payable and accruals and other short-term monetary liabilities are recognised initially at their fair values and subsequently measured at amortized cost less settlement payments.

Financial liabilities are derecognised from the statements of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

2.8 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Consolidated Financial Statements For the Year Ended December 31, 2017 *Expressed in United States Dollars*

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Fair value measurement (Continued)

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The Group measures instruments quoted in an active market at a mid price.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

2.9 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:

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

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

2.10 Revenue recognition

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

The Group records investment transactions based on settlement date. Realised gain or loss on financial assets and financial liabilities at fair value through profit or loss is determined on the average cost basis.

2.11 Expense recognition

All expenses are recognised in the consolidated statement of comprehensive income on the accrual basis.

2.12 Taxation

In accordance with Section 28 of the Act, the Commission is exempt from the payment of all taxes, levies and license fees on its income and operations and from the payment of all taxes, duties and rates on its property and documents. Taxes payable by the Commission pertain to payroll taxes. Certain investment income may be subject to withholding taxes at its source from the country of origin.

2.13 Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Consolidated Financial Statements For the Year Ended December 31, 2017 *Expressed in United States Dollars*

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Foreign currencies (Continued)

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs in those foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into US Dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in the other comprehensive income and accumulated in equity.

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

Payments to defined contribution plans are recognised as an expense when employees have rendered service entitling them to the contributions.

A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATE UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2, the Commissioners of the Group are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(a) Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimates, that the Commissioners have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2017

Expressed in United States Dollars

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATE UNCERTAINTY (Continued)

(a) Critical judgements in applying accounting policies (Continued)

Going concern

A key assumption in the preparation of consolidated financial statements is that the entity will continue as a going concern. The going concern assumption assumes that the Group will continue in operation for the foreseeable future and will be able to realise its assets and discharge its liabilities in the normal course of operations.

Operating and finance leases

The Group has entered into various lease agreements. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

(b) Key sources of estimate uncertainty

The following are the key assumptions concerning the future, and other key sources of estimate uncertainty at the end of the reporting period, that may have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives of property and equipment

The Group estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of property, plant and equipment are analysed in Note 4. Based on management's assessment as at December 31, 2017, there is no change in estimated useful lives of property and equipment during the year. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Consolidated Financial Statements
For the Year Ended December 31, 2017
Expressed in United States Dollars

4. PROPERTY AND EQUIPMENT

The movements of the carrying amounts of the Group's property and equipment are as follows:

	Freehold land \$	Leasehold land \$	Motor vehicles \$	Furniture and equipment \$	Computer and software \$	Leasehold improvements \$	Total \$
Cost							
Balance at December 31, 2016	4,500,000	130,000	264,797	2,804,612	14,238,234	2,421,203	24,358,846
Additions	-	-	-	135,835	360,272	-	496,107
Balance at December 31, 2017	4,500,000	130,000	264,797	2,940,447	14,598,506	2,421,203	24,854,953
Accumulated depreciation							
Balance at December 31, 2016	-	24,764	135,541	2,518,181	12,259,659	2,320,821	17,258,966
Depreciation	-	2,063	46,319	129,678	1,222,852	40,040	1,440,952
Balance at December 31, 2017	-	26,827	181,860	2,647,859	13,482,511	2,360,861	18,699,918
Carrying amount							
At December 31, 2017	4,500,000	103,173	82,937	292,588	1,115,995	60,342	6,155,035
Cost							
Balance at December 31, 2015	4,500,000	130,000	339,597	2,633,052	11,610,799	2,364,849	21,578,297
Additions	-	-	-	171,560	1,254,892	56,354	1,482,806
Transfers from capital work-in-progress	-	-	-	-	1,372,543	-	1,372,543
Disposals	-	-	(74,800)	-	-	-	(74,800)
Balance at December 31, 2016	4,500,000	130,000	264,797	2,804,612	14,238,234	2,421,203	24,358,846
Accumulated depreciation							
December 31, 2015	-	22,701	164,022	2,398,413	11,079,052	2,265,769	15,929,957
Depreciation	-	2,063	46,319	119,768	1,180,607	55,052	1,403,809
Disposals	-	-	(74,800)	-	-	-	(74,800)
Balance at December 31, 2016	-	24,764	135,541	2,518,181	12,259,659	2,320,821	17,258,966
Carrying amount							
At December 31, 2016	4,500,000	105,236	129,256	286,431	1,978,575	100,382	7,099,880

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Consolidated Financial Statements For the Year Ended December 31, 2017 Expressed in United States Dollars

5. PROJECTS UNDER DEVELOPMENT

The movements of the cost of the Group's projects under development are as follows:

	VIRRGIN	MBC	Total
	\$	\$	\$
Balance at December 31, 2015	1,758,944	-	1,758,944
Transferred to property and equipment	(1,372,543)	-	(1,372,543)
Balance at December 31, 2016	386,401	-	386,401
Additions	-	811,500	811,500
Balance at December 31, 2017	386,401	811,500	1,197,901

(i) Virtual Integrated Registry and Regulatory General Information Network ("VIRRGIN")

As of December 31, 2017, 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 capitalized will include (a) registry engine license; (b) implementation and development costs for Phases I, II and III; other additional consultancy and software implementation charges; and airfares, accommodation and other travel expenses incurred relating to the implementation of the project. Cost relating to Phase I and II of VIRRGIN have been capitalized as Computer and Software as part of Property and Equipment (see Note 4). The cost of \$386,401 (2016: \$386,401) relates to the uncompleted Phase III. During the year ended December 31, 2017, the Commission transferred assets totaling to \$Nil (2016: \$1,372,543) from the uncompleted Phase III portion of the project to Computer and Software (see Note 4) as they were deemed ready for use. The estimated costs to completion of the project, excluding any additional costs, is SGD102,278 equivalent to \$76,505 (2016: SGD102,278; \$70,664).

(ii) Micro Business Companies ("MBC")

In March 2017, the Commission engaged Peridot Solutions, LLC to develop an application system to administer and manage Micro Business Companies. During the year ended December 31, 2017, the Commission incurred development costs totaling \$811,500. The estimated cost to completion of the project is \$400,000.

6. SUBSIDIARIES

Composition

The Parent has three wholly-owned subsidiaries as at December 31, 2017, two of which are domiciled in the British Virgin Islands and one in Hong Kong. These subsidiaries provide disaster recovery and Hong Kong liaison services to the Parent. Two of the subsidiaries commenced operations in 2014.

Financial support

The Parent is providing financial support to all three subsidiaries which currently do not derive revenue on their own therefore are dependent on the Parent for their operating financial requirements.

7. REGULATORY DEPOSITS

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 Group. The Group has undertaken to hold these amounts in a designated interest-bearing account of \$1,412,500 (2016: \$8,735,634) and held-to-maturities investments of \$7,994,531 (2016: \$ Nil) and distributes interest thereon to the licensees on a semi-annual basis.

The held-to-maturity investments consist of treasury bills with maturities of twelve months from the acquisition date.

The deposits are refundable upon surrender of the licence. For the year ended December 31, 2017, the deposits earned an average rate of interest of 0.06% (2016: 0.20%). Total interest income earned for these deposits amounted to \$5,355 (2016: \$17,601).

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Consolidated Financial Statements For the Year Ended December 31, 2017 Expressed in United States Dollars

8. CASH AND CASH EQUIVALENTS

	2017 \$	2016 \$
Cash held in Government Trust Account	7,657,943	8,108,383
Payable to Government	(5,523,223)	(4,591,164)
Net cash held in Government Trust Account	2,134,720	3,517,219
Cash in operating accounts	16,278,415	12,333,302
Cash in insolvency account	362,038	360,773
Total cash and cash equivalents	18,775,173	16,211,294

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 Group'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, 2017, the Commission retained 11.5% (2016: 11.5%) of revenue up to the projected revenue stream and thereafter, the Commission retained 7.5% (2016: 7.5%) of any revenue in excess of the projected revenue stream. This resulted in cash of \$5,523,223 (2016: \$4,591,164) being held on behalf of the Government as at December 31, 2017.

The cash and cash equivalents disclosed above and in the statement of cash flows include \$2,085,778 (2016: \$1,294,615) which are held in a separate bank account. These deposits relate to funds received for enforcement penalties and not available for general use by the Commission (see Note 12 for restrictions on the administrative penalties fund reserve).

9. TIME DEPOSITS

Time deposits represent short term placements with the local depository banks whose maturity dates are between 206 and 358 days from the reporting date (2016: between 5 and 206 days), and are more than three months from the placement date with an average interest rate of 0.75% (2016: 0.75%). For the year ended December 31, 2017, total interest earned from time deposits amounted to \$62,434 (2016: \$38,608).

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In 2015, the Commission had financial assets at fair value through profit or loss which included government and agency fixed income securities and corporate bonds. They were sold in 2016.

The details of the realised and unrealised gains and losses are shown below:

	2017 \$	2016 \$
Realised losses	-	(30,748)
Unrealised gains	-	28,845
	-	(\$ 1,903)

11. OTHER RECEIVABLES AND DEPOSITS

	2017 \$	2016 \$
Loan to employees	45,525	41,955
Travel advances	41,648	43,531
Interest receivable	14,223	12,872
Prepaid expenses	299,271	807,757
Receivable from licensee - penalty	-	340,000
Due from BVI House Asia	164,799	101,175
	565,466	1,347,290

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Consolidated Financial Statements

For the Year Ended December 31, 2017

Expressed in United States Dollars

12. 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; and
- (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 and drawback reserve to provide cash for making refunds when necessary;
- (v) Enforcement reserve to establish a fund to address enforcement expenses as they arise; and
- (vi) Contingency reserve to establish a fund in the event of unforeseen circumstances.
- (vii) Administration penalties fund reserve is funded by enforcement proceeds imposed and received by the Commission and is restricted for administration of public awareness and education in salient areas identified by the Commission.

13. TRADE AND OTHER PAYABLES

	2017	2016
	\$	\$
Accounts payable and accrued expenses	760,677	680,325
Insolvency surplus reserve	344,936	344,936
Deferred revenue	256,423	259,230
Employee deductions and benefits payable	905,591	840,152
	2,267,627	2,124,643

Employee deductions and benefits payable includes accrued unpaid vacation benefits totalling \$887,611 (2016: \$838,352) 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.

14. 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, 2017, the balance on this account amounted to \$3,381,419 (2016: \$3,297,015).

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Consolidated Financial Statements For the Year Ended December 31, 2017 Expressed in United States Dollars

15. DISTRIBUTION PAYABLE TO GOVERNMENT

On October 23, 2018, the Board of Commissioners approved a distribution to Government of \$1,000,000 from surplus earned by the Commission during the year ended December 31, 2017. The Board of Commissioners did not approve a distribution from surplus earned for the year ended December 31, 2016.

16. OTHER INCOME

	2017	2016
	\$	\$
Court ordered legal cost receipts	112,950	115,250
Miscellaneous income	51,951	56,413
	164,901	171,663

17. ENFORCEMENT PROCEEDS

Enforcement proceeds relates to fees imposed and received for enforcement actions against licensees. These fees are not available for general use by the Commission. Refer to Notes 8 and 12.

18. STAFF COSTS

	2017	2016
	\$	\$
Wages and salaries	10,607,422	11,189,764
Allowances and benefits	2,051,848	2,389,645
Social Security benefits	268,374	292,404
Employment costs	125,947	239,007
National health insurance	318,322	345,370
Payroll taxes	556,938	571,039
	13,928,851	15,027,229

The average number of full time employees in 2017 was 170 (2016: 184).

During the year ended December 31, 2017, the Commission paid \$1,118,048 (2016: \$1,388,374) for current service costs toward a defined contribution plan (the "Plan"), which has been included in allowances and benefits.

19. 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 8).

20. COMMITMENTS AND CONTINGENCIES

Commitments

As explained in Note 5, the Group 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 SGD102,278 (2016: SGD102,278) as at December 31, 2017.

The Group has a contract with Digicel wherein Digicel will provide the Group with dedicated internet access to and from the Group's data center. The contract commenced in March 2014 at a monthly cost of \$14,506 for three years. That commitment expired in 2017. The Group currently incurs monthly charges of \$14,500 for the service on a month to month basis.

In a separate agreement, the Group also contracted Equinix Hong Kong Limited to provide the Group with data center services. The contract commenced in 2014 with a monthly cost of \$3,886. In 2017, the Group's commitment with Equinix Hong Kong Limited has expired and the contract is now on an automatic renewal term of two years that can be terminated by either party.

The Group 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.

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Consolidated Financial Statements For the Year Ended December 31, 2017 Expressed in United States Dollars

20. COMMITMENTS AND CONTINGENCIES (Continued)

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

	2017	2016
	\$	\$
Within one year	1,176,295	1,217,760
Between one and five years	1,011,052	2,187,346
Five years and beyond	-	-
	<u>2,187,347</u>	<u>3,405,106</u>

For the year ended December 31, 2017, the Group recognised rent expense amounting to \$1,312,828 (2016: \$1,172,167).

Contingencies

In the ordinary course of business, the Group 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 Group does not believe that such proceedings (including litigation) will have a material effect on its results and financial position.

21. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Group's activities expose it to a variety of financial risks; market risk (foreign exchange risk, interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group'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 Group 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, due to Government and regulatory deposits from licensed entities.

21.1 Market risk

Market risk arises from the Group's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (foreign currency risk) or other market factors (other price risk).

(i) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. In the normal course of business, the Group may enter into transactions denominated in foreign currencies. As a result the Group is subject to transaction and translation exposure from fluctuations in foreign exchange rates.

The Group is exposed to foreign currency risk on the agreement to supply, develop, implement and commission the VIRRGIN project (Note 5). The contracted costs for the project are in Singapore Dollars (SGD). As at December 31, 2017, the foreign exchange rate was \$0.7480 (2016: \$0.6909) per SGD. Had the Singapore dollar foreign exchange rates strengthened against the US dollar by 1% (2016: 1%) with all other variables remaining constant, the overall costs to complete the project, including maintenance/support costs, would increase by \$765 (2016: \$707). 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.

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Consolidated Financial Statements For the Year Ended December 31, 2017 Expressed in United States Dollars

21. FINANCIAL RISK MANAGEMENT (Continued)

21.1 Market Risk (Continued)

(ii) Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Floating rate instruments expose the Group to cash flow interest rate risk whereas fixed rate instruments expose the Group to fair value interest rate risk.

Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash and cash equivalents and time deposits. As at December 31, 2017 approximately 51% (2016: 64%) of the Group'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 Group's surplus would increase by \$52,875 (2016: increase by \$62,207). A decrease of 25 basis points in the market interest rate, with all other variables held constant, would decrease the Group's surplus by an equal amount.

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

The Group's regulatory deposits, cash and cash equivalents (excluding petty cash), time deposits, other receivables and 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.

	2017	2016
Moody's	\$	\$
Aa2	211,421	412,563
Aa3	2,584,179	2,552,644
Ba1	17,719,583	23,317,706
Ba3	2,248,782	1,215,315
Total rated	22,763,965	27,498,228
Non-rated	2,839,929	3,065,436
Total	25,603,894	30,563,664

21.3 Liquidity risk

Liquidity risk is the risk that the Group may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Group is exposed to liquidity risk from its financial liabilities which include trade and other payables, deposits on account, distribution to Government, due to Government and Regulatory deposits from licensed entities.

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.

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Consolidated Financial Statements For the Year Ended December 31, 2017 Expressed in United States Dollars

21. FINANCIAL RISK MANAGEMENT (Continued)

21.3 Liquidity risk (Continued)

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.

The following table shows the Group's aging of its contractual repayment period to its creditors as of December 31, 2017:

	On demand \$	Within one year \$	Total \$
Trade and other payables	1,508,719	758,908	2,267,627
Deposits on account	3,381,419	-	3,381,419
Regulatory deposits from licensed entities	9,407,031	-	9,407,031
Total	14,297,169	-	15,056,077

The following table shows the Group's aging of its contractual repayment period to its creditors as of December 31, 2016:

	On demand \$	Within one year \$	Total \$
Trade and other payables	2,006,914	117,729	2,124,643
Deposits on account	3,297,015	-	3,297,015
Regulatory deposits from licensed entities	8,735,634	-	8,735,634
Total	14,039,563	117,729	14,157,292

22. DEFINED CONTRIBUTION PENSION PLAN

The Commission has established a defined contribution 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.

23. SUBSEQUENT EVENTS

No events have occurred subsequent to December 31, 2017 and before the date of the report that would have a significant effect on these financial statements other than those already disclosed in the notes.

24. COMPARATIVE FINANCIAL INFORMATION

Prior year comparatives have been amended to conform with current year presentation.

