



**FINANCIAL SUPERVISORY COMMISSION**

**OF THE**

**COOK ISLANDS**

**ANNUAL REPORT**

**2019/2020**

## **REPORT ON ACTIVITIES**

**2019/2020**

### **Major Achievements**

The year ended 30 June 2020 marked the seventeenth 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 eight 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 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 2019/20 year was another period of significant activity for the FSC and FIU, despite the impact of the pandemic COVID-19 on the operations of the Commission for the latter four months, March to June 2020, of the period under review.

The major achievements for the FSC and FIU for the year to 30 June 2020 are scheduled below:

- licensing Meitaki Limited as a Captive Insurer in October 2019, and Telecom Cook Islands Limited (trading as Vodafone Cook Islands) as a Remittance Business in April 2020;
- hosting a five-day Asia-Pacific Group and UNODC Cash Courier Training & Operational Planning Workshop in July 2019;
- executing a Memorandum of Understanding with the Cook Islands Ministry of Marine Resources to formalise the working relationship between our two Crown Agencies;
- hosting the four-day ADB APEC Financial Regulator's Training Initiative Regional Seminar on Regulation and Supervision of Financial Services through Mobile Electronic Money and other Digital Payments in September 2019;

- completing development, and establishment, of the FIU database software referred to as the ‘Wizard’ which enables data collected from financial institutions in the Cook Islands to be efficiently captured for intel purposes;
- undertaking a four-month comprehensive peer review of various aspects of the way the Commission performs its business, by a previous Commissioner, in an effort to determine where further enhancements may be made to the organisation;
- facilitating the necessary legislative changes to the International Companies Act, Insurance Act and Captive Insurance Act to meet the requirements of the OECD in respect to removal of tax exemptions in December 2019;
- moving the online International Companies, Trusts, LLCs and Partnerships Registries from being hosted on out-of-date hardware to the cloud-based Amazon Web Service in an effort to strengthen the ability of the Registries to continue to provide a stable platform for registration and renewal of international entities; and
- overseeing the enactment of the Banking Amendment Act 2020 removing the requirement of international bank licensees to also hold a domestic licence, in an effort to encourage new international bank licensees to the jurisdiction.

The Commission’s focus for the year is 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 2019/20; particularly in light of the situation arising due to the impact of COVID-19 on, in particular, the Commission’s domestic banking licensees. The impact of COVID-19 is discussed throughout the report where appropriate.

From March 2020 the FSC worked very closely with the banking sector, and to a lesser degree the insurance sector, in respect to our oversight of these licensees during this unprecedented time. In essence, the Commission opted to follow the lead of the Reserve Bank of New Zealand in attending to many issues arising from the impact of COVID-19 and in this regard moved to mandatory high frequency reporting by the banks, lighter touch supervision on other less crucial areas of their operations, provision of extensions to statutory filing dates where this was determined appropriate and established frequent face-to-face meetings with the three domestic banking General Manager’s; along with the industry forum, the Banker’s Association Cook Islands.

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. In some situations, during the latter four months of the year, the mode of performing our onsite inspections was amended to appropriately accommodate issues being encountered due to the pandemic; namely the limitation on licensee director’s residing outside the Cook Islands attending our meetings in person. In addition, very focused reviews were completed for some licensees acknowledging the importance of abiding with all Te Marae Ora directives in respect to social distancing, working remotely and provision of Crown staff to assist in the community.

Registrations, renewals and administration of international entities continued to be filed

online and processed in real time, with the exception of Foundations which will continue to be administered in manual form until a replacement Online Registry is operational.

### **Performance Targets for the year from 1 July 2019 to 30 June 2020**

(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; and as observed above the mode of undertaking the Commission’s reviews was adjusted to best accommodate the situation each licensee, subject to review post the onset of the COVID-19 pandemic, was encountering.

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

Actual Performance – This was achieved; and for the latter four months of the year the domestic banks were subject to high frequency key metric reporting to assist the Commission to stay well abreast of any negative developments in their financial stability given the impact of COVID-19 on many bank borrowers, particularly those in the tourism industry.

(3) To administer new applications for the licensing of a financial institution on a timely basis with all applications for a new licence 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. Meitaki Limited was licensed as a Captive Insurer in October 2019, and Telecom Cook Islands Limited (trading as Vodafone Cook Islands) was licensed as a Remittance Business in April 2020.

And likewise, a request to revoke a trustee company licence, received from Alpha Trust (Cook Islands) Limited, was also actioned in a timely manner. This licensee departure was an unfortunate result of the impact of COVID-19 on their Asia/Pacific business plans.

(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 2019/20 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 2019/20. 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 the enactment of the International Companies (Removal of Tax Exemption) Amendment Act 2019, Captive Insurance Amendment Act 2019, Insurance Amendment Act and Regulations 2019 all assented to in December 2019 as part of the financial industry’s required taxation changes to comply with the requests of the OECD.

In addition, the Banking Amendment Act 2020 was passed in Parliament in June 2020 allowing for international bank licenses to be issued without the need for applicants to also hold a domestic banking licence. This progressive change to the licensing of international banks reflected the Commission’s strong intention to assist the financial industry, where appropriate, to offer further economic development opportunities.

(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, albeit primarily in the first half of 2019/20 with travel restrictions in place from early 2020 due to the COVID-19 outbreak. However, the Commission continued to fully utilise all offers of training for the supervision staff as specifically referred to later in this Annual Report, observing that a number of these were simply delivered virtually, rather than in person. In addition to participating in technical training abroad, the Commission hosted an Asia-Pacific Group and UNODC Cash Courier Training & Operational Planning Workshop in July 2019 and the ADB APEC Financial Regulator’s Training Initiative Regional Seminar on Regulation and Supervision of Financial Services through Mobile Electronic Money and other Digital Payments in September 2019.

(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 and also had two senior members of the FIU enrolled at the University of the South Pacific to complete a Certificate in Cyber Security.

(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 2020. 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 – There was no necessity for the Commission to undertake any enforcement action in 2019/20; this represents a pleasing achievement observing that industry is now becoming significantly more compliant with the many mandated requirements of the Commission.

(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 completed their desk-based review of all high-risk reporting institutions. Compliance issues will be addressed through FIU recommendations and support feedback. The FIU is progressing its first planned compliance examination of Maritime Cook Islands, the Cook Islands shipping registry with assistance from US experts. The FIU continues to maintain regular dialogue with key compliance and MLRO personnel providing support and advice.

(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 reviews have provided the FIU the opportunity to review and measure the effectiveness of policies, procedures and guidelines. The FIU continues to keep abreast of developments internationally regarding digital or electronic CDD systems. The FIU continues to facilitate 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 with a number of joint task force operations targeting currency at the borders. These have provided opportunities for upskilling of border staff as well as FIU and improvements to currency declaration procedures and systems.

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

Actual Performance – This continues to be ongoing work in progress for both the FIU and FSC, along with the other key Crown agencies, to evidence implementation of the recommendations of the September 2018 Mutual Evaluation Report with priority given to increasing capacity and resourcing around financial investigations. Given the impact of COVID-19, a re-rating of Recommendation 7 Targeted Financial Sanctions – Proliferation will no longer form part of the Cook Islands Follow Up Review in 2020/21. Significant progress in moving this matter forward has been achieved during the 2019/20 year,

however following the emergence of the pandemic, legislative change of this nature was considered an inappropriate use of Crown Law resources during this period.

(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 FSC continued to oversee material funds which had vested with the Registrar under the International Companies Act 1981/82, in December 2018, and applied significant administrative oversight throughout the period under review of these, and additional pending, material vested asset funds.

## **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 lighter touch supervisory visits, 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 fifth, and final, mission visit to the Cook Islands took place in July 2019, resulting in completion of the development of a regional leading, fully integrated and cohesive risk-based supervision framework.

As part of the Banking Supervision Enhancement Strategy, in January 2020 the FSC released five draft Banking Prudential Statements covering Audit, Fit and Proper, Liquidity Risk, Large Exposures and Related Lending, Activities and Entities for consultation with industry. Given the material impact of COVID-19 on each domestic bank's resources, the consultation period for these draft Banking Prudential Statements was significantly extended. These five statements will now be finalised, and issued, during the first quarter of the 2020/21 year.

### ***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 2019/20.

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 four licensed Money Changers during 2019/20.

### ***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 Companies, International Trusts, International Partnerships and Limited Liability Companies registered in the Cook Islands.

### ***Foundations***

The number of Foundations for which registration and renewal fees were received in 2019/20 was 47, a decrease of seven (-13%) from the previous year.

### ***International Companies***

The number of International Companies for which registration and renewal fees were received in 2019/20 was 803, a decrease of 68 (-8%) from the previous year. Given the legislative changes made to the International Companies Act, in respect to Tax Exemptions, effective from December 2019 this decline in International Company registry numbers is unfortunately to be expected.

### ***International Trusts***

The number of International Trusts for which registration and renewal fees were received in 2019/20 was 2,140, an increase of 76 (+4%) from the previous year. This reflects a very positive outcome, given that the Commission had anticipated nil growth in International Trust numbers during the period under review.

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

The number of Limited Liability Companies for which registration and renewal fees were received in 2019/20 was 393, an increase of 37 (+10%) from the previous year. This significant growth in Limited Liability Companies is also attributable to the changes centred around tax exemption removals in respect to International Companies.

### ***International Partnerships***

The number of International Partnerships for which registration and renewal fees were received in 2019/20 was four, no change 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 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 appropriateness of instigating the investigation of money laundering offences.

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.

The FIU WIZARD project was completed in June 2020. This project, which commenced in late 2018, is intended to be a medium term solution to facilitate the conversion of data received from reporting institutions into an usable format for interim interrogation and analysis by the FIU Intelligence Division. In July 2020 all FIU staff undertook a user training session, with Evan Short and FIU IT personnel.

In July 2019, the FIU executed its Mystery Shopper Exercise Programme. The objective of the exercise was to test Reporting Institutions Suspicious Activity Monitoring Systems. The exercise was successful in identifying areas for improvement in a number of Reporting Institutions and feedback was provided by the FIU.

In October 2019, the FIU participated in the Outlaw Motorcycle Gang (OMCG) Workshop in Rarotonga run by New Zealand Police (NZTCU), NZ Immigration and the Pacific Transnational Crime Coordination Centre. The purpose of the work was to focus on upskilling of local law enforcement personnel on OMCGs, how they operate and ways to deal with them. The second part of the workshop focused on the facilitation of Cook Islands National Intelligence Taskforce (CINIT) discussions on its capabilities in dealing with OMCGs and intelligence sharing from NZ counterparts. Three officers from the FIU attended the workshop.

In December 2019, the FIU participated in a large joint law enforcement operation targeting suspected drug offending and money laundering. Three officers from the FIU took part in the operation and ongoing support relating to financial investigation of the offences was provided.

In January 2020, the FIU commenced its first desk-based review of Maritime Cook Islands, the Cook Islands shipping registry. The focus of the review was compliance with procedures relating to UN Security Council sanctions. The onsite compliance visit was scheduled for May 2020; however, this was put on hold given the COVID-19 pandemic. The desk-based review continues with technical assistance from the US Department of State's Office of Cooperative Threat Reduction.

During the year to 30 June 2020 FIU staff members partook in a range of training and professional development opportunities including the following:

- Mr. Wayne Robati attended the NZ Police National Gang Conference in Wellington, New Zealand, in August 2019, followed by additional training sessions with the NZ FIU and NZ Police;

- Ms. June George attended the UN Security Council Resolutions Workshop in Suva, Fiji, in August 2019;
- Mr. Wayne Robati attended the Asset Recovery Interagency Network – Asia Pacific – Annual General Meeting and workshop in Ulaanbaatar, Mongolia, in September 2019;
- Ms. Emilie Pierce attended the FIU and ACAMS AML/CFT Conference in Wellington, New Zealand, in October 2019;
- Mr. Wayne Robati was a speaker at the Pacific Transnational Crime Unit Team Leaders Meeting in Brisbane, Australia, in November 2019;
- Mr. Walter Henry accompanied the Deputy Prime Minister to the No Money for Terror Ministerial Conference in Melbourne, Australia, in November 2019;
- Mr. Walter Henry and Ms. June George attended the Countering Proliferation Finance and Related Sanctions Evasion in the Pacific Island Countries Workshop in Nadi, Fiji, in December 2019; and
- Ms. Emilie Pierce attended the New Zealand Police Intelligence Training course in Wellington, New Zealand, in February 2020.

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

- the Egmont Plenary, Regional, Heads of FIU, and Working Group meetings held in the Hague in July 2019; and
- the Asia Pacific Group on Money Laundering’s plenary in Canberra, Australia, in August 2019.

### **Suspicious Activity Reports**

Reporting institutions are required, under section 47 of the FTRA 2017, to report any suspicious activity to the FIU. Reporting institutions are required to submit suspicious activity reports within 48 hours of the suspicion arising.

### **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.

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 2019/20. 2018/19 figures are included for comparative purposes.

<b>Type of Report</b>	<b>2018/2019</b>	<b>2019/2020</b>	<b>% increase/decrease</b>
Suspicious Activity Report	92	83	-9.78%
Cash Transaction Report	4,759	4,010	-15.73%
Electronic Funds Transfer Reports	68,468	82,595	+20.63%
Border Currency Reports	23	27	+17.39%
Intelligence Reports	37	50	+35.13%

### **Investigations**

There FIU continues to provide support to local law enforcement agencies and is currently assisting on at least 2 large scale joint operations. 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 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 the FIU to investigate, collect evidence and prosecute, we may proceed with prosecution. If the complaint falls outside of the 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:

<b>Activity</b>	<b>2018/2019</b>	<b>2019/2020</b>
Ongoing joint investigations	2	5
Parallel financial investigations	1	5
Cases under ongoing investigation	7	0
Investigation cases completed	0	2
Complaint investigated and referred to Police	1	1

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 9 Egmont Requests**

- 2 requests Drug related,
- 2 requests related to corruption and bribery
- 5 for fraud, tax crimes and money laundering

**Other external requests for assistance:**

- 1 from US Internal Revenue Service
- 1 from Pacific Transnational Crime Coordination Centre
- 1 from Australia Transnational Crime Unit
- 2 from New Zealand Transnational Crime Unit
- 9 from New Zealand Police Force

**Domestic requests for assistance:**

- 1 from BTIB
- 1 from Tax
- 3 from FSC
- 3 from Immigration
- 9 from CI Police
- 5 from Customs
- 1 Intelligence Sources

**Miscellaneous Intelligence Reports (Information Report and Citizen Complaint)**

- 2 from Syria related to Terrorist Financing
- 1 from Germany related to Terrorist Financing
- 1 Citizen Report for assistance in relation to a case of Theft and Forgery

**Impact of COVID-19 on FIU operations**

In mid-March 2020, as the Cook Islands began to put in place plans to address the growing COVID-19 pandemic, business as usual work for the FIU was put on hold and a number of FIU staff were seconded to the National Health Emergency Taskforce. Remote working plans were tested and prioritisation of work was allocated to remaining staff during this time. This continued from late March 2020 until late May 2020, with FIU work progressively coming back on line when full staffing recommenced in July 2020.

## **Financial Performance**

The 2019/20 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, and a number of material one-off registry fees due to the relocation of some Trustee Company registered offices and reinstatement of some long expired International Companies.

An unexpected COVID-19 expense line was introduced to the financial accounts in March 2020 which primarily comprises the costs of the high frequency bank reporting analysis outsourced to KPMG Rarotonga and Auckland. The total COVID-19 expenditure incurred during the year to 30 June 2020 totalled \$171,001; \$157,890 of this was funded via savings in other expenditure line items and \$13,111 (1% of total expenditure budget) was approved as additional expenditure in 2019/20 in recognition of the material financial impact the COVID-19 operational costs had on the Commission's pre-approved budget.

Actual revenue for the year to 30 June 2020 was \$1,627,743 and expenditure totalled \$1,323,126 resulting in a net surplus of \$304,618. This net surplus figure represented an increase of \$199,349 on that budgeted for; primarily attributable to the favourable USD exchange movements.

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 \$431,000 was returned to the Crown as excess funds, pursuant to section 24(2) of the FSC Act 2003.

On 19 September 2019 the Cook Islands Audit Office issued an unqualified audit opinion on the FSC's 2018/19 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**

The Board of the Commission as at 30 June 2020 comprised:

Geoff Stoddart, Chairman  
Martha Henry  
Fletcher Melvin  
Tina Newport  
Gaye Whitta

During the year the FSC Board met on 18 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, Commissioner, took a six month leave of absence during the year under review and during this period the role was fulfilled by the Deputy Commissioner.

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. Given the onset of COVID-19 early in 2020, no travel was undertaken by either personnel during the latter six months of this year.

The Deputy Commissioner, Ms. Cheryl McCarthy, participated in the following international forums during 2019/20 as outlined below:

- the Group of International Insurance Centre Supervisors annual meeting in London, England, in July 2019;
- the Association of Financial Supervisors of Pacific Countries annual meeting in Nukualofa, Tonga, in September 2019;
- the ADB and OECD Regional Meeting in Manila, Philippines, in November 2019; and
- the Group of International Financial Center Supervisor's plenary meeting in the Cayman Islands in November 2019.

### **Personnel**

As at 30 June 2020, the staff of the Commission comprised the Commissioner, the Deputy Commissioner, the Registrar and six staff members. This reflects a reduction in staff members of 3 personnel attributable to them selecting voluntary redundancy in light of the repercussions of the Commission moving to solely risk based supervision and impact of COVID-19 on operations.

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 Regulation and Supervision of Financial Services through Mobile Electronic Money and other Digital Payments, attended by seven staff members, a number of individual training and professional development opportunities were undertaken by staff including:

- Ms. Margaret Tangimetua attended the Association of Financial Supervisors Pacific Countries annual meeting and training workshop in Nukualofa, Tonga, in September 2019; and
- Ms. Amanda Tuatai attended the Pacific Islands Regional Initiative workshop on Regional De-Risking in Sydney, Australia in November 2019;

The technical training and support provided by the APG, Reserve Bank of New Zealand, 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 continued to liaise with industry, primarily via the Trustee Companies Association and the Banker's Association, to work collaboratively on various projects wherever possible. As a result of the Financial Services Industry Forum held in February 2019, the Commission continued to embrace 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, awaiting clarity of intentions from a government policy perspective.

A public education campaign was carried out in 2020, focusing on the FIU's role to prevent and disrupt financial crime, specifically relating to cybercrime and online scams. This has included the creation and distribution of posters and print media in English, Maori, Fijian and Filipino. These notices have also gone out on social media via the COVID-19 Facebook page and website, as well as holding periodic sessions on radio and television.

A written policy directive was issued by the Minister of Finance during the period covered by this report, which requested that the Commission commence the necessary legislative and administrative changes to return the Financial Intelligence Unit to a stand-alone Crown

Agency. The Commission has worked alongside the Crown Law Office and Office of the Public Service Commissioner to attend to the Minister's request in a timely manner.

Whilst an exact date for the change to stand-alone entity for the FIU remains unclear, the move is still expected in the calendar year 2020.

For and on behalf of the Board



**Geoff Stoddart**  
**Chairman**  
**28 September 2020**



# **FINANCIAL SUPERVISORY COMMISSION**

## **FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2020**



# FINANCIAL SUPERVISORY COMMISSION

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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### CONTENTS

Directory	3
Statement of Responsibility	4
Audit Report	5 - 6
Statement of Financial Performance	7
Statement of Financial Position	8
Statement of Changes in Equity	9
Statement of Cash Flows	10 - 11
Notes to the Financial Statements	12 - 26



# FINANCIAL SUPERVISORY COMMISSION

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

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### DIRECTORY

**Minister**

The Honourable Mark Brown

**Members of the Board**

Geoffrey Stoddart (Chairman)

Christina Newport

Fletcher Melvin

Gaye Whitta

Martha Henry

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**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 2020.

  
\_\_\_\_\_  
Louise Wittwer  
Commissioner

25 September 2020  
\_\_\_\_\_  
Date

  
\_\_\_\_\_  
Geoffrey Stoddart  
Chairman

25 September 2020  
\_\_\_\_\_  
Date



## Independent Auditor's Report

To the readers of the financial statements of the Financial Supervisory Commission for the year ended 30 June 2020.

### Report on the audit of the financial statements

#### Unmodified Opinion

In my opinion, the accompanying financial statements of the Financial Supervisory Commission ("the Commission") on pages 7 to 26:

- i. present fairly in all material respects the Commission's financial position as at 30 June 2020 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:

- o the statement of financial position as at 30 June 2020;
- o the statement of financial performance, the statement of changes in equity, the statement of appropriations and cash flow statement for the year then ended; and
- o notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

My audit was completed on 25 September 2020. This is the date on which my opinion is expressed.

The basis for my opinion is explained below. I outline the responsibilities of the Commissioner and my responsibilities for the financial statements and audit of the Commission. I also comment on other information.

#### Basis for opinion

I carried out my audit in accordance with International Standards of Supreme Audit Institutions (ISSAI), which incorporate ISSAI 30 Code of Ethics issued by the International Organization of Supreme Audit Institutions (INTOSAI Code of Ethics). My responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of this report.

I have fulfilled my responsibilities in accordance with ISSAI. Other than in my capacity as auditor I have no relationship with, or interests in, the Commission. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### Responsibilities of the Commissioner and the Board of Directors for the financial statements

The Commissioner on behalf of the Commission is responsible for:

- o the preparation and fair presentation of the financial statements in accordance with IPSAS;
- o 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
- o 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

My objectives are to obtain reasonable assurance about whether the financial statements of the Commission as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes my 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. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions readers make based on the financial statements of the Commission.

As part of an audit in accordance with ISSAI, I exercise professional judgement and maintain professional skepticism throughout the audit. Also:

- I identify and assess the risks of material misstatement of the financial statements of the Commission, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, because fraud can involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- I obtain an understanding of internal control relevant to the audit 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 internal control used by the Commissioner to prepare the financial statements of the Commission.
- I evaluate the appropriateness of accounting policies used, and the reasonableness of accounting estimates and related disclosures made by the Commissioner.
- I conclude on the appropriateness of using the going concern basis of accounting that has been used by the Commissioner to prepare the financial statements of the Commission, up to the date of my auditor's report, based on the audit evidence I have obtained.
- I evaluate the overall presentation, structure, and content of the financial statements of the Commission, including the disclosures, and whether the financial statements of the Commission represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Commissioner, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that I identify during my audit.

I am responsible for expressing an independent opinion on the financial statements of the Commission and reporting that opinion to you based on my audit. My responsibility arises from the Public Expenditure Review Committee and Audit Act 1995-96.

## Other Information

The Commissioner is responsible for the other information. The other information comprises the information included on pages 1 to 26 but does not include the annual financial statements of the Commission and my auditor's report thereon.

My opinion on the financial statements of the Commission does not cover the other information and I do not express any form of audit opinion or assurance conclusion on that information.

In connection with my audit of the financial statements of the Commission, my responsibility is to read the other information. In doing so, I consider whether the other information is materially inconsistent with the financial statements of the Commission, or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on my work, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

## Independence

While carrying out this audit, my staff and I have complied 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.



Allen Parker  
Director of Audit  
Rarotonga, Cook Islands



# FINANCIAL SUPERVISORY COMMISSION

## STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2020

In New Zealand Dollars	Notes	Budget 2020 \$	Actual 2020 \$	Actual 2019 \$
<b>Revenue</b>				
Trading Revenue	2	1,414,754	1,611,417	1,502,197
Other Revenue	2	14,820	16,326	19,524
<b>Total Revenue</b>		<b>1,429,574</b>	<b>1,627,743</b>	<b>1,521,721</b>
<b>Expenditure</b>				
Personnel Expenses	3	827,240	722,256	780,830
Audit Fees		3,000	2,500	2,500
Covid-19 Expenses		13,111	171,001	-
Depreciation and Amortisation Expenses	11,12	79,750	58,343	73,664
Other Expenses	4	401,200	369,026	366,133
<b>Total Expenditure</b>		<b>1,324,301</b>	<b>1,323,126</b>	<b>1,223,127</b>
<b>Operating Profit Before Other Gains and Losses (OBEGAL)</b>		<b>105,273</b>	<b>304,618</b>	<b>298,594</b>
<b>Other Gains/(Losses)</b>				
Other Gains from Disposal of Property Plant and Equipment		-	-	-
<b>Total Other Gains/(Losses)</b>		<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Surplus</b>		<b>105,273</b>	<b>304,618</b>	<b>298,594</b>

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



**FINANCIAL SUPERVISORY COMMISSION**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2020**

In New Zealand Dollars	Notes	Actual 2020 \$	Actual 2019 \$
<b>Assets</b>			
<b>Current Assets</b>			
Cash and Equivalents	5	39,572	66,988
Vested Assets Clearing Account		160	98
Prepayments		24,812	36,423
Reserve Accounts	6	510,000	610,000
Debtors and Other Receivables	7	-	6,100
Accrued Interest		3,911	2,710
Tenancy Bond		-	2,080
Trust Accounts	10	121,659	6,786,496
<i>Total Current Assets</i>		700,114	7,510,895
<b>Non-Current Assets</b>			
Property, Plant, and Equipment	11	38,726	62,462
Intangible Assets	12	83,608	59,329
Intangible Assets - WIP		16,489	-
<i>Total Non-Current Assets</i>		138,823	121,792
<b>Total Assets</b>		<b>838,937</b>	<b>7,632,687</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Creditors and Other Payables	8	73,045	76,447
Employee Entitlements	9	20,216	19,344
Trust Liabilities	10	121,659	6,786,496
<i>Total Current Liabilities</i>		214,920	6,882,287
<b>Total Liabilities</b>		<b>214,920</b>	<b>6,882,287</b>
<b>Net Assets</b>		<b>624,018</b>	<b>750,400</b>
<b>Equity</b>			
Contributed Capital		750,400	726,806
Accumulated Surplus / (Deficit)		(126,382)	23,594
<b>Total Equity</b>	13	<b>624,018</b>	<b>750,400</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 2020

In New Zealand Dollars	Notes	Budget 2020 \$	Actual 2020 \$	Actual 2019 \$
Balance as at 1 July		750,400	750,400	726,806
Total Net Surplus for the year		105,273	304,618	298,594
Return of Excess to the Crown		(104,889)	(431,000)	(275,000)
<b>Balance as at 30 June</b>	<b>13</b>	<b>750,784</b>	<b>624,018</b>	<b>750,400</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 2020

In New Zealand Dollars	Actual 2020 \$	Actual 2019 \$
<b>Cash Flows from Operating Activities</b>		
Receipts from Licensees	1,612,858	1,532,093
Interest	15,126	15,752
Payments to Employees	(810,813)	(848,624)
Payments to Suppliers	(438,212)	(300,505)
<b>Net Cash Flows from Operating Activities</b>	<b>378,960</b>	<b>398,716</b>
<b>Cash Flows from Investing Activities</b>		
Sale of Fixed Assets	-	3,560
Purchase of Property, Plant, Equipment and Intangible Assets	(75,375)	(37,252)
<b>Net Cash Flows used in Investing Activities</b>	<b>(75,375)</b>	<b>(33,692)</b>
<b>Cash Flows from Financing Activities</b>		
Distributions to the Crown	(431,000)	(275,000)
Cash transferred to Reserve Accounts	100,000	(100,000)
<b>Net Cash Flows used in Financing Activities</b>	<b>(331,000)</b>	<b>(375,000)</b>
<b>Net Increase in Cash and Equivalents</b>	<b>(27,415)</b>	<b>(9,976)</b>
Cash and Equivalents as at 1 July	66,988	76,964
<b>Cash and Equivalents as at 30 June</b>	<b>39,572</b>	<b>66,988</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 2020

	Actual 2020 \$	Actual 2019 \$
In New Zealand Dollars		
<b>Reconciliation of Net Surplus / (Deficit) to Net Cash Flows from Operating Activities</b>		
<b>Reported Surplus</b>	304,618	298,594
<b>Add / (less) Non-cash items</b>		
Depreciation and Amortisation	58,343	73,664
<i>Total Non cash items</i>	362,961	372,258
<b>Add / (less) movements in Statement of Financial Position items</b>		
(Increase) / decrease in Debtors and Other Receivables	6,100	4,653
(Increase) / decrease in Prepayments	11,611	(9,675)
(Increase) / decrease in Accrued Interest	(1,200)	(212)
(Increase) / decrease in Tenancy Bond	2,080	-
(Increase) / decrease in Vested Assets Clearing Account	(62)	16
Increase / (decrease) in Accounts Payable	4,145	(462)
Increase / (decrease) in Accrued Payables	-	(150)
Increase / (decrease) in Credit Card Liability	(60)	(472)
Increase / (decrease) in Pay As You Earn (PAYE) Payable	(2,641)	848
Increase / (decrease) in Superannuation Payable	(3,237)	6,427
Increase / (decrease) in Value Added Tax (VAT) Payable	3,051	(2,503)
Increase / (decrease) in Revenue Received in Advance	(4,660)	25,243
Increase / (decrease) in Employee Entitlements	872	6,306
<i>Net movement in working capital items</i>	15,999	30,019
<b>Net Cash Flows from Operating activities</b>	<b>378,960</b>	<b>402,277</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 2020

### 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 2020

### 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 2019/2020, as approved by the Board of Directors on 20 March 2019.

#### 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.



## FINANCIAL SUPERVISORY COMMISSION

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

#### 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 2020 \$	Actual 2020 \$	Actual 2019 \$
<b>Trading revenue</b>			
Licensing fees	112,783	116,635	117,043
Registration fees	105,630	120,332	104,118
Renewal fees	1,121,341	1,226,784	1,156,376
Other fee income	75,000	147,665	124,660
<b>Total trading revenue</b>	<b>1,414,754</b>	<b>1,611,417</b>	<b>1,502,197</b>
<b>Other revenue</b>			
Interest revenue	14,820	16,326	15,964
Gain on Sale of Assets	-	-	3,560
<b>Total other revenue</b>	<b>14,820</b>	<b>16,326</b>	<b>19,524</b>

#### 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 is expensed in the surplus or deficit as incurred.

##### Breakdown of personnel cost

	Budget 2020 \$	Actual 2020 \$	Actual 2019 \$
Salaries and wages	789,240	693,514	738,813
Defined contribution plan - employer contributions	38,000	27,870	35,711
Increase / (decrease) in employee entitlements	-	872	6,306
<b>Total personnel costs</b>	<b>827,240</b>	<b>722,256</b>	<b>780,830</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 2020

#### Note 4: Other Expenses

##### Breakdown of other expenses

	Budget 2020 \$	Actual 2020 \$	Actual 2019 \$
Board Fees	84,000	83,550	81,375
Computer Costs	32,000	23,727	29,378
Conferences & Workshops	12,000	10,844	7,512
Electricity	14,400	8,646	10,637
Lease Costs	33,000	31,500	30,000
Legal and Professional Fees	35,000	26,205	13,993
Online Registry Expenses	39,600	58,737	33,430
Recruitment and Relocation Expenses	-	13,866	-
Staff Training	13,000	2,712	19,276
Subscriptions	28,000	28,121	28,286
Travel	53,200	33,229	45,642
Other Operating Costs	57,000	47,890	66,604
<b>Total other expenses</b>	<b>401,200</b>	<b>369,026</b>	<b>366,133</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 2020 \$	Actual 2019 \$
Cash at bank (ANZ CI)	38,220	43,935
Cash at bank (ANZ NZ)	1,152	23,004
Petty Cash	200	50
<b>Total cash and equivalents</b>	<b>39,572</b>	<b>66,989</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 2020

#### 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 2020 \$	Actual 2019 \$
Term Deposit (BCI)	6 months	3.75%	250,000	250,000
Term Deposit (ANZ CI)	3 months	1.20%	-	100,000
Term Deposit (ANZ CI)	3 months	1.90%	-	160,000
Term Deposit (ANZ CI)	1 months	1.80%	-	100,000
Term Deposit (ANZ CI)	1 year	1.90%	260,000	-
<b>Total reserve accounts</b>			<b>510,000</b>	<b>610,000</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 2020 \$	Actual 2019 \$
<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
<b>Total receivables</b>	<b>-</b>	<b>6,100</b>

Inter-ministry receivables included above to Crown Agencies

-      -

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

	2020			2019		
	Gross	Provision	Net	Gross	Provision	Net
Not past due	-	-	-	6,100	-	6,100
Past due 0 - 30 days	-	-	-	-	-	-
Past due 31 - 60 days	-	-	-	-	-	-
Past due over 60 days	-	-	-	-	-	-
	-	-	-	<b>6,100</b>	-	<b>6,100</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 collectible and none have been written off.



FINANCIAL SUPERVISORY COMMISSION

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020

**Note 8: Creditors and Other Payables**

**Accounting Policy**

Short-term payables are recorded at the amount payable.

**Breakdown of payables and further information**

	Actual 2020 \$	Actual 2019 \$
<b>Payables under exchange transactions</b>		
Accounts Payable	10,201	6,056
Accrued Payables	-	-
Credit Card Liability	1,270	1,331
Pay As You Earn (PAYE) Tax Payable	10,519	13,160
Super Annuation Payable	3,190	6,427
Value Added Tax (VAT) Payable	17,890	14,838
Revenue Received in Advance	29,975	34,635
<i>Total payables under exchange transactions</i>	<i>73,045</i>	<i>76,447</i>
<b>Total payables</b>	<b>73,045</b>	<b>76,447</b>
Inter-ministry payables included above to Crown Agencies	34,473	34,426

**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 2020 \$	Actual 2019 \$
Accrued salaries and wages	11,257	9,084
Annual leave	8,959	10,260
<b>Total employee entitlements</b>	<b>20,216</b>	<b>19,344</b>



FINANCIAL SUPERVISORY COMMISSION

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020

**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 2020 \$	Actual 2019 \$
<b>Trust assets</b>		
New Zealand Dollar (NZD) Vested Assets Account (ANZ CI)	-	-
New Zealand Dollar (NZD) Vested Assets Account (ANZ NZ)	-	1,001,408
Australian Dollar (AUD) Vested Assets Account (ANZ NZ)	40,906	5,613,365
Australian Dollar (AUD) Vested Assets Account (CSB)	-	105,609
New Zealand Dollar (NZD) Client Trust Account (CSB-WU)	10,030	10,030
New Zealand Dollar (NZD) Client Trust Account (CSB-VF)	10,000	-
United States Dollar (USD) Client Trust Account (CSB)	60,723	56,085
<b>Total trust assets</b>	<b>121,659</b>	<b>6,786,497</b>
<b>Trust liabilities</b>		
NZD Vested Assets Account on behalf of the Crown (ANZ CI)	-	-
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)	40,906	5,613,365
AUD Vested Assets Account on behalf of the Crown (CSB)	-	105,609
NZD Client Security Bond (CSB-WU)	10,030	10,030
NZD Client Security Bond (CSB-VF)	10,000	-
NZD Client Imprest Account (CSB)	-	-
USD Client Imprest Account (CSB)	60,723	56,085
<b>Total trust liabilities</b>	<b>121,659</b>	<b>6,786,497</b>



FINANCIAL SUPERVISORY COMMISSION

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020

**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.



FINANCIAL SUPERVISORY COMMISSION

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020

**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 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	20,177	62,462
<b>Cost</b>						
Balance as at 1 July 2019	156,128	40,920	44,463	43,301	79,590	364,402
Additions	4,068	-	-	-	4,747	8,815
Disposals	-	-	-	-	-	-
Balance as at 30 June 2020	160,196	40,920	44,463	43,301	84,337	373,217
<b>Accumulated depreciation and impairment losses</b>						
Balance as at 1 July 2019	140,325	35,997	23,369	42,836	59,413	301,940
Depreciation	6,241	759	4,868	466	20,217	32,551
Accumulated depreciation on disposals	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-
Balance as at 30 June 2020	146,566	36,756	28,237	43,302	79,630	334,491
<b>Carrying Amount</b>						
As at 30 June 2020	13,630	4,163	16,226	-	4,707	38,726

**Capital commitments**

There were no property, plant and equipment commitments at year end (2019: \$nil).



FINANCIAL SUPERVISORY COMMISSION

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2020

**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 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>	
As at 30 June 2019	59,329
<b>Cost</b>	
Balance as at 1 July 2019	369,250
Additions	50,071
Disposals	-
Balance as at 30 June 2020	419,321
<b>Accumulated amortisation and impairment losses</b>	
Balance as at 1 July 2019	309,921
Amortisation	25,792
Accumulated amortisation on disposals	-
Impairment losses	-
Balance as at 30 June 2020	335,713
<b>Carrying Amount</b>	
As at 30 June 2020	83,608

**Capital commitments**

On 18 June 2020 a Statement of Works was signed with Park Lane Technology Pty Ltd to implement and improve the Supervisory Prudential Regulation and Reporting processes and technology at a total estimated capital cost of AUD64,485. Work commenced in March 2020 with the remaining work to be completed in the 2020/2021 Financial year. Therefore, the current project costs incurred to 30 June 2020 of \$16,448.82 are reflected in the Statement of Financial Position as Intangible Asset In Progress. The project will be capitalised to Intangible Assets on completion.



**FINANCIAL SUPERVISORY COMMISSION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2020**

**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**

	Actual 2020 \$	Actual 2019 \$
<b>Opening Equity</b>		
Balance as at 1 July	750,400	726,806
<b>Accumulated Surplus / (Deficit)</b>		
Surplus / (Deficit) for the year	304,618	298,594
Return of Excess to the Crown	(431,000)	(275,000)
Balance as at 30 June	(126,382)	23,594
<b>Total Equity</b>	<b>624,018</b>	<b>750,400</b>



**FINANCIAL SUPERVISORY COMMISSION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2020**

**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 2020	Actual 2019
Remuneration	\$ 385,278	\$ 476,962
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.



**FINANCIAL SUPERVISORY COMMISSION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2020**

**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 2020 \$	Actual 2019 \$
<b>Receivables</b>		
Cash and Equivalents	39,572	66,988
Vested Assets Clearing Account	160	98
Prepayments	24,812	36,423
Reserve Accounts	510,000	610,000
Debtors and Other Receivables	-	6,100
Accrued Interest	3,911	2,710
Tenancy Bond	-	2,080
Trust Accounts	121,659	6,786,496
<i>Total receivables</i>	700,114	7,510,895
<b>Other Liabilities</b>		
Creditors and Other Payables	73,045	76,447
Employee Entitlements	20,216	19,344
Trust Liabilities	121,659	6,786,496
<i>Total other liabilities</i>	214,920	6,882,287

**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.



**FINANCIAL SUPERVISORY COMMISSION**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2020**

**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 2020 \$	Actual 2019 \$
Within one year	34,402	27,336
Within one to two years	72,000	-
	106,402	27,336

***Online Prudential Filing Commitment (Parklane):***

	Actual 2020 \$	Actual 2019 \$
Within one year	68,500	-
Within one to two years	-	-
	68,500	-

***Amazon Web Service (Foster Moore)-Online Registry Commitment:***

	Actual 2020 \$	Actual 2019 \$
Within one year	59,000	-
Within one to two years	118,000	-
	177,000	-

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 2020

#### 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 (2019: nil).

##### **Contingent Assets**

The Commission has no contingent assets as at balance date (2019: nil).

#### Note 18: Events after balance date

##### **FIU Separation**

On 9th July 2020 Cabinet Minute CM (20) 0272 recorded Cabinet's approval of "the separation of the Financial Intelligence Unit (FIU) from the Financial Supervisory Commission (FSC) to a standalone government agency and for amendment to the Financial Intelligence Unit Act 2015 to provide for this change."

The Commission observes that the Minister of Finance has indicated his preference to have the required legislative enactment amended at Parliament's scheduled September 2020 sitting to accommodate the FIU commencing as a Stand Alone Crown Agency effective from 1 October 2020.

##### **COVID-19**

There has been minimal impact from COVID-19 on the operations of the Commission. Aside from enhanced monitoring of our banking sector, which with the help of Governments economic response plan, is in a strong position, we do not envisage any material impact from COVID-19 on the Commission in the coming year.

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

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

##### **Statement of Financial Performance**

##### **Trading Revenue**

Actual trading revenue was higher than budgeted by \$196,663. The Commission experienced an increase in one-off registry fees being paid (eg. Reinstatement of an old company, change of registered office etc) and the extreme difference encountered with the USD exchange rate budget amount of 74c compared to the 64c actual.

##### **Personnel Expense**

Actual personnel expense was lower than budgeted by \$104,984 primarily due to the vacancy of the Head of FIU.

##### **Covid-19 Expense**

COVID-19 expense was a new line item brought into our accounts in April 2020 to be more transparent, however was not budgeted for. The Covid-19 expenses of \$157,890 was covered by our usual operating expense budget.

