FINANCIAL SUPERVISORY COMMISSION

OF THE

COOK ISLANDS

ANNUAL REPORT

2016/2017

REPORT ON ACTIVITIES

2016/2017

Major Achievements

The year ended 30 June 2017 was the fourteenth year of operations for the Financial Supervisory Commission (FSC) which was established under the Financial Supervisory Commission Act 2003.

The Financial Intelligence Unit (FIU) merged with the FSC on 1 July 2012, however the FIU has retained its operational independence and powers; as per the Financial Intelligence Unit Act 2015.

In April 2017 the Commission established its Vision, Mission Statement and Values as part of an organisational review undertaken at Board level. The FSC Board and staff worked together to establish these fundamental cornerstones for the Commission. The FSC's Vision is:

To be a World Leader in Financial Regulation and Supervision.

And the Vision is supported by the FSC's Mission Statement:

To maintain a regulatory and supervisory framework that exceeds international standards; which is applied locally, in an appropriate and consistent, manner.
We will build robust legislation, work collaboratively with our stakeholders and contribute to the development of the Cook Islands.
Our workplace will be a stimulating, inclusive, safe and fair environment, focused on the professional development of our staff.

The 2016/17 year was a period of significant activity for the FSC and FIU. The major achievements, aligning well with our Mission Statement, are scheduled below:

- overseeing the commencement of the third round Mutual Evaluation for Money Laundering and Terrorist Financing for the Cook Islands which included:
    - overseeing enactment of a suite of legislative change to bring the Cook Islands law up to international standard in respect to Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT);
    - commissioning a 'Cook Islands Money Laundering and Terrorist Financing: Primary Threats and High Risk Sectors' report;
    - completing a comprehensive technical compliance questionnaire for the Asia Pacific Group (APG) on Money Laundering in preparation for the Cook Islands November 2017 Mutual Evaluation;
- licensing the Pacific Catastrophe Risk Insurance Company and Maritime Mutual Insurance Association Limited as captive insurers;
- publication of the AML/CFT Compliance Strategic Plan 2017-2019;

- the inaugural publication of the Cook Islands Typologies Report on ML/TF Trends;
- executing a Multilateral Memorandum of Understanding with the Bank of Papua New Guinea supporting our active membership in the BSP Supervisory College;
- hosting the ADB APEC Financial Regulators Training Initiative's annual meeting and regional workshop on Cybercrime and Technology Risk Supervision;
- attaining Approved Training Organisation status from the Institute of Chartered Accountants Australia and New Zealand;
- facilitating the first secondment of FSC and FIU staff members to the Reserve Bank of New Zealand for Anti-Money Laundering training;
- securing a three year supervision framework enhancement programme with the International Monetary Fund's Pacific Financial Technical Assistance Centre;
- hosting the Cook Islands first Australian Prudential Regulatory Authority's onsite supervision inspection to the Bank of the Cook Islands Ltd;
- commencing the move to an electronic Document Management System;
- enacting a new Currency Declaration Act to enhance the supervision of currency moving across Cook Islands borders;
- executing a Memorandum of Understanding with the Group of International Finance Centre Supervisors facilitating the sharing of information;
- hosting a one week APG Money Laundering and Criminal Asset Confiscation Investigation and Prosecution Training workshop; and
- establishing a Board Charter document to further enhance the governance procedures in place at the Commission.

The Commission's work for the year is essentially set by the Statement of Corporate Intent that is provided to the Minister of Finance by 31 March of the preceding year. During the year the Commission was very pleased to complete all of the activities outlined in the Statement of Corporate Intent for 2016/17.

The Commission fulfilled its obligations under the prudential supervision programme that had been set for the year with all licensed institutions undergoing onsite inspections under their respective legislation; of which the Commission is the administering agency.

Registrations, renewals and administration of the majority of international entities continued to be filed online and processed in real time.

The Commission also undertook annual onsite inspections for the majority of licensees for compliance with Part 2 of the Financial Transactions Reporting Act 2004.

As in previous years, the Commission continued to work throughout 2016/17 on legislative reform with the primary focus being on the Currency Declaration Act 2015/2016 (CDA 2015/16) and the Financial Transactions Reporting Act 2017 (FTRA 2017).

On 26 September 2016 Parliament passed the Currency Declaration Act 2015/2016 to improve the declaration of currency and the seizure, detention or forfeiture of undeclared currency when people enter or leave the Cook Islands. This Act allows the FIU to perform a more central role in the process. An outreach programme in respect to the revised Currency Declaration regime commenced late 2016 and it continues to be promoted by the FIU.

On 23 June 2017 the following five pieces of legislation were passed in Parliament paving the way for the Cook Islands to uphold the integrity and reputation of its financial sector:

- Financial Transactions Reporting Act 2017;
- Financial Intelligence Unit Amendment Act 2017;
- Terrorism Suppression Amendment Act 2017;
- Proceeds of Crime Amendment Act 2017; and the
- Mutual Assistance in Criminal Matters Amendment Act 2017.

The FIU is the administering agency of the first two Acts scheduled above, with the FIU administering the remaining three conjointly. The Commission's Deputy Commissioner led on the development of these five bills in order to ensure that the Cook Islands meets the 2012 revised Financial Action Task Force (FATF) standards by the time the country's third Mutual Evaluation is undertaken in November 2017. The new statutes focused on improving the Cook Islands anti–money laundering and the countering of terrorist financing and proliferation regime. The six new enactments further strengthen the regulatory capacity of the Commission, thereby supporting and encouraging a strong and competitive financial services industry.

The Cook Islands third round Mutual Evaluation on Money Laundering and Terrorist Financing is being undertaken in November 2017 by the Asia Pacific Group on Money Laundering (APG). The Cook Islands will be evaluated for its compliance with the 2012 FATF Recommendations on money laundering and terrorist financing. The focus of the evaluation is not only on how our laws and policies comply with those recommendations but primarily on how effective the Cook Islands has been in implementing and enforcing those laws and policies. The FSC and FIU are the lead agency for the evaluation overseeing the collection of data and information to support the Cook Islands case for effective implementation. In addition to overseeing the passage of the laws referred to previously, the key tasks have included:

- collecting data and statistics from law enforcement and regulatory government agencies, interviewing their staff on policies and procedures and obtaining case studies. Information has also been collected from the different financial service providers and designated non-financial providers such as motor vehicle dealers and pearl dealers;
- expanding upon the Cook Islands assessment of risk for money laundering and terrorist financing through the assessment of high risk sectors and primary threats and low risk sectors;
- liaising with the APG and other agencies to obtain technical assistance in completing the tasks referred to previously and to assist in preparing the Cook Islands for its mutual evaluation.

Performance Targets for the year from 1 July 2016 to 30 June 2017

(1) To conduct, as often as deemed necessary, an onsite examination of all banks, insurers, trustee companies and money changing and remittance businesses licensed to carry out business in the Cook Islands.

Actual Performance – This was achieved. Risk based supervision assisted to determine the level of regulatory oversight applied to individual licensed institutions with three licensees moving to enhanced supervision during the year under review.

(2) To undertake offsite reviews of all data supplied by banks, insurers and trustee companies on a regular basis.

Actual Performance – This was achieved.

(3) To administer new applications for the licence of a financial institution on a timely basis with all applications for new licenses being determined within the prescribed timeframe from the receipt of the completed application.

Actual Performance – All new licence applications were considered and approved within the prescribed timeframe. The Pacific Catastrophe Risk Insurance Company was licensed as a Captive Insurer on 22 September 2016, and both Maritime Mutual Insurance Association Limited (captive insurer) and Grant Priest (Insurance Agent) were licensed on 12 December 2016. A trustee company licence application was received from Alpha Fiduciary (Cook Islands) Ltd on 7 May 2017 and subsequently licensed during the next financial period, on 26 July 2017, within the prescribed time.

(4) To conduct in each year compliance reviews of all licensed financial institutions, and designated non-financial businesses and professions in respect of the financial transactions reporting regime.

Actual Performance – This was achieved.

(5) To review each year the operations of trustee companies in relation to the Statement of Best Practice issued by the Group of International Finance Centre Supervisors (GIFCS) and the Trustee Companies Act 2014.

Actual Performance – This was achieved. The 2016/17 trustee company onsite reviews focused on some areas of their operations considered higher risk, including outsourcing arrangements, nominee companies, related parties and IT security.

(6) To administer registration and renewal of registration of international companies, international trusts, international partnerships, limited liability companies and foundations efficiently and without delay.

Actual Performance – This was achieved. There was no down time for the online registry of international companies, trusts, partnerships and limited liability companies in 2016/17. The manual registration and renewal of foundations was completed on the same day as delivery of the prescribed forms to the Registrar.

(7) To keep under on-going review legislation administered by the Commission with a view to recommending amendments where the legislation needs to reflect changes in the global financial environment, including best international supervisory and regulatory practice.

Actual Performance – This was achieved with three pieces of legislation enacted during 2016/17 to reflect changes in the global financial environment including the Currency Declaration Act 2015/2016, Financial Transactions Reporting Act 2017 and the Financial Intelligence Unit Amendment Act 2017.

(8) To enhance the skills of supervisory staff, principally by use of technical training provided by the Pacific Financial Technical Assistance Centre (PFTAC), the International Monetary Fund, the Australian Prudential Regulation Authority (APRA), the Financial Stability Institute and other technical assistance programmes.

Actual Performance – The Commission continued to fully utilise all offers of training for the supervision staff as specifically referred to later in this Annual Report. In addition to attending technical training abroad, the Commission hosted an APRA led onsite inspection to the Bank of the Cook Islands Ltd, an ADB APEC Financial Regulator's Training Initiative Regional Workshop on Cybercrime and Technology Risk and hosted PFTAC's first mission in respect to the 'Supervision Framework Enhancement Strategy' 2017-2019 technical assistance plan.

(9) To maintain a structured programme for upskilling the staff of the Commission throughout the year.

Actual Performance – The Commission continued to maintain a structured programme for upskilling all staff as detailed later in this Annual Report.

(10) To report to the Minister of Finance on the legislation administered by the Commission by 30 September each year.

Actual Performance –This annual report will be filed with the Minister on or before 30 September 2017. The Commission has actively administered the fifteen enactments it is the administering agency for including the:

- Banking Act 2011
- Captive Insurance Act 2013
- Currency Declaration Act 2015/2016
- Digital Registers Act 2011
- Financial Intelligence Unit Act 2015

- Financial Supervisory Commission Act 2003
- Financial Transactions Reporting Act 2017 (previously FTRA 2004)
- Foundations Act 2012
- Insurance Act 2008
- International Companies Act 1981-82
- International Partnerships Act 1984
- International Trusts Act 1984
- Limited Liability Companies Act 2008
- Money Changing and Remittance Businesses Act 2009
- Trustee Companies Act 2014

(11) To undertake enforcement action where necessary to achieve the Commission's objectives.

Actual Performance – There was a requirement to exercise formal enforcement action during 2016/17 against one insurance company licensee (conduct and advertising) and one bank licensee (fit and proper) during the period under review.

(12) To coordinate and conduct a tri-annual National Risk Assessment for the Cook Islands.

Actual Performance – The FIU commissioned a 'Cook Islands Money Laundering and Terrorist Financing: Primary Threats and High Risk Sectors' report during 2016/17 to contribute to completion of the next National Risk Assessment;

(13) To develop policies, procedures and guidelines in administering the Currency Declaration Act 2015/2016 and the Financial Transactions Reporting Act 2017, and on an annual basis to review those policies and guidelines in line with any changing circumstances or changes in legislation.

Actual Performance – This was achieved. The Currency Reporting Policy and Procedures were published on 5 December 2016 and the Practice Guidelines for the Financial Transactions Reporting Act 2017 were drafted by 30 June 2017 and published on 28 August 2017.

(14) To effectively administer and enforce the Financial Intelligence Unit Act 2015, the Currency Declaration Act 2015/2016 and the Financial Transactions Reporting Act 2017.

Actual Performance – Procedures have been established to ensure effective administration and enforcement of these three recent enactments. The Commission called for voluntary compliance with the Financial Transactions Reporting Act 2017 effective three months before the Act came in to force.

(15) To coordinate the implementation of the Cook Islands Mutual Evaluation Plan.

Actual Performance – This was achieved. The FSC/FIU has coordinated the implementation of the Cook Islands Mutual Evaluation Plan with the Deputy Commissioner taking a full time lead on this project.

(16) To discharge all other obligations on a timely and proper basis under the legislation which the Commission has responsibility to administer.

Actual Performance – This was fully achieved.

Supervisory Activities

Banking

The Commission bases its supervisory approach for the banking industry on the Basel Core Principles for Banking Supervision. The Commission continues to update its supervisory approach, taking into account issuances from the Basel Committee on Banking Supervision and other international standard setting bodies such as the FATF. Banking supervision is performed by undertaking quarterly offsite analysis of information provided by the four licensed banks; combined with an annual onsite inspection. The FIU staff also completed an onsite inspection of each bank focusing on compliance with Part 2 of the Financial Transactions Reporting Act 2004 (‘FTRA’).

Application of risk based supervision methodology resulted in return visits and additional engagement with some bank licensees during the year under review.

On 30 June 2017 the Commission executed the 2017-2019 Banking Supervision Enhancement Strategy and Technical Assistance Plan with the Pacific Financial Technical Assistance Centre. This three year programme will see five mission visits to the Cook Islands to develop a regional leading, fully integrated and cohesive risk based supervision framework.

Insurance

The Commission’s supervisory approach in relation to the insurance industry continues to be based on the Insurance Core Principles, Standards, Guidance and Assessment Methodology, issued by the International Association of Insurance Supervisors.

A risk based programme of ongoing supervision through onsite inspection, and offsite analysis, was carried out on all licensed insurers in 2016/17.

The Supervision of insurance licensees was enhanced by ongoing active participation in the Group of International Insurance Centre Supervisor’s regular conference call training sessions.

Captive Insurance

Following the first Cook Islands captive insurance licence being issued in 2015/16, two further captive insurance licences were approved in 2016/17. The Pacific Catastrophe Risk Insurance Company, incorporated by bespoke legislation in 2015/16, was established on the recommendation of the Pacific Islands Forum Secretariat which considered the Cook Islands as the best placed Pacific domicile for the Facility; due to the regulatory and supervision regime in place in the Cook Islands. This company was fully vetted, as per any other licensee, before being licensed as a captive insurer in September 2016.

Money Changing & Remittance Businesses

On 23 June 2010, the Board approved and granted a licence to Jetsave Cook Islands Limited to carry on money-changing and remittance business in the Cook Islands in accordance with Sections 7 and 9 of the Money-changing and Remittance Businesses Act 2009. The Commission continued its desk-based programme of supervision for the single Money-changing and Remittance Business licensee in 2016/17.

Trustee Company Business

A managed trustee company left the jurisdiction in 2016/17, and one new trustee company licence application was received, effectively retaining eight Cook Islands licensed trustee companies.

The supervision of trustee company business was significantly enhanced following the enactment of the Trustee Companies Act 2014; which gives the Commission the full range of regulatory powers to supervise the Trustee Company sector in line with international standards. This includes both onsite and offsite monitoring and adherence to the GIFCS Statement of Best Practice for Corporate Service Providers.

The Cook Islands executed the Multilateral Memorandum of Understanding with all GIFCS members in 2016/17 facilitating the sharing of Regulator-to-Regulator information.

Superannuation

The Commission has commenced developing enabling legislation to provide for the regulatory oversight of the superannuation industry in the Cook Islands. Given the compulsory nature of the Cook Islands National Superannuation Fund, the ongoing regulatory oversight by the Commission is seen as fundamental to providing an appropriate level of comfort to Cook Islanders investing in their retirement. It is intended that this legislation will be moved forward, following completion of the mutual evaluation process.

Registrar’s Office

The Commission is responsible for maintaining the official registers for all Foundations, International Trusts, International Companies, Limited Liability Companies and International Partnerships registered in the Cook Islands.

Foundations

The number of foundations for which registration and renewal fees were received in 2016/17 was 52, an increase of 24 (86%) from the previous year.

International Companies

The number of international companies for which registration and renewal fees were received in 2016/17 was 987, a decrease of 108 (10%) from the previous year.

International Trusts

The number of international trusts for which registration and renewal fees were received in 2016/17 was 2,275, a decrease of 98 (4%) from the previous year.

Limited Liability Companies

The number of limited liability companies for which registration and renewal fees were received in 2016/17 was 365, a decrease of 37 (9%) from the previous year.

International Partnerships

The number of international partnerships for which renewal fees were received in 2016/17 was 4, equal to the previous year.

Financial Intelligence Unit

The FIU is responsible for collecting, analysing and disseminating financial information and intelligence on suspected money laundering, the financing of terrorist activities and other serious offences, to the appropriate authorities in the Cook Islands and internationally with approved organisations or countries. It is also tasked with regulating and conducting compliance examinations of all registered Reporting Institutions in the Cook Islands as prescribed in the Financial Intelligence Unit Act 2015 (FIU Act).

The FIU has also been mandated by Cabinet to coordinate the implementation of the Cook Islands AML/CFT regime, through the National AML/CFT Coordinating Committee.

Internationally, the FIU is part of the Egmont Group of Financial Intelligence Units and the Association of Pacific Islands Financial Intelligence Units. Nationally it is part of the

Anti-Corruption Committee, the Combined Law Agency Group and the Cook Islands National Intelligence Unit.

In September 2016, the then Head of the FIU, Mr. Bob Williams and the Solicitor General, Mr. David James, attended the annual plenary meeting and technical assistance forum of the APG in San Diego.

During the year to 30 June 2017 FIU staff members partook in a range of training and professional development opportunities including the following:

- Mr. Walter Henry, Senior Intelligence Officer, attended the UNODC Anti-Money Laundering Training in Brisbane in September 2016;
- Mr. Cedric Toru, Senior Compliance Officer, attended the Reserve Bank of New Zealand Anti Money Laundering training in Wellington in February 2017;
- Ms. June George (Intelligence Officer), Mr. Walter Henry and Mr. Cedric Toru attended the APG Money Laundering and Criminal Asset Confiscation Investigation and Prosecution Training workshop hosted here in Rarotonga in March 2017; and
- Mr. Cedric Toru attended the ADB APEC Financial Regulators Training Initiative Regional Workshop on Cybercrime and Technology Supervision Risk hosted in Rarotonga in June 2017.

The long standing Head of the FIU resigned from his role in February 2017 and Mr. Walter Henry, Senior Intelligence Officer was appointed Acting Head of the FIU for the period 1 March 2017 to 6 August 2017. The new Head of the FIU, Mr. Phil Hunkin of Guernsey, commenced in the role on 7 August 2017.

Suspicious Transaction Reports

Reporting institutions were required, under section 11 of the FTRA 2004, to report any suspicious transaction to the FIU. The FIU received 58 Suspicious Transaction Reports (STR) in 2016/17, and 6 were disseminated to the relevant law enforcement and regulatory authorities in the Cook Islands and 10 to counterpart authorities in other jurisdictions.

The new FTRA 2017, brought into force on 23 June 2017, has replaced STRs with Suspicious Activity Reports (SARs), expanding the AML remit.

Other Transaction Reports

Reporting institutions are required under section 45 of the FTRA 2017 (previously section 10 of the FTRA 2004), to report to the FIU any cash transaction of $10,000 or above. There is a separate reporting requirement for electronic funds transfers in which all transfers in and out of the Cook Islands must be reported.

Under section 7 of the Currency Declaration Act 2015/2016 all travellers arriving into the Cook Islands, or departing the Cook Islands, are required to declare any currency of a value of $10,000 NZD or more (or its equivalent in foreign currency). A Customs Officer is required, under section 7 of the Currency Declaration Act 2015/2016, to report any movement across the border of the Cook Islands of any currency of $10,000 or more to the FIU.

All reporting institutions under section 47 of the FTRA 2017 are required to report to the FIU, within 48 hours, any activity that is reasonably suspected of being connected to money laundering, terrorist financing or the commission of a serious offence.

The table below shows the number of transaction reports, other than STRs, received by the FIU in 2016/17. 2015/16 figures are included for comparative purposes.

Type of Report	**Number of Reports 2015/16**	**Number of Reports 2016/17**
Suspicious Transaction Reports	31	58
Cash Transaction Report	2,871	3,354
Electronic Funds Transfer Report	18,734	24,452
Border Cash Report	22	29
Other Transaction Report	8	20

Type of Report	**% increase/decrease (+/-)**
Suspicious Transaction Reports	+87%
Cash Transaction Report	+17%
Electronic Funds Transfer Report	+31%
Border Cash Report	+32%
Other Transaction Report	+150%

The number of reports addressed during this financial period has increased significantly over the previous year. This increase has been attributed to increased outreach work by the FIU, including Financial Crime seminars and sharing of trends and analysis.

Parallel Financial Investigations

The FIU conducts parallel financial investigations in all serious cases of acquisitive crime. The FIU supports Cook Islands Police Service criminal investigations through the analysis and investigation of associated financial activity. This also applies where the associated predicate offences occur outside the country. The FIU assesses the possibilities of instigating the investigation of money laundering offences.

The FIU has continued to assist the Cook Islands Police with many of their investigations, some of which have ended in successful prosecutions.

The outcome for the year under review is:

- 1 successful prosecution;
- 1 completed investigation; and
- 4 cases remain under ongoing investigation.

The FIU has also assisted a number of foreign authorities throughout the year, often through the auspices of Mutual Administrative requests.
The FIU received a total of 13 Egmont Requests:

- 7 requests were related to money laundering;
- 5 to corruption; and
- 1 for fraud.

Other external requests for assistance:

- 1 from the US Internal Revenue Service.

Domestic requests for assistance:

- 4 from the Ministry of Foreign Affairs and Immigration;
- 2 from the Business Trade and Investment Board;
- 14 from the Cook Islands Police Service.

Audit

- There were 142 requests relating to two investigations.

Significant activity delivered by FIU

A Financial Crime and Risk Assessment Seminar was conducted by the FIU in October 2016. Assistance with the seminar was provided by the FSDA and UNODC.

The FIU undertook a Mystery Shopper Exercise in October 2016 to test AML systems. This was done by directly and anonymously approaching financial institutions to test their staff's knowledge of AML/CFT obligations.

The FIU delivered 'Customs Induction Training' in the final quarter of the 2016/17 year, focusing on updating Customs on the role and Functions of the FIU, Money Laundering typologies, the Currency Declaration Act 2015/2016 and Disclosure/Declaration requirements under the new act.

A joint agency (Police/FIU) corruption investigation involving a politically exposed person was completed.

Financial Performance

The 2016/17 Financial Performance of the Commission fell short of budgeted figures by $79,071. This was primarily attributable to a downfall in international registry activity and a decline in the USD to NZD exchange rate.

Actual revenue for the year to 30 June 2017 was $1,523,784 and expenditure totalled $1,148,875 resulting in a net surplus of $374,909.

Further detail in respect to the Commission's financial performance is provided in the attached audited Financial Statements, with both budget and prior period comparatives included.

An amount of $50,000 was returned to the Crown in line with section 24(2) of the Financial Supervisory Commission Act 2003.

Additionally, an amount of $274,069 was returned to the Crown as excess funds, pursuant to section 24(2) of the FSC Act. This amount represented the income derived from the additional fee imposed for registering, or renewing the registration of, an international trust. This levy was established in March 2009 to assist in funding the operations of the Financial Services Development Authority.

The Board

The Board of the Commission as at 30 June 2017 comprised the same five board members as at 30 June 2016, being:

Raymond Newnham, Chairman
Fletcher Melvin
Geoff Stoddart
Madeilene Sword
Gaye Whitta

During the year the FSC Board met on 12 occasions. The Board attended to all matters before it on a timely basis.

The final part of the Board's governance and procedures review was completed in March 2017 with the publishing of the Board Folder. The Folder sets out the Commission's Vision, Mission Statement and Values as well as the Board Charter and Code of Conduct.

The Commissioner and Deputy Commissioner

The Commissioner is responsible for the day-to-day running of the Commission and reports directly to the FSC Board. Ms. Louise Wittwer fulfilled this role throughout the year under review.

The Commissioner continues to play a pivotal role in ensuring an appropriate level of regulatory oversight in the ongoing development of the financial services industry in the Cook Islands.

The Commissioner also acts as a Director of the Financial Services Development Authority (FSDA), as provided for by the Financial Services Development Authority Act 2009. The objective in establishing the FSDA is the encouragement, promotion and development of the Cook Islands financial services industry to achieve sustained growth, which is economically beneficial, socially responsible and reputable.

During 2016/17 the Commissioner was appointed the Chairman of the ADB APEC Financial Regulators Training Initiative for a two year term, at the annual meeting in Seoul, and Chairman of the Association of Financial Supervisors Pacific Countries for a one year term through until August 2017.

Both the Commissioner, and Deputy Commissioner, roles involve representing the Commission at international forums to ensure the regulatory environment in the Cook Islands keeps abreast of international developments. During 2016/17 the Commissioner took part in the following three international meetings:

- the ADB APEC Financial Regulators Training Initiative annual meeting in Seoul in September 2016;
- the International Banking Conference and Group of International Financial Centre Supervisor's meeting in Santiago in November 2016; and
- the GIFCS London plenary meeting in April 2017.

The Deputy Commissioner, Ms. Cheryl McCarthy, also participated in three international forums as outlined below:

- the Bank of South Pacific's Supervisory College in Port Moresby in September 2016;
- the UNODC Anti-Money Laundering Training in Brisbane in September 2016; and
- the Group of International Insurance Centre Supervisors annual meeting in London in June 2017.

The Deputy Commissioner was the fifth representative of the Commission to attend the two-week Small Countries Financial Management Programme at the Isle of Man Business School and Oxford University in June 2017.

Personnel

As at 30 June 2017, the staff of the Commission comprised the Commissioner, the Deputy Commissioner, the Acting Head of FIU, the Registrar of International and Foreign Companies and eight staff members.

The Commission was very well served by its staff during the year and the Board acknowledges their continuing contribution.

Training & Development

As well as hosting the ADB APEC Financial Regulators Training Initiative Regional Workshop on Cybercrime and Technology Risk Supervision, attended by five FSC staff members, a number of individual training and professional development opportunities were undertaken by staff including:

- Ms. Amanda Tuatai attended a one week ADB 'Strengthening Pension Systems in the Pacific Forum' in Suva in November 2016;
- Ms. Emilie Pierce attended a two week APRA led onsite bank supervision inspection in Honiara in October 2016;
- Ms. Emilie Pierce and Ms. Margaret Tangimetua attended the one week ADB 'Regional Capacity Building Workshop for Pacific Insurance Supervisors' in Sydney in December 2016; and
- Ms. Margaret Tangimetua attended a one week RBNZ Anti Money Laundering training opportunity in Wellington in February 2017.

The technical training and support provided by APRA, the Pacific Financial Technical Assistance Centre, the Asian Development Bank's Financial Regulator's Training Initiative and the RBNZ is invaluable to the Commission.

The Commission will continue to seek relevant training opportunities to enhance the development of all staff and supported two members undertaking University of the South Pacific studies during the 2016/17 year.

Commission staff members are also encouraged to utilise the online training provided by the Financial Stability Institute, a programme to which the Commission subscribes.

The Finance and Information Technology Administrator, Mr. James Cargill, successfully completed two modules of his Chartered Accountancy professional programme and is obtaining his practical experience at the FSC following the Commission attaining 'Approved Training Organisation' status from the Chartered Accountants Australia and New Zealand Institute on 28 August 2016.

In March 2017, the Board of Directors and the staff of the Commission conducted a 'Vision Workshop', focusing on the strategic framework of the Commission. Along with establishing the Vision and Mission Statement, the FSC Core Values, that we would like our organisation to be recognised for, were set out. The values are described under seven categories: Integrity, Professionalism, Respectfulness, Protective, Excellence, Dynamic and Enjoyable.

Other Matters

The Commission executed a Statement of Works with DocSmart Solutions to implement a Document Management System and the phased implementation process commenced with an in-country diagnostic visit by the Project Manager in May 2017. This project will be rolled out and completed during the 2017/18 financial year.

The Commission continued to liaise with industry, primarily via the Trustee Companies Association and the Banker's Association, to work collaboratively on projects wherever possible.

No specific written policy directions were raised by the Minister of Finance during the period covered by this report.

For and on behalf of the Board

Raymond Newnham
Chairman
25 September 2017

FINANCIAL SUPERVISORY COMMISSION

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

FINANCIAL SUPERVISORY COMMISSION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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FINANCIAL SUPERVISORY COMMISSION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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The Honourable Mark Brown

Members of the Board
Raymond Newnham (Chairman)
Fletcher Melvin
Geoffrey Stoddart
Madeilene Sword
Gaye Whitta

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Cook Islands Audit Office

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Bank of the Cook Islands Limited (BCI)
Capital Security Bank Limited (CSB)

Solicitors
Crown Law Office
Tim Arnold

FINANCIAL SUPERVISORY COMMISSION

STATEMENT OF RESPONSIBILITY

We are responsible for the preparation of the Commission's financial statements and the judgements made in the process of producing those statements for the purposes of Section 26 of the Financial Supervisory Commission Act 2003.

We have the responsibility of establishing and maintaining, and we have established and maintained, a system of internal control procedures that provide reasonable assurance as to the integrity and reliability of financial reporting.

In our opinion, these financial statements fairly reflect the financial position and operations of the Financial Supervisory Commission for the year ended 30 June 2017.

Louise Wittwer	Raymond Newnham
Commissioner	**Chairman**
25 September 2017	25 September 2017
Date	**Date**

COOK ISLANDS GOVERNMENT

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF THE FINANCIAL SUPERVISORY COMMISSION

Report on the Financial Statements

We have audited the accompanying financial statements of the Financial Supervisory Commission ("the Commission") on pages 7 to 26. The financial statements comprise of the statement of financial position as at 30 June 2017, the statement of comprehensive revenue and expenses, the statement of changes in equity and cash flow statement 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 Public Sector Accounting Standards (IPSAS), 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

We are the appointed auditor of the Commission under Section 30 of the Financial Supervisory Commission Act 2003.

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAI). Those standards require that we comply with the 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 control 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 the accounting policies 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.

AUDIT OFFICE COOK ISLANDS

Other than in our capacity as auditor, we have no relationship with or interests in the Commission.

Opinion

In our opinion the financial statements of the Commission on pages 7 to 26 for the year ended 30 June 2017 comply with generally accepted accounting practices as defined by the Ministry of Finance and Economic Act 1995-96 and present fairly, in all material respects, the financial position of Commission as at 30 June 2017 and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

Our audit was completed on 25 September 2017 and our opinion is expressed as at that date.

Allen Parker
Director of Audit
Cook Islands Audit Office
Rarotonga, Cook Islands

FINANCIAL SUPERVISORY COMMISSION

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSES
FOR THE YEAR ENDED 30 JUNE 2017

In New Zealand Dollars	Notes	Budget 2017 $	Actual 2017 $	Restated Actual 2016 $
Revenue				
Trading Revenue	2	1,582,710	1,506,968	1,738,809
Other Revenue	2	17,500	16,816	17,866
Total Revenue		1,600,210	1,523,784	1,756,675
Expenditure				
Personnel Expenses	3	726,950	721,021	717,872
Audit Fees		3,000	2,500	2,500
Impairment of Intangible Assets	12,19	-	-	62,575
Depreciation and Amortisation	11,12	36,480	59,891	88,255
Finance Costs		-	-	-
Other Expenses	4	379,800	365,464	410,608
Total Expenditure		1,146,230	1,148,875	1,281,810
Surplus		453,980	374,909	474,865
Other Comprehensive Revenue and Expense				
Other Comprehensive Revenue and Expense		-	-	-
Total Other Comprehensive Revenue and Expense		-	-	-
Total Comprehensive Revenue and Expense		**453,980**	**374,909**	**474,865**

Explanation of the Restated 2016 Comparative is provided in Note 19.
Explantion of major variances against the budget are provided in Note 20.

The accompanying notes should be read in conjunction with these Financial Statements

FINANCIAL SUPERVISORY COMMISSION

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017

In New Zealand Dollars	Notes	Actual 2017 $	Actual 2016 $
Assets			
Current Assets			
Cash and Equivalents	5	60,381	58,221
Vested Assets Clearing Account		173	242
Prepayments		53,056	43,358
Reserve Accounts	6	510,000	450,000
Debtors and Other Receivables	7	32,335	3,443
Accrued Interest		3,120	3,083
Trust Accounts	10	162,072	183,649
Intangible Assets In-Progress	12	18,576	-
Total Current Assets		839,713	741,996
Non-Current Assets			
Property, Plant, and Equipment	11	46,987	57,026
Intangible Assets	12	101,011	143,091
Total Non-current Assets		147,998	200,117
Total Assets		**987,711**	**942,113**
Liabilities			
Current Liabilities			
Creditors and Other Payables	8	47,926	34,660
Employee Entitlements	9	16,913	13,844
Trust Liabilities	10	162,072	183,649
Total Current Liabilities		226,911	232,153
Total Liabilities		**226,911**	**232,153**
Net Assets		**760,800**	**709,960**
Equity			
Contributed Capital		789,697	789,697
Accumulated Surplus / (Deficit)		(28,897)	(79,737)
Total Equity	13	**760,800**	**709,960**

The accompanying accounts should be read in conjunction with these Financial Statements

FINANCIAL SUPERVISORY COMMISSION

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2017

In New Zealand Dollars	Notes	Budget 2017 $	Actual 2017 $	Actual 2016 $
Balance as at 1 July		709,960	709,960	789,697
Total Comprehensive Revenue and Expense for the year		453,980	374,909	474,865
Return of Excess to the Crown		(160,000)	(50,000)	(250,000)
Financial Services Development Authority (FSDA) Levy paid to the Crown		(293,425)	(274,069)	(304,602)
Balance as at 30 June	13	**710,515**	**760,800**	**709,960**

The accompanying accounts should be read in conjunction with these Financial Statements

FINANCIAL SUPERVISORY COMMISSION

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2017

In New Zealand Dollars	Actual 2017 $	Actual 2016 $
Cash Flows from Operating Activities		
Receipts from Licensees	1,487,467	1,722,722
Interest	16,778	17,517
Payments to Employees	(803,912)	(807,158)
Payments to Suppliers	(287,757)	(355,266)
Net Cash Flows from Operating Activities	412,576	577,815
Cash Flows from Investing Activities		
Purchase of Property, Plant, Equipment and Intangible Assets	(26,347)	(19,602)
Net Cash Flows used in Investing Activities	(26,347)	(19,602)
Cash Flows from Financing Activities		
Distributions to the Crown	(50,000)	(250,000)
Financial Services Development Authority (FSDA) Levy paid to the Crown	(274,069)	(304,602)
Cash transferred to Reserve Accounts	(60,000)	-
Net Cash Flows used in Financing Activities	(384,069)	(554,602)
Net Increase in Cash and Equivalents	**2,160**	**3,611**
Cash and Equivalents at 1 July	58,221	54,610
Cash and Equivalents at 30 June	**60,381**	**58,221**

The accompanying accounts should be read in conjunction with these Financial Statements

AUDIT OFFICE COOK ISLANDS

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2017

In New Zealand Dollars	Actual 2017 $	Actual 2016 $
Reconciliation of Net Surplus / (Deficit) to net cash flows from Operating Activities		
Reported Surplus	374,909	474,865
Add / (less) Non-cash items		
Depreciation, Amortisation and Impairment Expense	59,891	150,830
Total Non cash items	434,800	625,695
Add / (less) movements in Statement of Financial Position items		
(Increase) / decrease in Accounts Receivable	-	(1,315)
(Increase) / decrease in Sundry Debtors	(28,892)	-
(Increase) / decrease in Prepayments	(9,697)	(24,619)
(Increase) / decrease in Interest	(38)	(349)
(Increase) / decrease in Bond	-	750
(Increase) / decrease in Vested Assets Clearing Account	69	451
Increase / (decrease) in Accounts Payable	468	93
Increase / (decrease) in Credit Card Liability	1,499	6,340
Increase / (decrease) in Paye As You Earn (PAYE) Payable	(1,961)	(7,764)
Increase / (decrease) in Revenue Received in Advance	9,391	(16,087)
Increase / (decrease) in VAT Payable	(282)	(7,859)
Increase / (decrease) in Payroll Accruals	3,069	2,479
Increase / (decrease) in Sundry Creditors	4,150	-
Net movements in working capital items	(22,224)	(47,880)
Net Cash Flows from Operating activities	**412,576**	**577,815**

The accompanying accounts should be read in conjunction with these Financial Statements

AUDIT OFFICE COOK ISLANDS

Note 1: Statement of Accounting Policies

Reporting Entity

These financial statements are for the Financial Supervisory Commission ("Commission") which is considered to be an agency of the Crown. The Commission carries out services as mandated under the Financial Supervisory Commission Act 2003.

Statement of Compliance

These financial statements have been prepared in accordance with the Ministry of Finance and Economic Management Act 1995-96 and the International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board (IPSASB).

Measurement Base

The financial statements have been prepared on a going concern basis and the accounting policies have been applied consistently throughout the period.

These financial statements have been prepared using the historical cost method to report results, cashflows and the financial position of the Commission. The financial statements have been prepared under the accrual basis of accounting and are presented in New Zealand dollars, rounded to the nearest dollar.

Summary of Significant Accounting Policies

Significant accounting policies are included in the notes to which they relate. Significant accounting policies that do not relate to a specific note are outlined below.

Income Tax

The Commission, as an agency of the Crown, is exempt from the payment of income tax in terms of the Income Tax Act 1997. Accordingly, no charge for income tax has been provided for.

Foreign Currencies

Foreign currency transactions are recorded at the exchange rates in effect at the date of the transaction. Monetary assets and liabilities arising from trading transactions or overseas borrowings are translated at closing rates. Gains and losses due to currency fluctuations on these items are included in the Statement of Comprehensive Revenue and Expenses.

Note 1: Statement of Accounting Policies (continued)

Commitments

Future expenses and liabilities to be incurred on contracts that have been entered into at balance date are disclosed as commitments to the extent that there are equally unperformed obligations.

Statement of Cash Flows

Operating activities include cash received from all income sources of the Commission and record the cash payments made for the supply of goods and services, and payments to employees.

Investing activities are those activities relating to the acquisition, holding and disposal of assets and investments.

Financing activities comprise capital injections by, or repayment of funds to the Crown, and movements in the Commission's reserve accounts.

Value Added Tax (VAT)

All statements of account are exclusive of VAT. The Statement of Financial Position is exclusive of VAT except for payables and receivables which are stated VAT inclusive as these represent the total amount to be paid or collected by the Commission to or from third parties.

The amount of VAT owing to or from the Revenue Management Division at balance date, being the difference between Output VAT and Input VAT, is included in payables or receivables as appropriate.

Budget Figures

The budget figures are derived from the Commission's Statement of Corporate Intent 2016/2017, as approved by the Board of Directors on 22 March 2016.

Critical Accounting Estimates and Assumptions

In preparing these financial statements, the Commission has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

There are no estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Changes in Accounting Policies

There have been no changes in accounting policies since the date of the last audited financial statements.

Note 2: Revenue

Accounting policy

Revenue under exchange transactions

The specific accounting policies for significant revenue items are explained below:

Revenue is measured at fair value of consideration received or receivable for the services provided in the ordinary course of business. Revenue is stated exclusive of Value added tax and is recognised when the service is provided.

Trading revenue

The Commission derives revenue from various fees charged relating to the provision of services to the international financial services industry in the Cook Islands and by licensing financial institutions. Registration and renewal fee income is recognised on the date the registration or renewal is completed.

Interest revenue

Interest revenue is recognised as it accrues, using the effective interest method

Breakdown of revenue

	Budget 2017 $	Actual 2017 $	Actual 2016 $
Trading revenue			
Licensing fees	108,094	115,027	136,285
Registration fees	139,309	119,033	165,942
Renewal fees	1,274,351	1,199,295	1,320,180
Other fee income	60,956	73,613	116,402
Total trading revenue	**1,582,710**	**1,506,968**	**1,738,809**
Other revenue			
Interest revenue	17,500	16,816	17,866
Total other revenue	**17,500**	**16,816**	**17,866**

Note 3: Personnel Costs

Accounting Policy

Superannuation schemes

The Commission contributes to the Cook Islands National Superannuation Fund which is accounted for as a defined contribution scheme and are expensed in the surplus or deficit as incurred.

Breakdown of personnel cost

	Budget 2017 $	Actual 2017 $	Actual 2016 $
Salaries and wages	690,950	683,022	681,189
Defined contribution plan - employer contributions	33,000	34,929	34,205
Increase / (decrease) in employee entitlements	3,000	3,070	2,478
Total personnel costs	**726,950**	**721,021**	**717,872**

Note 4: Other Expenses

Breakdown of other expenses

	Budget 2017 $	Actual 2017 $	Actual 2016 $
Board Fees	84,000	84,000	84,000
Computer Costs	12,000	10,235	7,042
Conferences & Workshops	12,000	15,764	2,596
Electricity	14,400	12,675	12,095
Enforcement Action Costs	-	-	3,021
Lease Costs	30,000	30,000	30,035
Legal and Professional Fees	45,000	46,617	30,077
Online Registry Expenses	39,600	33,380	48,372
Recruitment and Relocation Expenses	-	14,270	30,847
Staff Training	10,000	9,419	21,803
Subscriptions	22,500	26,276	23,501
Travel	52,000	38,644	47,927
Other Operating Costs	58,300	44,184	69,292
Total other expenses	**379,800**	**365,464**	**410,608**

Note 5: Cash and Equivalents

Accounting Policy

Cash is considered to be cash balances on hand and current accounts in banks, net of bank overdrafts and trust accounts, with original maturities of three months or less.

Breakdown of cash and equivalents

	Actual 2017 $	Actual 2016 $
Cash at bank (Australia and New Zealand Banking Group)	60,331	58,171
Petty Cash	50	50
Total cash and equivalents	**60,381**	**58,221**

Note 6: Reserve Accounts

Accounting Policy

As a precautionary measure the Commission holds Reserve Accounts to fund any necessary enforcement action or other unbudgeted costs, this is attributable to the Commission being a self funding Crown Agency.

Breakdown of reserve accounts

	Term	Interest Rate	Actual 2017 $	Actual 2016 $
Term Deposit (Bank of Cook Islands)	6 months	4.00%	250,000	250,000
Term Deposit (Australia and New Zealand Banking Group)	3 months	2.75%	260,000	200,000
Total reserve accounts			**510,000**	**450,000**

Note 7: Debtors and Other Receivables

Accounting Policy

Short-term receivables are recorded at the amount due, less any provisions for uncollectability.

A receivable is considered uncollectable when there is evidence the amount due will not be fully collected. The amount that is uncollectable is the difference between the amount due and the present value of the amount expected to be collected.

Breakdown of receivables and further information

Receivables under non-exchange transactions	Actual 2017 $	Actual 2016 $
Accounts Receivable (gross)	-	3,443
Less: Provision for doubtful debts	-	-
Accounts Receivables (net)	-	3,443
Sundry Receivables (Vested Assets)	32,335	-
Total receivables	**32,335**	**3,443**
Inter-ministry receivables included above to Crown Agencies	-	-

The aging profile of accounts receivable at year end is detailed below:

	2017			2016		
	Gross	Provision	Net	Gross	Provision	Net
Not past due	32,335	-	32,335	3,443	-	3,443
Past due 0 - 30 days	-	-	-	-	-	-
Past due 31 - 60 days	-	-	-	-	-	-
Past due over 60 days	-	-	-	-	-	-
	32,335	**-**	**32,335**	**3,443**	**-**	**3,443**

All receivables greater than 30 days in age are considered to be past due.

The assessment for uncollectability is performed on an individual basis, based on past collection history and write offs. All above debtors have been assessed as collectable as all past debts have been collectible and none have been written off.

Note 8: Creditors and Other Payables

Accounting Policy

Short-term payables are recorded at the amount payable.

Breakdown of payables and further information

	Actual 2017 $	Actual 2016 $
Payables under exchange transactions		
Accounts Payable	6,813	6,346
Accrued Payables	4,150	-
Credit Card Liability	3,110	1,610
Pay As You Earn (PAYE) Tax Payable	10,777	12,737
Value Added Tax (VAT) Payable	13,685	13,967
Revenue Received in Advance	9,391	-
Total payables under exchange transactions	47,926	34,660
Total payables	**47,926**	**34,660**
Inter-ministry payables included above to Crown Agencies	24,462	26,704

Note 9: Employee Entitlements

Accounting Policy

Employee benefits are due to be settled within 12 months after the end of the financial year in which the employee provides the related service and are based on accrued entitlements at current rates of pay. These include salaries and wages accrued up to balance date, annual leave earned but not yet taken at balance date, and time off in lieu.

A liability and an expense are recognised for bonuses where there is a contractual obligation or where there is past practice that has created constructive obligation and a reliable estimate of the obligation can be made.

Breakdown of employee entitlements

	Actual 2017 $	Actual 2016 $
Accrued salaries and wages	7,427	5,503
Annual leave	9,486	8,341
Total employee entitlements	**16,913**	**13,844**

Note 10: Trust Accounts

Accounting Policy

The Commission holds funds in trust on behalf of the Trustee Company licensees, for payment of their registry activity, and on behalf of the Crown for assets vested in the Registrar. These are recorded at carrying value.

Breakdown of trust accouns and trust liabilities

	Actual 2017 $	Actual 2016 $
Trust assets		
United States Dollar (USD) Client Trust Account (Australia and New Zealand Banking Group)	-	73,372
Australian Dollar (AUD) Vested Assets Account (Capital Security Bank)	102,472	100,248
New Zealand Dollar (NZD) Client Trust Account (Capital Security Bank)	10,030	10,029
United States Dollar (USD) Client Trust Account (Capital Security Bank)	49,570	-
Total trust assets	**162,072**	**183,649**
Trust liabilities		
USD Client Imprest Account (Australia and New Zealand Banking Group)	-	73,372
AUD Vested Assets Account behalf Crown (Capital Security Bank)	102,472	100,248
NZD Client Security Bond (Capital Security Bank)	10,030	10,029
NZD Client Imprest Account (Capital Security Bank)	-	-
USD Client Imprest Account (Capital Security Bank)	49,570	-
Total trust liabilities	**162,072**	**183,649**

Note 11: Plant, Property, and Equipment

Accounting Policy

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses.

Additions

The cost of purchased plant, property, and equipment is the value of the consideration given to acquire the assets and the value of other directly attributable costs which have been incurred in bringing the assets to the location and condition necessary for their intended service.

Where an asset is acquired through a non-exchange transaction, it is recognised at its fair value as at date of acquisition. An asset acquired below the $3,000 threshold set by the Cook Islands Government Policy and Procedures Manual is expensed.

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the additional cost will flow to the Commission and that the cost of the item can be measured reliably.

The cost of day to day servicing of property, plant and equipment are expensed in surplus or deficit as they are incurred.

Disposals

Gains and losses on disposals are determined by comparing the sales proceeds with the carrying amount of the asset.

Depreciation

Depreciation of plant, property, and equipment is provided on a straight line basis so as to allocate the cost of assets to their estimated residual value over their estimated useful lives. Typically, the estimated useful lives are:

Computer Equipment	3 - 4 years	25 - 33%
Motor Vehicles	5 years	20%
Furniture and Fittings	10 years	10%
Office Equipment	4 years	25%
Leasehold Improvements	10 years	10%

Impairment of property, plant and equipment

The Commission does not hold any cash generating assets. Assets are considered cash generating when their primary objective is to generate a commercial return.

Non-cash generating assets

Property, plant and equipment held at cost that have a finite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable service amount. The recoverable service amount is the higher of an asset's fair value less cost to sell and value in use.

Value in use is the present value of an asset's remaining service potential. It is determined using an approach based on either a depreciated replacement cost approach, a restoration cost approach, or a service units approach. The most appropriate approach used to measure value in use depends on the nature of the impairment and availability of information.

If an asset's carrying amount exceeds its recoverable service amount, the asset is regarded as impaired and the carrying amount is written down to the recoverable amount. The total impairment loss is recognised in the surplus or deficit. The reversal of an impairment loss is recognised in the surplus or deficit.

Note 11: Property, Plant and Equipment (continued)

Breakdown of property, plant and equipment and further information

Movement for each class of property, plant and equipment are as follows:

	Computer Equipment $	Furniture & Fittings $	Motor Vehicles $	Plant & Equipment $	Leasehold Improvements $	Total $
Cost						
Balance as at 1 July 2015	132,181	37,518	43,057	40,123	47,214	300,093
Additions	3,906	-	-	3,179	12,515	19,600
Disposals	-	-	-	-	-	-
Balance as at 30 June 2016	136,087	37,518	43,057	43,302	59,729	319,693
Accumulated depreciation and impairment losses						
Balance as at 1 July 2015	114,498	34,452	30,982	32,672	23,162	235,766
Depreciation	14,170	370	4,025	3,530	4,806	26,901
Accumulated depreciation on disposals	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-
Balance as at 30 June 2016	128,668	34,822	35,007	36,202	27,968	262,667
Carrying Amount						
As at 30 June 2016	**7,419**	**2,696**	**8,050**	**7,100**	**31,761**	**57,026**
Cost						
Balance as at 1 July 2016	136,089	37,518	43,057	43,301	59,729	319,694
Additions	1,050	999	-	-	5,722	7,771
Disposals	-	-	-	-	-	-
Balance as at 30 June 2017	137,139	38,517	43,057	43,301	65,451	327,465
Accumulated depreciation and impairment losses						
Balance as at 1 July 2016	128,668	34,822	35,007	36,202	27,968	262,667
Depreciation	3,389	405	4,025	3,593	6,399	17,811
Accumulated depreciation on disposals	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-
Balance as at 30 June 2017	132,057	35,227	39,032	39,795	34,367	280,478
Carrying Amount						
As at 30 June 2017	**5,082**	**3,290**	**4,025**	**3,506**	**31,084**	**46,987**

Capital commitments

There were no property, plant and equipment commitments at year end (2016:nil).

Note 12: Intangible Assets

Accounting Policy

Software acquisition

Computer software licenses are capitalised on the basis of costs incurred to acquire and bring to use the specific software.

Staff training costs and cost associated with maintaining computer software are expensed when incurred. Costs associated with development and maintenance of the Commission's Intangible Assets are expensed when incurred.

Amortisation

The carrying value of an intangible asset with a finite life is amortised on a straight line basis over its useful life. Amortisation begins when the asset is available for use and ceases on the date that the asset is derecognised. The amortisation charge for each financial year is expensed in the surplus or deficit.

The useful lives and associated amortisation rates have been estimated as follows:

Acquired computer software	3-8 years	13-33%

Impairment of intangible assets

Refer to the policy for impairment of property, plant and equipment in Note 11. The same approach applies to impairment of intangible assets.

Breakdown of intangible assets and further information

Movement for each class of intangible assets are as follows:

	Software $
Cost	
Balance as at 1 July 2015	322,677
Additions	-
Disposals	-
Balance as at 30 June 2016	322,677
Accumulated amortisation and impairment losses	
Balance as at 1 July 2015	55,657
Amortisation	61,354
Accumulated amortisation on disposals	-
Impairment losses	62,575
Balance as at 30 June 2016	179,586
Carrying Amount	
As at 30 June 2016	**143,091**
Cost	
Balance as at 1 July 2016	322,677
Additions	-
Disposals	-
Balance as at 30 June 2017	322,677
Accumulated amortisation and impairment losses	
Balance as at 1 July 2016	179,586
Amortisation	42,080
Accumulated amortisation on disposals	-
Impairment losses	-
Balance as at 30 June 2017	221,666
Carrying Amount	
As at 30 June 2017	**101,011**

Capital commitments

On 24 May 2017 a Statement of Works was signed with DocSmart Solutions Limited to implement a Document Management System (Software) at a total estimated capital cost of $29,000. Work commenced on 12 June 2017 with the remaining work to be completed in the 2017 / 2018 Financial year. Therefore the current project costs incurred to 30 June 2017 of $18,575 are reflected in the Statement of Finanical Position as Intangible Assets In-Progress. The project will be capitalised to Intangible Assets on completion.

Note 13: Equity

Accounting Policy

Equity is measured as the difference between total assets and total liabilities. Equity is disaggregated and classified into the following components:

> contributed capital

> accumulated surplus / (deficit)

Return of excess to the Crown

Return of excess funds to the Crown occurs in accordance with section 24(2) of the Financial Supervisory Commission Act 2003 when the Commission's Board considers that funds are in excess of the amount sufficient to enable the Commission to carry out its functions.

Financial Services Development Authority Levy

The Financial Services Development Authority Levy is a $100 USD levy, collected on behalf of the Crown, for every International Trust registration and renewal as of 1 March 2009.

Breakdown of equity

	Actual 2017 $	Actual 2016 $
Opening Equity		
Balance as at 1 July	709,960	789,697
Accumulated Surplus / (Deficit)		
Surplus / (Deficit) for the year	374,909	474,865
Return of Excess to the Crown	(50,000)	(250,000)
Financial Services Development Authority (FSDA) Levy paid to Crown	(274,069)	(304,602)
Balance as at 30 June	50,840	(79,737)
Total Equity	760,800	709,960

Note 14: Related party transactions

The Financial Supervisory Commission is a wholly owned entity of the Crown, however, the Government protects it through its legislation from undue influence and significant control.

The Commission also enters into transactions with other Government Ministries, Crown Agencies and State Owned Enterprises on an arms-length basis.

The key management personnel are members of the senior management group.

Key management personnel compensation

	Actual 2017	Actual 2016
Remuneration	$ 405,542	$ 428,415
Full-time equivalent members	6	6

Note 15: Financial Instruments

Accounting Policy

Financial assets

All financial assets are classified as Receivables. Receivables are measured at fair value plus transaction cost on initial measurement and subsequently at amortised cost. Interest income and interest expense is recognised in the surplus or deficit.

Financial liabilities

All financial liabilities are classified as Other Liabilities. Other liabilities are measured at fair values less transaction cost on initial measurement and subsequently at amortised cost. Interest income and interest expense is recognised in the surplus or deficit.

Note 15: Financial Instruments (continued)

Financial instrument categories

The carrying amounts of financial assets and liabilities in each of the financial instrument categories are as follows:

	Actual 2017 $	Actual 2016 $
Receivables		
Cash and Equivalents	60,381	58,221
Vested Assets Clearing Account	173	242
Prepayments	53,056	43,358
Reserve Accounts	510,000	450,000
Debtors and Other Receivables	32,335	3,443
Accrued Interest	3,120	3,083
Trust Accounts	162,072	183,649
Total receivables	821,137	741,996
Other Liabilities		
Creditors and Other Payables	38,535	34,660
Employee Entitlements	16,913	13,844
Trust Liability	162,072	183,649
Total other liabilities	217,520	232,153

Financial Instrument risks

The Commission's activities expose it to a variety of financial instrument risks, including market risk, credit risk, foreign currency risk and liquidity risk.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign currency rates.
Foreign currency transactions are recorded at the exchange rates in effect at the date of the transaction. Monetary assets and liabilities arising from trading transactions are translated at closing rates. Gains and losses due to currency fluctuations on these items are included in the Statement of Comprehensive Revenue and Expenses.

Liquidity risk

Liquidity risk is the risk that the Commission will encounter difficulty raising liquid funds to meet commitments as they fall due. The Commission manages liquidity risk by continuously monitoring forecast and actual cash flow requirements.

Note 15: Financial Instruments (continued)

Market Risk

Market risk is the risk that changes in market prices (such as foreign exchange rates, interest rates and equity prices) will affect the Commission income or value of its financial instruments. The Commission has no financial assets or liabilities that are affected by changes in market prices and therefore there is no market risk.

Credit Risk

In the normal course of business, the Financial Supervisory Commission incurs credit risk from trade debtors and transactions with financial institutions. The Commission has a credit policy, which is used to manage this risk. As part of this policy, limits on exposure with counter parties has been set and is monitored on a regular basis.

The Financial Supervisory Commission has no significant concentrations of credit risk. It does not require any collateral or security to support financial instruments due to the quality of financial institutions and trade debtors dealt with.

Fair Values

The estimated fair values of the Financial Supervisory Commission's financial assets and liabilities are their carrying values.

Note 16: Financial Commitments

Operating Tenancy Lease commitments:

	Actual 2017	Actual 2016
Within one year	$ 34,500	$ 34,500
Within one to two years	$ 34,500	$ 10,114
	$ 69,000	$ 44,614

There were no other financial commitments at balance date.

Note 17: Contingencies

Accounting Policy

Contingent assets and liabilities are disclosed at the point which the contingency is evident.

Contingent Liabilities

The Commission has no contingent liabilities at balance date (2016: $nil).

Contingent Assets

The Commission has no contingent assets at balance date (2016: $nil).

Note 18: Events after balance date

There were no subsequent events after the balance date.

Note 19: 2016 Restated Statement of Financial Performance

The 2015/2016 Statutory Accounts contained an error in respect to the coding of loss in value of the Online Registry. In 2015/2016 this was posted to Amortisation Expense when, to align with International Public Sector Accounting Standards, a portion of $62,575 should have been categorised as Impairment Loss. This correction is reflected in the comparative restated 2016/2017 figures.

Note 20: Explanations of major variances against the budget

Explanations for major variances from Financial Supervisory Commission budgeted figures are determined as any variance above 10% and are as follows:

Statement of Comprehensive Revenue and Expense

Trading Revenue

Actual revenue was significantly below budget due to a decline in registry activity; namely 75 (18%) less Registrations than budgeted for and 229 (6%) less Renewals. Accordingly, the 2017/2018 budget provides for nil registry activity growth.

Amortisation Expense

In June 2016 the Executive recommended to the Board that the useful life of the Online Registry Software be decreased from 20 years to eight years to reflect the Intangible Asset's realistic longevity. The Board approved this recommendation. This means that for the year end 30 June 2017 the Amortisation Expense has increased by more than $23,600 (64%) compared to Budget due to this change in accounting estimate post approval of the 2016/2017 budget.

Statement of Changes in Equity

Return of Excess to Crown

Actual Return of Excess to Crown was $110,000 less than budgeted for. This is attributable to a shortfall in estimated revenue of $75,000 and a decision part way through the 2016/2017 financial year to increase the Commission's Reserves by $60,000. Combined, this meant that the Return of Excess to the Crown of $50,000 was significantly less than the $160,000 budgeted for.