

# FINANCIAL **STATEMENTS**

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

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**BOARD OF COMMISSIONERS**

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

**REGISTERED OFFICE**

P.O. Box 418  
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British Virgin Islands

**COMMISSION SECRETARY**

Ms. Annet Mactavious

**INDEPENDENT AUDITORS**

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## Independent Auditors' Report

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

We have audited the accompanying financial statements of the British Virgin Islands Financial Services Commission (the "Commission"), which comprise of the statement of financial position as at December 31, 2013, and the related statements of comprehensive income, changes in reserves, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

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

Tortola, British Virgin Islands

## BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

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

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

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

\_\_\_\_\_  
Chairman

\_\_\_\_\_  
Managing Director

The accompanying notes form an integral part of these financial statements

## BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

### Statement of Comprehensive Income For The Year Ended December 31, 2013 Expressed in United States Dollars

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

The accompanying notes form an integral part of these financial statements

## BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Statement of Changes in Reserves  
For The Year Ended December 31, 2013  
Expressed in United States Dollars

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

The accompanying notes form an integral part of these financial statements

## BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

### Statement of Cash Flows For The Year Ended December 31, 2013 Expressed in United States Dollars

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

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

# BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

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

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### 1. ORGANISATION AND OBJECTIVES

The British Virgin Islands Financial Services Commission (the “Commission”) was established under the Financial Services Commission Act, 2001 (the “Act”) on December 31, 2001. The Act established the Commission as an autonomous regulatory authority responsible for the regulation, supervision and inspection of all financial services in and from within the British Virgin Islands. Such services include insurance, banking, insolvency, fiduciary business, company management, mutual funds business as well as the registration of companies, limited partnerships and intellectual property. The registered office of the Commission is located at Pasea Estate, Road Town, Tortola, British Virgin Islands.

The Commission oversees all regulatory responsibilities previously handled by the Government of the British Virgin Islands (the “Government”) through the Financial Services Department with the additional responsibilities of facilitating public understanding of the financial services system and its products, policing the perimeter of regulated activity, reducing financial crime and preventing market abuse.

### 2. ACCOUNTING POLICIES

#### 2.1 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards, which comprise standards issued or adopted by the International Accounting Standards Board and interpretations issued by its Standing Interpretations Committee. They have been prepared under the historical cost convention (with the exception of the revaluation of financial assets at fair value through profit or loss) and are expressed in United States (“US”) dollars.

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

- **Improvements to IFRSs.** Issued in May 2010, the improvements contain numerous amendments to IFRS, which are considered non-urgent but necessary. The improvements result in accounting changes for presentation, recognition or measurement purposes; or they are terminology or editorial changes only. These improvements have no significant impact in the Commission’s accounting practice.
- **IAS 24 (revised), *Related Party Disclosures*.** The revision clarifies the definition of related parties.

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

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

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

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



## BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

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

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#### 2. ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

## BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

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

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#### 2. ACCOUNTING POLICIES (Continued)

##### 2.4 Fixed assets

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

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

##### 2.5 VIRRGIN project under development

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

##### 2.6 Regulated deposits from licensed entities

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

##### 2.7 Cash and cash equivalents

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

##### 2.8 Time deposits

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

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

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

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

##### 2.10 Fair value hierarchy

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

## BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

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

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#### 2. ACCOUNTING POLICIES (Continued)

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

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

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

##### 2.11 Revenue recognition

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

##### 2.12 Taxation

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

##### 2.13 Foreign currency translation

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

##### 2.14 Leases

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

##### 2.15 Pension plan

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

##### 2.16 Financial instruments

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

##### 2.17 Use of estimates

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

## BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

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

## 3. FIXED ASSETS

As of December 31, 2013:

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

## BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

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

## 3. FIXED ASSETS (Continued)

As of December 31, 2012:

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

## BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

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

#### 4. VIRRGIN PROJECT UNDER DEVELOPMENT

As of December 31, 2013, the Commission has an existing contract with NCS Pte. Ltd (formerly Singapore Computer Systems Limited) relating to the development of an internet-based information system featuring electronic filing of documents called Virtual Integrated Registry and Regulatory General Information Network ("VIRRGIN").

VIRRGIN will be completed in three phases of development, each of which will be released separately. The VIRRGIN project costs to be capitalised will include (a) registry engine license; (b) implementation and development costs for Phases I, II and III; other additional consultancy and software implementation charges; and airfares, accommodation and other travel expenses incurred relating to the implementation of the project. Cost relating to Phase I and II of VIRRGIN have been capitalised as Computer and Software as part of Fixed assets (see Note 3). The cost of \$386,401 (2012: \$386,401) relates to the uncompleted Phase III which is expected to be finished by December 31, 2014. The estimated costs to completion of the project, excluding any additional costs, are \$51,161,304 (equivalent to \$915,300) (2012: \$948,669).

#### 5. REGULATORY DEPOSITS FROM LICENSED ENTITIES

By statute, certain entities licensed to operate in the financial services sector within the British Virgin Islands are required to place a deposit with the Commission. The Commission has undertaken to hold these amounts in a designated interest-bearing account \$2,463,453 (2012: \$1,734,150) and fixed income securities \$5,866,358 (2012: \$6,364,597) and distributes interest thereon to the licensees on a semi-annual basis. The deposits are refundable upon surrender of the licence.

#### 6. CASH AND CASH EQUIVALENTS

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

Fees collected on behalf of the Government are paid into a trust account maintained jointly in the name of the Commission and the Government. Prior to the commencement of the Commission's financial year, the Government's Cabinet ("Cabinet") determines the percentage of fees collected on their behalf that is to be remitted to them, with the Commission retaining the balance. For the year ended December 31, 2013, the Commission retained 10.5% (2012: 10.5%) of revenue up to the projected revenue stream and thereafter, the Commission retained 7.5% (2012: 7.5%) of any revenue in excess of the projected revenue stream. This resulted in cash of \$5,725,933 (2012: \$1,711,381) being held on behalf of the Government as at December 31, 2013.

## BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

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

#### 7. TIME DEPOSITS

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

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

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

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

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

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

#### 9. OTHER RECEIVABLES AND DEPOSITS

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

#### 10. RESERVES

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

##### *Capital reserves*

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

##### *Revenue reserves*

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

## BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

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

#### 10. RESERVES (Continued)

##### Revenue reserves (continued)

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

#### 11. TRADE AND OTHER PAYABLES

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

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

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

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

#### 12. DEPOSITS ON ACCOUNT

In 2006, the Commission introduced a new internet-based information system (VIRRGIN) that allows companies to administer transactions online. As a result of this development, companies are required to deposit funds with the Commission in advance of effecting an online transaction. As at December 31, 2013, the balance on this account amounted to \$2,111,014 (2012: \$2,224,544).

#### 13. DISTRIBUTION PAYABLE TO GOVERNMENT

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

#### 14. OTHER INCOME

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



## BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

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

#### 15. STAFF COSTS

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

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

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

#### 16. RELATED PARTY TRANSACTIONS

The Government's Financial Secretary and Accountant General along with the Chairman of the Board of Commissioners and the Managing Director of the Commission are signatories to a joint account maintained in the names of the Government and the Commission referred to as the Government Trust Account as per Section 19 (1) and (7) of the Act. (See Note 6).

#### 17. COMMITMENTS AND CONTINGENCIES

##### *Commitments*

As explained in Note 4, the Commission is contracted with NCS Pte. Ltd (formerly Singapore Computer Systems Limited) to design and implement the VIRRGIN project. The contracted cost to completion of the design and implementation of the project is S\$1,161,304 equivalent to \$915,300 (2012: \$948,669) as at December 31, 2013, plus maintenance and support costs of S\$931,399 (equivalent to \$734,129) as at December 31, 2013 (2012: S\$931,399 equivalent to \$717,270).

The Commission currently occupies various properties in accordance with the terms of annual operating lease agreements and is committed to making payments on these leases as agreed in the future.

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

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

##### *Contingencies*

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

## BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

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

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#### 18. FINANCIAL RISK MANAGEMENT

##### *Financial risk factors*

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

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

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

#### 18.1 Market risk

##### *(i) Foreign exchange risk*

The Commission is exposed to foreign currency risk on the agreement to supply, develop, implement and commission the VIRRGIN project (Note 4). The contracted costs for the project are in Singapore Dollars (S\$). As at December 31, 2013, the foreign exchange rate was \$0.7882 (2012: \$0.8169) per S\$, with the average exchange rate for the year ended December 31, 2013 being \$0.7992 (2012: \$0.8003) per S\$. Had the Singapore dollar foreign exchange rate strengthened against the US dollar by 1% (2012: 1%) with all other variables remaining constant, the overall costs to complete the project, including maintenance/support costs, would increase by \$16,495 (2012: \$20,927). A weakening of 1% in the Singapore dollar against the US dollar, with all other variables held constant, would have an equal but opposite effect.

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

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

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

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

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

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

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

## BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

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

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

##### 18.1 Market risk (continued)

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

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

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

##### 18.2 Credit risk

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

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

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

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

##### 18.3 Liquidity risk

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

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

## BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements  
For The Year Ended December 31, 2013  
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### 18. FINANCIAL RISK MANAGEMENT (Continued)

#### 18.3 Liquidity risk (continued)

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

### 19. DEFINED CONTRIBUTION PENSION PLAN

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

### 20. COMPARATIVES

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