



**FINANCIAL SUPERVISORY COMMISSION**

**OF THE**

**COOK ISLANDS**

**ANNUAL REPORT**

**2018/2019**

# **REPORT ON ACTIVITIES**

**2018/2019**

## **Major Achievements**

The year ended 30 June 2019 marked the sixteenth 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 seven years ago on 1 July 2012, however the FIU has retained its operational independence and powers; as per the Financial Intelligence Unit Act 2015.

The financial environment in the Cook Islands remains stable and typical of our small island economy, the tourism and ancillary sectors continue to drive domestic growth with the international financial industry (or “offshore sector”) experiencing flat to negative growth. The financial sector remains susceptible to global trends and, particularly the international financial industry continues to face issues with de-risking, changing compliance standards and global pressure on preferential tax regimes.

In March 2019 the Commission revised its Vision and Mission Statement to better reflect the intentions of the Commission.

The FSC’s Vision is:

*To be a financial regulator that is committed to excellence, integrity and supportive of growth and development of the Cook Islands financial services centre.*

And the Vision is supported by the FSC’s Mission Statement which is:

*To oversee an effective and efficient prudential and investigative supervision regime applying risk-based, and intelligence-led, policies in line with internationally accepted best practice.*

The 2018/19 year was another period of significant activity for the FSC and FIU. The major achievements, aligning well with our Mission Statement, are scheduled below:

- leading on the third round Mutual Evaluation of the Cook Islands Anti Money Laundering and Countering the Financing of Terrorism regime which culminated in the tabling of the Cook Islands Mutual Evaluation Report (MER) at the 21<sup>st</sup> meeting of the Asia Pacific Group on Money Laundering (APG) in Kathmandu, in July 2018. Following the APG members approval of the Cook Islands MER the country was rated one of the top jurisdictions in the world for Technical Compliance, achieving Largely Compliant and above in respect to 38 of the 40

- Financial Action Task Force (FATF) Recommendations. Aside from Technical Compliance, the assessment rated the Cook Islands AML/CFT regime against FATF's 11 Immediate Outcomes with 5 Substantive, 4 Moderate and 2 Low ratings. This extremely positive achievement resulted in the Cook Islands being just one, of two members of the APG, on regular follow up reporting;
- licensing the Cook Islands Motor Centre Limited as an Insurance Agent, and 4 x Cube Limited as a Money Changer, in September 2018 and Apex Advice Group Limited as an Insurance Agent in November 2018;
  - the Head of FIU was part of the APG mutual evaluation team for the Solomon Islands. The Head was the teams FIU / Law Enforcement expert;
  - the Head of FIU was also in receipt of countering the financing of Proliferation of weapons of mass destruction training at FATF TREIN in Busan, South Korea;
  - signing Memoranda of Understanding with the Financial Intelligence Units of FIU - Bangladesh, FASU - Papua New Guinea and JAFIC – Japan, formalising our close working relationships, and exchange of information, with the respective agencies;
  - hosting the four-day ADB APEC Financial Regulator's Training Initiative Regional Seminar on Anti-Money Laundering and Counter Terrorist Financing Supervision in October 2018;
  - issuing six new Banking Prudential Statements in June 2019 as part of the three-year supervision framework enhancement programme being undertaken with the International Monetary Fund's Pacific Financial Technical Assistance Centre (PFTAC);
  - securing the Australian Prudential Regulation Authority's technical assistance for the onsite supervision inspection to the ANZ Bank in September 2018;
  - establishing appropriate internal, and external, control mechanisms for the holding of material funds vesting with the Registrar, and under the Commission's care for the six-year claimable period;
  - enhancing the implementation of the electronic Document Management System – M-Files;
  - overseeing the multi-agency two-week risk assessment exercise Operation Chatou, disseminating the outcomes to New Zealand, Australia and Pacific international organisations.;
  - achieving 'Approved Qualified Intermediary' status for the Cook Islands from the United States Internal Revenue Service in early 2019;
  - executing a Memorandum of Understanding with the Cook Islands Business Trade Investment Board to formalise the working relationship between our organisations;
  - hosting the Principal Advisor of New Zealand's Financial Management Authority to deliver AML/CFT training and technical development work in September 2018;
  - running a public education campaign, including publishing an Information Sheet, on the functions of the Commission in an effort to better inform the Cook Islands public of the FSC's role in protecting bank deposit holders, insurance policy holders and persons changing currency via a licensed financial institution;
  - commencing the AML/CFT desk-based assessment of Reporting Institutions identified as high risk;

- commenced consideration as to the appropriateness of the Commission having a supervisory role with the Cook Islands National Superannuation Fund, the Sovereign Wealth Fund and the Cook Islands Credit Bureau;
- reviewed and improved the Currency Reporting policies and procedures to align with the Currency Declaration Act 2015-2016 requirements;
- development and implementation of an Investigations case management database;
- development and implementation of a Person of Interest register for Investigation cases; and
- regular deployment of FIU Officers at the border to support Customs and Police Officials with screening of inward and outward persons, goods and craft for currency.

The Commission's focus for the year is essentially determined by the Statement of Corporate Intent that is provided to the Minister of Finance by 31 March of the preceding year. During this year the Commission was very pleased to complete all of the activities outlined in the Statement of Corporate Intent for 2018/19.

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.

As part of the preparatory work for the 2017/18 Mutual Evaluation, a suite of legislation was passed in June 2017. The new statutes focused on improving the Cook Islands anti-money laundering and the countering of terrorist financing and proliferation regime. Their effective implementation was an area of continued focus for the FIU throughout the 2018/19 year.

### **Performance Targets for the year from 1 July 2018 to 30 June 2019**

(1) To conduct, as often as deemed necessary, an onsite examination of all banks, insurers, trustee companies, captive insurers 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 two licensees placed on 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 licences being determined within the prescribed timeframe from the receipt of the completed application.

Actual Performance – This was achieved. All new licence applications were considered and approved within the prescribed timeframe. Cook Islands Motor Centre Limited was licensed as an Insurance Agent on 19 September 2018, 4 x Cube Limited was licensed as a Money Changer on 19 September 2018 and Apex Advice Group Limited was licensed as an Insurance Agent on 21 November 2018.

(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 annually review the operation of each trustee company against the ‘Trust and Corporate Service Providers 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 2018/19 trustee company onsite reviews focused on some areas of their operations considered higher risk, including international companies under the trustee company’s administration who are trading in the financial services industry, structures involving private trustee companies, data security and corporate conduct. In addition, each trustee company onsite review considered their application of the FTRA 2017.

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

Actual Performance – This was achieved. There was very limited down time for the online registry of international companies, trusts, partnerships and limited liability companies in 2018/19. 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 an amendment drafted to the International Trusts Act 1984, to enable the Commission to levy appropriate fees on unit trusts, awaiting Parliament’s next sitting. In addition, consultation was completed in respect to amendments to the Money Changers and Remittance Businesses Act 2009 to require such licensees to have an annual external audit and to enhance supervision of online money

changers. Progress on legislative amendment to the International Companies Act 1981-82 (prohibition of bearer shares), Foundations Act 2012 and Trustee Companies Act 2014 was made to finalise this work for industry consultation to commence in the 2019/2020 work year.

(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 including short term training with the Reserve Bank of New Zealand.

Actual Performance – This was achieved. 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 ANZ Bank. And in October 2018 the Commission hosted an ADB APEC Financial Regulator’s Training Initiative regional seminar on Anti-Money Laundering & Counter Terrorist Finance Supervision at the Edgewater Resort and Spa.

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

Actual Performance – This was achieved. 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 will be achieved. This annual report will be filed with the Minister on or before 30 September 2019. 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
- 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 – This was achieved. One trustee company was placed on enhanced supervision (fit and proper) and one bank was placed on enhanced supervision (credit risk). In addition, one trustee company licence application was declined as to approve it would not have been in the best interests of the reputation and integrity of the Cook Islands in financial and commercial matters.

(12) To continue to promote regular analysis of AML/CFT risk within the Cook Islands.

Actual Performance – The FIU continues to promote regular analysis of AML/CFT risk within the Cook Islands. The FIU commenced a desk-based review of all high-risk reporting institutions. Compliance issues have been addressed through FIU recommendations or through support feedback. The FIU maintains regular dialogue with key compliance and MLRO personnel providing regular support and advice. A system of providing feedback on all suspicious activity reports received was introduced and is of great benefit to RI's in identifying and mitigating risks.

(13) To develop policies, procedures and guidelines for administering 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 – The FIU continues to monitor and review the administration of the FTRA 2017. The desk-based review has provided the FIU the opportunity to review and measure the effectiveness of the policy, procedures and guidelines. The FIU has also made available the opportunity for all RI's to undertake online computer-based training with regards to AML/CFT responsibilities.

(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 – The FIU has led significant work around implementation and testing of the Currency Declaration Act 2015-2016. A review of the policy, the performance of training, both domestic and internationally, have upskilled the jurisdiction. The investigation of offences under the FIU Act and the FTR Act have been given a high priority with the establishment of the Senior Investigation Officer post. Excellent progress can be reported.

(15) To coordinate the implementation of recommendations arising from the Cook Islands 2017 Mutual Evaluation.

Actual Performance – This is work in progress with the FIU and FSC endeavoring to implement the recommendations of the September 2018 Mutual Evaluation Report. Work

has commenced to seek a re-rating of Recommendation 7 Targeted Financial Sanctions – Proliferation at the time of the Cook Islands Follow Up Review in 2019/2020.

(16) To efficiently attend to all other obligations under the legislation which the Commission has responsibility to administer.

Actual Performance – This was achieved. Notably the material funds vesting with the Registrar under the International Companies Act 1981/82, in December 2018, required significant administrative oversight throughout the period under review.

## **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, considering 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, and an annual critique of the statutory accounts and external audit reports. In addition, an onsite inspection of each bank is performed annually.

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. The latter part of 2018/19 included supervisory preparation work for the fifth mission visit to the Cook Islands, in July 2019, to develop a regional leading, fully integrated and cohesive risk-based supervision framework.

As part of the Banking Supervision Enhancement Strategy, in June 2019 the FSC issued six new Banking Prudential Statements covering Credit Risk, Governance and Risk Management, Operational Risk, Business Continuity Management, Outsourcing and Investment Risk.

### ***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 2018/19.

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***

Both onsite and offsite supervision techniques are applied in respect to our oversight of the three captive insurers; generally including an annual face-to-face meeting with the company directors.

### ***Money Changing & Remittance Businesses***

The Commission undertook various onsite and offsite analysis of the three licensed Money Changers during 2018/19.

### ***Trustee Company Business***

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 Trust and Corporate Service Providers.

### ***Superannuation***

Given the lapse in time since supervision of the Superannuation scheme was first raised by Government with the Commission, work is currently being undertaken to assist the Minister of Finance in determining whether the Cook Islands National Superannuation Fund, given its compulsory nature, should be under regulatory oversight by the Commission.

### **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 2018/19 was 53, an increase of two (+4%) from the previous year.

### ***International Companies***

The number of international companies for which registration and renewal fees were received in 2018/19 was 871, a decrease of 60 (-6%) from the previous year.

### ***International Trusts***

The number of international trusts for which registration and renewal fees were received in 2018/19 was 2,064, a decrease of 118 (-5%) from the previous year.

### ***Limited Liability Companies***

The number of limited liability companies for which registration and renewal fees were received in 2018/19 was 356, a decrease of two (-1%) from the previous year.

### ***International Partnerships***

The number of international partnerships for which registration and renewal fees were received in 2018/19 was five, an increase of one (+25%) from 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 responsible for investigation and prosecution of financial misconduct. In addition, it is 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 Taskforce.

In July 2018, an external contractor Evan Short, was engaged to examine FIU-In-A-Box Data Base and provide interim and long-term solutions for current Data Base Technical deficiencies. A proposed interim to medium term solution with the development of software to facilitate the conversion of data received from reporting institutions into an excel format for interim interrogation and analysis was provided. In December that solution – FIU WIZARD – was delivered for testing. The software is currently undergoing further development to meet the Data Base needs of FIU.

In July 2018, FIU in conjunction with Cook Islands Police and Crown Law prepared and filed a restraint application with the Courts. In August 2018 the Restraint Application was granted and the relevant documents were then served on all respondents to retain in excess of \$20,000. In December 2018 funds related to the Restraint Application were forfeited to the Crown. FIU served the pecuniary penalty order to transfer the funds concerned to a Confiscated Funds Account. All this activity was related to a May 2018 multi-agency operation which was organised and executed as part of a Methamphetamine and Clandestine Lab training.

In August 2018, FIU participated in a Ministry of Marine Resources (MMR) Monitoring, Control and Surveillance Gap Analysis Program. The FIU's contribution to the program included information on key FIU functions and responsibilities, the most relevant being responsibility for the administration and enforcement of the AML/CFT framework. The FIU also provided links to their regional and international law enforcement network, as well access to information outside the scope of the MMR resource and network, as well as offering to provide assistance with MMR compliance and due diligence functions.

A new position of Senior Investigation Officer was established in December 2018. This position will discharge the FIU mandate for the investigation and prosecution of financial misconduct. Wayne Robati, formerly a senior customs officer, was appointed to the role and commenced duties on 9 December 2018.

In January 2019, Cook Islands National Intelligence Taskforce (CINIT) Workshop was delivered. The workshop produced a National Intelligence Assessment on illicit drugs, utilising information from attending agencies. This will enable the CINIT member agencies to have a robust intelligence picture of illicit drugs in the Cook Islands for them to base future operational and strategic activities.

In March 2019, FIU undertook a Compliance Target Audit. The Audit was to review a reporting institutions failure to meet certain provision of the Financial Transactions Reporting Act 2017. Audit identified process and procedural deficiencies and a remedial action plan was developed and delivered.

In May 2019, FIU delivered the first UNODC Global eLearning Programme Training online. The program provided flexibility and convenience for Reporting Institutions and Law Enforcement Agencies to undertake AML/CFT staff training at their place of employment.

During the year to 30 June 2019 FIU staff members partook in a range of training and professional development opportunities including the following:

- The Head of FIU in August 2018 completed the FATF TREIN training on Countering the financing of proliferation of weapons of mass destruction. The training took place in Busan, South Korea and was funded by the APG sponsorship.
- The Principal Analyst of the New Zealand Financial Markets Authority provided training and guidance with regard to AML/CFT compliance, sharing with staff

- members his experience and knowledge. This was attended by Mr. Cedric Toru, Mrs. June George and Mr. James Cargill. The wider FIU and FSC also benefitted from presentations on various AML/CFT topics;
- Mr. Cedric Toru attended the Countering Terrorist Financing Summit, Bangkok, Thailand in November 2018. This was possible through the generous support of AUSTRAC;
  - the National Workshop on Financial Crime was held in December 2018. This training was organised by the Oceania Customs Organisation Secretariat and trainers were from the New Zealand Customs and Police Services, the Australian Federal Police and the PTCCC. The training was attended by Mrs. June George, Ms. Emilie Pierce, Mr. Walter Henry and Mr. James Cargill;
  - Ms. Emilie Pierce, with the support of the APG, attended the FATF standards training course held in Auckland, New Zealand in March 2019; and
  - Ms. Pierce was invited by the Australian Department of Home Affairs to the inaugural Women Against Money Laundering Conference, held in Canberra, Australia in May 2019.

The Head of FIU participated in the following international and domestic forums as outlined below:

- the Asia Pacific Group on Money Laundering's plenary in Kathmandu, Nepal in July 2018;
- Maritime Marine Resources Monitoring, Control and Surveillance (MCS) gap analysis project;
- the Egmont Plenary, Regional, Heads of FIU, and Working Group meetings held in Sydney in September 2018;
- to present on behalf of the Cook Islands at the Anti-Money Laundering and Countering the Financing of Terrorism Conference in Wellington, New Zealand in October 2018;
- the Egmont Working Group and Heads of FIUs Meeting in Jakarta, Indonesia in January 2019; and
- the recent review for the Cook Islands by the UNODC in respect of the United Nations Convention Against Corruption (UNCAC).

### **Mutual Evaluation Assessment Team**

The Head of FIU was part of the Asia Pacific Group's mutual evaluation team for the Solomon Islands. The Head was the team's FIU / Law Enforcement expert. The Solomon Islands mutual evaluation report will be tabled at the APG Plenary meeting in Canberra, Australia in August 2019 and published in September 2019.

### **Suspicious Activity Reports**

Reporting institutions are required, under section 47 of the FTRA 2017, to report any suspicious activity to the FIU. The FIU received 92 Suspicious Activity Reports (SAR) in 2018/19, and five were disseminated to the relevant law enforcement and regulatory

authorities in the Cook Islands and fourteen to our counterpart authorities in other jurisdictions. The 92 reports represent a 26% decrease from the previous year; this reduction can be attributed to the work of the FIU to address issues with defensive reporting.

### **Other Transaction Reports**

Reporting institutions are required, under section 45 of the FTRA 2017, 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 electronic transfers in and out of the Cook Islands must be reported. The significant uplift can be attributed to all of the required reporting institutions now filing reports electronically.

Under section 7 of the Currency Declaration Act 2015/2016 all travelers 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 reports received by the FIU in 2018/19. 2017/18 figures are included for comparative purposes.

<b>Type of Report</b>	<b>Number of Reports 2018/19</b>	<b>Number of Reports 2017/18</b>	<b>% increase/decrease</b>
Suspicious Activity Report	92	126	-26.98%
Cash Transaction Report	4,759	4,484	+6.13%
Electronic Funds Transfer Report	68,468	42,310	+61.82%
Border Cash Report	23	23	0.00%
Intelligence Report	36	24	+50.00%

### **Investigations**

With the appointment of a full-time investigator in December 2018 the FIU has been reviewing and continually improving its investigative capabilities. Since the inception of the new role, there are currently 2 large scale joint agency operations underway involving FIU, Police and Customs. Both these operations are focused on detecting, disrupting and dismantling organised crime groups involved in drug trafficking and distribution in the

Cook Islands. The operations are also targeting proceeds of crime, accumulation of assets from these proceeds and money laundering offences with the ultimate goal to forfeit the proceeds/assets gained by the organised crime groups.

The FIU also supports local law enforcement agencies such as the Cook Islands Police Service and Cook Islands Customs Service with criminal investigations through the analysis and investigation of associated financial activity. This type of activity is called a parallel financial investigation. 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 local authorities with many of their investigations, some of which have ended in successful prosecutions.

The FIU also receives complaints from the general public/other government agencies. Where the FIU Act 2015 allows FIU to investigate, collect evidence and prosecute we may proceed with prosecution. If the complaint falls outside of FIU's legal jurisdiction then the case will be referred to the relevant agency for further action.

The outcome for the year under review is:

- 2 ongoing joint agency operations;
- 1 parallel financial investigation carried out and still on-going;
- 7 cases under ongoing investigation; and
- 1 complaint investigated and referred to Police for further action

The FIU has also assisted a number of foreign authorities throughout the year through the auspices of Mutual Legal Assistance requests, Egmont Requests and Agency to Agency Requests external to Egmont.

The FIU received a total of 16 Egmont Requests:

- 4 requests with no provenance link to the Cook Islands;
- 1 request related to a possible terrorist act, and
- 11 for fraud, tax crimes and money laundering.

Other external requests for assistance included:

- 3 from the US Internal Revenue Service;
- 2 from the United States Securities Exchange Commission;
- 1 from the New Zealand Serious Fraud Office; and
- 1 from Papua New Guinea's Financial Analysis and Supervision Unit.

Domestic requests for assistance:

- 1 from the Ministry of Foreign Affairs;
- 8 from the Cook Islands Police Service;

- 1 from the Customs Services;
- 2 from the FSC; and
- 3 from intelligence sources.

### Operation Chatou

Operation Chatou, a joint agency border cash detection exercise, was carried out from 13 to 28 May 2019. Six agencies (FIU, Customs, Police, Airport Security, Bio-security and the Ministry of Marine Resources) were involved. The operation was initiated as a result of FIU seeing the need work together with other agencies to detect and disrupt currency being laundered across the Cook Islands borders. Key highlights of the operations were:

- FIU working operationally at the ports was positively received and highlighted the threat this area presents;
- the multi-agency approach was very positive and evidenced benefits of ‘working together’;
- the Ministry of Marine Resources – Offshore Division provided support through regular updates on marine vessel positions in the Cook Islands EEZ using their VMS system;
- the deployment of the Detector Dog Unit at departures was effective with processes around detection and referral to Customs for search tested;
- the Airport Security to Customs referral system was tested and was very effective. This process will set the scene for future cooperation between Airport Security and Customs when screening outgoing persons and luggage at the airport; and
- joint agency searches were effective and showed cooperation at the border.

### **Financial Performance**

The 2018/19 Financial Performance of the Commission far exceeded expectations. This was primarily attributable to a significant variance between the USD exchange rate at the time the budget was prepared, and that actually achieved during this financial year.

In addition, there were significant savings in expenditure due to specific government funding for Special Investigations and a number of fully funded professional development opportunities being offered to various staff members.

Actual revenue for the year to 30 June 2019 was \$1,521,721 and expenditure totalled \$1,221,492 resulting in a net surplus of \$300,229.

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 \$275,000 was returned to the Crown as excess funds, pursuant to section 24(2) of the FSC Act 2003. In addition, the Commission established a Capital Reserve to assist in funding new supervisory and intelligence software packages; any underspend in this \$100,000 reserve is also to be returned to the Crown as excess funds.

On 19 September 2018 the Cook Islands Audit Office issued an unqualified audit opinion on the FSC's 2017/18 statutory accounts. This was accompanied by CIAO's management letter that recognised and acknowledged the Commission's Management for their ability to maintain and monitor the strong internal control systems prevalent within the organisation. The management letter identified no areas for improvement within the Commission's financial systems.

### **The Board**

Following the resignation of the (then) Chairman Mr. Raymond Newnham in November 2018, and subsequent resignation of Ms. Maddy Sword in April 2019, the Board of the Commission as at 30 June 2019 comprised:

Geoff Stoddart, Chairman  
Martha Henry  
Fletcher Melvin  
Tina Newport  
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 Commissioner and Deputy Commissioner**

The Commissioner is responsible for the day-to-day operation 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.

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 2018/19 the Commissioner took part in the following five international meetings:

- the Asia Pacific Group on Money Laundering's plenary in Kathmandu, Nepal in July 2018;

- the Association of Financial Supervisors Pacific Countries annual meeting in Santos, Vanuatu in August 2018 immediately following the Bank South Pacific Supervisory College meeting at the same venue;
- the Group of International Financial Centre Supervisor’s meeting and the International Conference of Banking Supervisors in Abu Dhabi, United Arab Emirates in November 2018;
- the GIFCS plenary in London, England in April 2019; and
- the IMF’s Correspondent Banking and Remittances workshop, in Auckland, New Zealand in May 2019.

The Deputy Commissioner, Ms. Cheryl McCarthy, also participated in five international forums during 2018/19 as outlined below:

- the Asia Pacific Group on Money Laundering’s plenary in Kathmandu, Nepal in July 2018;
- the IMF’s regional forum on Strengthening Disaster Risk in Singapore, in September 2018;
- the Financial Action Task Force’s plenary meeting in Paris, France, in October 2018;
- the APG’s Mutual Evaluation Assessor Training in Auckland, New Zealand in March 2019; and
- the APG’s Mission to Nuku’alofa, Tonga to provide guidance to the Tongan authorities in preparation for their upcoming November 2019 Mutual Evaluation.

### **Personnel**

As at 30 June 2019, the staff of the Commission comprised the Commissioner, the Deputy Commissioner/Registrar, the Head of the FIU, and nine staff members.

In April 2019 the Commission outsourced its accounting function to a Chartered Accountant, and engaged a specialist Information Technology Analyst to focus on ensuring the FSC and FIU’s technology systems remain as secure, efficient and robust as possible.

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

### **Professional Training & Development**

As well as hosting the ADB APEC Financial Regulator’s Training Initiative regional seminar on Anti-Money Laundering & Counter Terrorist Finance Supervision, attended by nine staff members, a number of individual training and professional development opportunities were undertaken by staff including:

- Ms. Amanda Tuatai attended the one-week APG plenary in Kathmandu, Nepal in July 2018;
- Ms. Margaret Tangimetua and Ms. Munokoa Porea attended the two-day BSP Supervisory College, ahead of the three-day Association of Financial Supervisors Pacific Countries annual meeting, in Santos, Vanuatu in August 2018;
- Mr. James Cargill completed the Chartered Accountants Australia New Zealand Capstone workshop in Sydney, Australia in October 2018;
- Ms. Karen Ngamata and Mr. Wayne Robati completed Microsoft Office 2016 training from Prime Solutions Training & Consulting in March 2019; and
- Ms. Margaret Tangimetua attended the two-week IMF Financial Sector Surveillance course in Singapore in June 2019.

A number of staff attended the monthly Cook Islands Accountants Group professional development sessions, particularly those of direct relevance to the Commission's work. The technical training and support provided by APRA, APG, Pacific Financial Technical Assistance Centre and APEC's Financial Regulator's Training Initiative is invaluable to the Commission.

The Commission will continue to seek relevant training opportunities to enhance the development of all staff.

### **Other Matters**

The Commission undertook a high-level gap analysis comparing the Group of International Financial Centre Supervisor's Trust and Corporate Service Provider Standard against the supervisory and regulatory practices in place for Cook Islands licensed Trustee Companies. Further enhancements, as a result of this review, will be implemented in the Commission's supervisory regime in 2019/20.

Following on from publication of the Cook Islands Mutual Evaluation Report in September 2018, various steps were taken to promote the extremely positive report achieved by the Cook Islands.

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. As a result of the Financial Services Industry Forum held in February 2019, the Commission embraced recommended changes where it was deemed appropriate.

Ongoing consideration of a potential role the Commission may have in respect to Cook Islands National Superannuation Fund, the Sovereign Wealth Fund and the Cook Islands Credit Bureau remained under review.

A public education campaign, focusing on the FSC's role to protect bank deposit holders, insurance policy holders and persons changing currency was undertaken in May 2019.

This included meetings with key stakeholders, a two-week newspaper public notice campaign, provision of a glossy information sheet to all licensees and online publications.

Further embedding of the M-files document management system, across the office, involved additional in-house training provided by the software expert in June 2019 with this tailored training attended by all Commission and FIU personnel.

No specific written policy directions were raised by the Minister of Finance during the period covered by this report, aside from his request for our guidance in respect to enabling legislative amendment to allow Cook Islands businesses to recover their credit card surcharges. The Commission assisted Internal Affairs in this regard, through provision of a draft cabinet submission to accommodate the Minister's request.

For and on behalf of the Board

A handwritten signature in blue ink, appearing to read 'Geoff Stoddart', is positioned above the printed name.

**Geoff Stoddart**  
**Chairman**  
**20 September 2019**



**FINANCIAL SUPERVISORY COMMISSION**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2019**



**FINANCIAL SUPERVISORY COMMISSION**

**FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019**

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FINANCIAL SUPERVISORY COMMISSION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

DIRECTORY

**Minister**

The Honourable Mark Brown

**Members of the Board**

Geoffrey Stoddart (Chairman)

Fletcher Melvin

Christina Newport

Madeilene Sword

Gaye Whitta

**Business Address**

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Bermuda House

Avarua

Rarotonga

Cook Islands

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Rarotonga

Cook Islands

**Contact Details**

Phone: (682) 20 798

Email: [inquire@fsc.gov.ck](mailto:inquire@fsc.gov.ck)

**Auditors**

Cook Islands Audit Office

**Bankers**

Australia and New Zealand Banking Group Limited (ANZ CI)

ANZ Bank New Zealand Limited (ANZ NZ)

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.

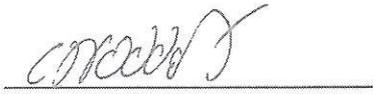
We have the responsibility of establishing and maintaining, and we have established and maintained, a system of internal control procedures that provide reasonable assurance as to the integrity and reliability of financial reporting.

In our opinion, these financial statements fairly reflect the financial position and operations of the Financial Supervisory Commission for the year ended 30 June 2019.

  
Cheryl McCarthy  
Acting Commissioner

19 September 2019

Date

  
Geoffrey Stoddart  
Chairman

19 September 2019

Date





## Independent Auditor's Report

To the shareholder of the Financial Supervisory Commission.

### Report on the Audit of the Financial Statements

#### Opinion

In our opinion, the accompanying financial statements of the Financial Supervisory Commission ("the Commission") on pages 7 to 25:

- i. present fairly in all material respects the Commission's financial position as at 30 June 2019 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with generally accepted accounting practices as defined by the Ministry of Finance and Economic Management Act 1995-96 and International Public Sector Accounting Standards (IPSAS) issued by the International Public Sector Accounting Standards Board.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 30 June 2019;
- the statement of comprehensive revenue and expenses, the statement of changes in equity, the statement of appropriations and cash flow statement for the year then ended; and
- notes to the financial statements, including a summary of significant accounting policies.

#### Basis for Opinion

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAI). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Commission in accordance with ISSAI 30 Code of Ethics issued by the International Organization of Supreme Audit Institutions (INTOSAI Code of Ethics), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the INTOSAI Code of Ethics.

Our responsibilities under ISSAI are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

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

#### Other Information

The Commissioner, on behalf of the Commission, is responsible for the other information included in the entity's Financial Statements. Our opinion on the financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears materially misstated. If, based on the work we have

performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **Responsibilities of the Commissioner and the Board of Directors for the Financial Statements**

The Commissioner, on behalf of the Commission is responsible for:

- the preparation and fair presentation of the financial statements in accordance with IPSAS;
- implementing necessary internal control to enable the preparation of a set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

The Board of Directors are responsible for overseeing the Commission's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objective is:

- to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAI will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of these financial statements is located at the ISSAI website at:

[http://www.issai.org/en\\_us/site-issai/issai-framework/4-auditing-guidelines.htm](http://www.issai.org/en_us/site-issai/issai-framework/4-auditing-guidelines.htm)

This description forms part of our independent auditor's report.

Our audit was completed on 19 September 2019 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 2019**

In New Zealand Dollars	Notes	Budget 2019 \$	Actual 2019 \$	Actual 2018 \$
<b>Revenue</b>				
Trading Revenue	2	1,350,756	1,502,197	1,438,772
Other Revenue	2	14,760	19,524	15,426
<i>Total Revenue</i>		1,365,516	1,521,721	1,454,198
<b>Expenditure</b>				
Personnel Expenses	3	817,240	780,830	792,929
Audit Fees		3,000	2,500	2,500
Depreciation and Amortisation	11&12	67,750	73,664	59,457
Other Expenses	4	401,200	366,133	371,563
<i>Total Expenditure</i>		1,289,190	1,223,127	1,226,449
<b>Surplus</b>		76,326	298,594	227,749
<b>Other Comprehensive Revenue and Expense</b>				
Other Comprehensive Revenue and Expense		-	-	-
<i>Total Other Comprehensive Revenue and Expense</i>		-	-	-
<b>Total Comprehensive Revenue and Expense</b>		<b>76,326</b>	<b>298,594</b>	<b>227,749</b>

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



**FINANCIAL SUPERVISORY COMMISSION**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2019**

In New Zealand Dollars	Notes	Actual 2019 \$	Actual 2018 \$
<b>Assets</b>			
<b>Current Assets</b>			
Cash and Equivalents	5	66,988	76,964
Vested Assets Clearing Account		98	113
Prepayments		36,423	26,748
Reserve Accounts	6	610,000	510,000
Debtors and Other Receivables	7	6,100	10,753
Accrued Interest		2,710	2,498
Tenancy Bond		2,080	2,080
Trust Accounts	10	6,786,496	342,169
<i>Total Current Assets</i>		<b>7,510,895</b>	<b>971,325</b>
<b>Non-Current Assets</b>			
Property, Plant, and Equipment	11	62,462	53,438
Intangible Assets	12	59,329	104,765
<i>Total Non-Current Assets</i>		<b>121,792</b>	<b>158,203</b>
<b>Total Assets</b>		<b>7,632,687</b>	<b>1,129,528</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Creditors and Other Payables	8	76,447	47,515
Employee Entitlements	9	19,344	13,038
Trust Liabilities	10	6,786,496	342,169
<i>Total Current Liabilities</i>		<b>6,882,287</b>	<b>402,722</b>
<b>Total Liabilities</b>		<b>6,882,287</b>	<b>402,722</b>
<b>Net Assets</b>		<b>750,400</b>	<b>726,806</b>
<b>Equity</b>			
Contributed Capital		726,806	760,800
Accumulated Surplus / (Deficit)		23,594	(33,994)
<b>Total Equity</b>	13	<b>750,400</b>	<b>726,806</b>

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



**FINANCIAL SUPERVISORY COMMISSION  
STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2019**

In New Zealand Dollars	Notes	Budget 2019 \$	Actual 2019 \$	Actual 2018 \$
Balance as at 1 July		726,806	726,806	760,800
Total Comprehensive Revenue and Expense for the year		76,326	298,594	227,749
Return of Excess to the Crown		(75,000)	(275,000)	-
Financial Services Development Authority (FSDA) Levy paid to the Crown		-		(261,743)
<b>Balance as at 30 June</b>	<b>13</b>	<b>728,132</b>	<b>750,400</b>	<b>726,806</b>

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



**FINANCIAL SUPERVISORY COMMISSION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2019**

In New Zealand Dollars	Actual 2019 \$	Actual 2018 \$
<b>Cash Flows from Operating Activities</b>		
Receipts from Licensees	1,532,093	1,460,354
Receipts from Interest	15,752	16,049
Payments to Employees	(848,624)	(879,269)
Payments to Suppliers	(300,505)	(267,723)
Net Cash Flows from Operating Activities	398,716	329,411
<b>Cash Flows from Investing Activities</b>		
Sale of Property Plant, Equipment and Intangible Assets	3,560	-
Purchase of Property, Plant, Equipment and Intangible Assets	(37,252)	(51,085)
Net Cash Flows used in Investing Activities	(33,692)	(51,085)
<b>Cash Flows from Financing Activities</b>		
Distributions to the Crown	(275,000)	-
Financial Services Development Authority (FSDA) Levy paid to the Crown		(261,743)
Cash transferred to Reserve Accounts	(100,000)	-
Net Cash Flows used in Financing Activities	(375,000)	(261,743)
<b>Net Increase in Cash and Equivalents</b>	<b>(9,976)</b>	<b>16,583</b>
Cash and Equivalents as at 1 July	76,964	60,381
<b>Cash and Equivalents as at 30 June</b>	<b>66,988</b>	<b>76,964</b>

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



**FINANCIAL SUPERVISORY COMMISSION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2019**

In New Zealand Dollars	Actual 2019 \$	Actual 2018 \$
<b>Reconciliation of Net Surplus / (Deficit) to Net Cash Flows from Operating Activities</b>		
<b>Reported Surplus</b>	298,594	227,749
<b>Add / (less) Non-cash items</b>		
Depreciation and Amortisation	73,664	59,457
<i>Total Non cash items</i>	372,258	287,206
<b>Add / (less) movements in Statement of Financial Position items</b>		
(Increase) / decrease in Debtors and Other Receivables	4,653	21,582
(Increase) / decrease in Prepayments	(9,675)	26,307
(Increase) / decrease in Accrued Interest	(212)	623
(Increase) / decrease in Tenancy Bond	-	(2,080)
(Increase) / decrease in Vested Assets Clearing Account	16	60
Increase / (decrease) in Accounts Payable	(462)	(296)
Increase / (decrease) in Accrued Payables	(150)	(4,000)
Increase / (decrease) in Credit Card Liability	(472)	(1,307)
Increase / (decrease) in Pay As You Earn (PAYE) Payable	848	1,535
Increase / (decrease) in Superannuation Payable	6,427	-
Increase / (decrease) in Value Added Tax (VAT) Payable	(2,503)	3,656
Increase / (decrease) in Revenue Received in Advance	25,243	-
Increase / (decrease) in Employee Entitlements	6,306	(3,875)
<i>Net movement in working capital items</i>	30,019	42,205
<b>Net Cash Flows from Operating activities</b>	<b>402,277</b>	<b>329,411</b>

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



**FINANCIAL SUPERVISORY COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2019**

**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.



**FINANCIAL SUPERVISORY COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2019**

**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 2018/2019, as approved by the Board of Directors on 28 March 2018.

**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**

statements.



**FINANCIAL SUPERVISORY COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2019**

**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 2019 \$	Actual 2019 \$	Actual 2018 \$
<b>Trading revenue</b>			
Licensing fees	110,087	117,043	111,478
Registration fees	114,522	104,118	126,754
Renewal fees	1,051,147	1,156,376	1,126,783
Other fee income	75,000	124,660	73,757
<b>Total Trading Revenue</b>	<b>1,350,756</b>	<b>1,502,197</b>	<b>1,438,772</b>
<b>Other revenue</b>			
Interest revenue	14,760	15,964	15,426
Gain on Sale of Assets	-	3,560	-
<b>Total Other Revenue</b>	<b>14,760</b>	<b>19,524</b>	<b>15,426</b>

**Note 3: Personnel Expenses**

**Accounting Policy**

**Superannuation schemes**

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

**Breakdown of Personnel Expenses**

	Budget 2019 \$	Actual 2019 \$	Actual 2018 \$
Salaries and Wages	776,240	738,813	759,501
Defined Contribution Plan - Employer Contributions	38,000	35,711	37,303
Increase / (Decrease) in Employee Entitlements	3,000	6,306	(3,875)
<b>Total Personnel Expenses</b>	<b>817,240</b>	<b>780,830</b>	<b>792,929</b>

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



FINANCIAL SUPERVISORY COMMISSION

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2019

**Note 4: Other Expenses**

**Breakdown of Other Expenses**

	Budget 2019 \$	Actual 2019 \$	Actual 2018 \$
Board Fees	84,000	81,375	84,000
Computer Costs	32,000	29,378	10,747
Conferences & Workshops	12,000	7,512	12,514
Electricity	14,400	10,637	12,464
Lease Costs	33,000	30,000	30,000
Legal and Professional Fees	25,000	13,993	20,143
Online Registry Expenses	39,600	33,430	34,068
Recruitment and Relocation Expenses	-	-	16,156
Staff Training	13,000	19,276	14,091
Subscriptions	28,000	28,286	26,879
Travel	53,200	45,642	48,836
Other Operating Costs	67,000	66,604	61,665
<b>Total Other Expenses</b>	<b>401,200</b>	<b>366,133</b>	<b>371,563</b>

**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 2019 \$	Actual 2018 \$
Cash at bank (ANZ CI)	43,935	76,914
Cash at bank (ANZ NZ)	23,004	-
Petty Cash	50	50
<b>Total Cash and Equivalents</b>	<b>66,988</b>	<b>76,964</b>

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



**FINANCIAL SUPERVISORY COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2019**

**Note 6: Reserve Accounts**

**Accounting Policy**

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

**Breakdown of Reserve Accounts**

	Term	Interest Rate	Actual 2019 \$	Actual 2018 \$
Term Deposit (BCI)	6 months	4.00%	250,000	250,000
Term Deposit (ANZ CI)	3 months	1.20%	100,000	-
Term Deposit (ANZ CI)	3 months	1.90%	160,000	160,000
Term Deposit (ANZ CI)	1 months	1.80%	100,000	100,000
<b>Total Reserve Accounts</b>			<b>610,000</b>	<b>510,000</b>

**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**

	Actual 2019 \$	Actual 2018 \$
<b>Receivables under non-exchange transactions</b>		
Accounts Receivable (gross)	3,100	-
Less: Provision for doubtful debts	-	-
Accounts Receivables (net)	3,100	-
Sundry Receivables	3,000	10,753
<b>Total Receivables</b>	<b>6,100</b>	<b>10,753</b>

Inter-ministry receivables included above to Crown Agencies

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

	2019			2018		
	Gross	Provision	Net	Gross	Provision	Net
Not past due	6,100	-	6,100	10,753	-	10,753
Past due 0 - 30 days	-	-	-	-	-	-
Past due 31 - 60 days	-	-	-	-	-	-
Past due over 60 days	-	-	-	-	-	-
	<b>6,100</b>	<b>-</b>	<b>6,100</b>	<b>10,753</b>	<b>-</b>	<b>10,753</b>

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 collectable and none have been written off.

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



FINANCIAL SUPERVISORY COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2019

**Note 8: Creditors and Other Payables**

**Accounting Policy**

Short-term payables are recorded at the amount payable.

**Breakdown of Payables and further information**

	Actual 2019 \$	Actual 2018 \$
<b>Payables under exchange transactions</b>		
Accounts Payable	6,056	6,518
Accrued Payables	-	150
Credit Card Liability	1,331	1,803
Pay As You Earn (PAYE) Tax Payable	13,160	12,312
Super Annuation Payable	6,427	-
Value Added Tax (VAT) Payable	14,838	17,341
Revenue Received in Advance	34,635	9,391
<i>Total payables under exchange transactions</i>	<i>76,447</i>	<i>47,515</i>
<b>Total payables</b>	<b>76,447</b>	<b>47,515</b>
Inter-ministry Payables included above to Crown Agencies	34,426	32,528

**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 2019 \$	Actual 2018 \$
Accrued Salaries and Wages	9,084	8,274
Annual Leave	10,260	4,764
<b>Total Employee Entitlements</b>	<b>19,344</b>	<b>13,038</b>

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



**FINANCIAL SUPERVISORY COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2019**

**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 Accounts and Trust Liabilities**

	Actual 2019 \$	Actual 2018 \$
<b>Trust Assets</b>		
New Zealand Dollar (NZD) Vested Assets Account (ANZ CI)	-	170,041
New Zealand Dollar (NZD) Vested Assets Account (ANZ NZ)	1,001,408	-
Australian Dollar (AUD) Vested Assets Account (ANZ NZ)	5,613,365	-
Australian Dollar (AUD) Vested Assets Account (CSB)	105,609	109,269
New Zealand Dollar (NZD) Client Trust Account (CSB)	10,030	10,030
United States Dollar (USD) Client Trust Account (CSB)	56,085	52,829
<b>Total Trust Assets</b>	<b>6,786,496</b>	<b>342,169</b>
<b>Trust Liabilities</b>		
NZD Vested Assets Account on behalf of the Crown (ANZ CI)		170,041
NZD Vested Assets Account on behalf of the Crown (ANZ NZ)	1,001,408	-
AUD Vested Assets Account on behalf of the Crown (ANZ NZ)	5,613,365	-
AUD Vested Assets Account on behalf of the Crown (CSB)	105,609	109,269
NZD Client Security Bond (CSB)	10,030	10,030
NZD Client Imprest Account (CSB)		-
USD Client Imprest Account (CSB)	56,085	52,829
<b>Total Trust Liabilities</b>	<b>6,786,496</b>	<b>342,169</b>

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



FINANCIAL SUPERVISORY COMMISSION  
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**Note 11: Property, Plant, and Equipment**

**Accounting Policy**

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

**Additions**

The cost of purchased property, plant, 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 Financial 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 costs 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 property, plant, and equipment is provided for 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%
Furniture and Fittings	10 years	10%
Motor Vehicles	5 years	20%
Plant 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.

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



FINANCIAL SUPERVISORY COMMISSION  
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**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 \$
<b>Cost</b>						
Balance as at 1 July 2017	137,139	38,517	43,057	43,301	65,451	327,465
Additions	15,789	2,874	-	-	4,426	23,089
Disposals	-	-	-	-	-	-
Balance as at 30 June 2018	152,928	41,391	43,057	43,301	69,877	350,554
<b>Accumulated depreciation and impairment losses</b>						
Balance as at 1 July 2017	132,057	35,227	39,032	39,795	34,367	280,478
Depreciation	3,081	482	4,025	2,247	6,803	16,638
Accumulated depreciation on disposals	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-
Balance as at 30 June 2018	135,138	35,709	43,057	42,042	41,170	297,116
<b>Carrying Amount</b>						
As at 30 June 2018	17,790	5,682	-	1,259	28,707	53,438
<b>Cost</b>						
Balance as at 1 July 2018	152,928	41,391	43,057	43,301	69,877	350,554
Additions	3,200	-	24,339	-	9,713	37,252
Disposals	-	471	22,933	-	-	23,404
Balance as at 30 June 2019	156,128	40,920	44,463	43,301	79,590	364,402
<b>Accumulated depreciation and impairment losses</b>						
Balance as at 1 July 2018	135,138	35,709	43,057	42,042	41,170	297,116
Depreciation	5,187	759	3,245	794	18,243	28,228
Accumulated depreciation on disposals	-	471	22,933	-	-	23,404
Impairment losses	-	-	-	-	-	-
Balance as at 30 June 2019	140,325	35,997	23,369	42,836	59,413	301,940
<b>Carrying Amount</b>						
As at 30 June 2019	15,803	4,922	21,094	466	20,178	62,462

**Capital commitments**

There were no property, plant and equipment commitments at year end (2018: nil).

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



FINANCIAL SUPERVISORY COMMISSION  
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**Note 12: Intangible Assets**

**Accounting Policy**

**Software acquisition**

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

Staff training costs and costs 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%
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**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 \$
<b>Cost</b>	
Balance as at 1 July 2017	322,677
Additions	46,573
Disposals	-
Balance as at 30 June 2018	369,250
<b>Accumulated amortisation and impairment losses</b>	
Balance as at 1 July 2017	221,666
Amortisation	42,819
Accumulated amortisation on disposals	-
Impairment losses	-
Balance as at 30 June 2018	264,485
<b>Carrying Amount</b>	
<b>As at 30 June 2018</b>	<b>104,765</b>
<b>Cost</b>	
Balance as at 1 July 2018	369,250
Additions	-
Disposals	-
Balance as at 30 June 2019	369,250
<b>Accumulated amortisation and impairment losses</b>	
Balance as at 1 July 2018	264,485
Amortisation	45,436
Accumulated amortisation on disposals	-
Impairment losses	-
Balance as at 30 June 2019	309,921
<b>Carrying Amount</b>	
<b>As at 30 June 2019</b>	<b>59,329</b>

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



**FINANCIAL SUPERVISORY COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS  
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**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 was a percentage of the revenue generated from every International Trust registration and renewal, collected on behalf of the Crown, as of 1 March 2009. It was agreed from July 1 2018, this percentage would no longer need to be separated from an other return of excess funds made in accordance with section 24(2) of the Financial Supervisory Commission Act 2003.

**Breakdown of equity**

	<b>Actual 2019 \$</b>	<b>Actual 2018 \$</b>
<b>Opening Equity</b>		
Balance as at 1 July	726,806	760,800
<b>Accumulated Surplus / (Deficit)</b>		
Surplus / (Deficit) for the year	298,594	227,749
Return of Excess to the Crown	(275,000)	-
Financial Services Development Authority (FSDA) Levy paid to Crown		(261,743)
Balance as at 30 June	23,594	(33,994)
<b>Total Equity</b>	<b>750,400</b>	<b>726,806</b>

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



**FINANCIAL SUPERVISORY COMMISSION  
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**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 2019	Actual 2018
Remuneration	\$ 476,962	\$ 461,543
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.

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



**FINANCIAL SUPERVISORY COMMISSION  
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**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:

	<b>Actual 2019 \$</b>	<b>Actual 2018 \$</b>
<b>Receivables</b>		
Cash and Equivalents	66,988	76,964
Vested Assets Clearing Account	98	113
Prepayments	36,423	26,748
Reserve Accounts	610,000	510,000
Debtors and Other Receivables	6,100	10,753
Accrued Interest	2,710	2,498
Tenancy Bond	2,080	2,080
Trust Accounts	6,786,496	342,169
<i>Total receivables</i>	<i>7,510,895</i>	<i>971,325</i>
<b>Other Liabilities</b>		
Creditors and Other Payables	76,447	47,515
Employee Entitlements	19,344	13,038
Trust Liabilities	6,786,496	342,169
<i>Total other liabilities</i>	<i>6,882,287</i>	<i>402,722</i>

**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.

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



**FINANCIAL SUPERVISORY COMMISSION  
NOTES TO THE FINANCIAL STATEMENTS  
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**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's 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 2019 \$	Actual 2018 \$
Within one year	27,336	34,500
Within one to two years	-	27,316
	27,336	61,816

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 as at balance date (2018: nil).

**Contingent Assets**

The Commission has no contingent assets as at balance date (2018: nil).

**Note 18: Events after balance date**

There were no subsequent events after the balance date.

**Note 19: Explanation of major variances against the budget**

Explanation of major variances from 30 June 2019 budgeted figures are as follows

Statement of Comprehensive Revenue and Expense

**Trading Revenue**

Actual trading revenue was higher than budgeted by \$151,441, this was mainly due to the increase in fees collected from registration renewals of \$105,229 and other fees such as licenses of \$49,660. In addition the Commission experienced favourable foreign exchange rates during the year.

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

