



FINANCIAL SUPERVISORY COMMISSION

OF THE

COOK ISLANDS

ANNUAL REPORT

2015/2016

REPORT ON ACTIVITIES

2015/2016

The year ended 30 June 2016 was the thirteenth year of operations for the Financial Supervisory Commission (FSC) which was established under the Financial Supervisory Commission Act 2003.

The Financial Intelligence Unit (FIU) has been part of the FSC since July 2012. However, the FIU has retained its operational independence and powers as per the Financial Intelligence Unit Act 2015.

The 2015/16 year was a period of significant activity for the FSC and FIU with the licensing of a new bank, three new trustee companies and an external insurer. Combined with the positive revenue flow from new licensees, actual registry fees well exceeded expectations due to various miscellaneous filings and the favourable fluctuation in the US dollar exchange rate. These matters contributed to the FSC being in a position to make a total return to Government of \$843,059 during the financial year to 30 June 2016, slightly down on the return of \$899,471 paid during the previous period.

Other significant events occurring during the 2015/16 reporting year included:

- overseeing the transition from Westpac to Bank South Pacific;
- establishing the Pacific Catastrophe Risk Insurance Facility;
- further developing and implementing the National Risk Assessment plan;
- securing Commonwealth Secretariat insurance supervision technical assistance;
- transferring of the HSBC business within the Cook Islands and HSBC's departure;
- successfully defending an enforcement action against a trustee company licensee; and
- securing full membership to the Group of International Insurance Centre Supervisors ('GIICS') forum.

The Commission's work for the year is essentially set by the Statement of Corporate Intent that is provided to the Minister of Finance by 31 March of the preceding year. During the year the Commission was pleased to materially complete all of the activities outlined in the Statement of Corporate Intent for 2015/16.

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

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

The Commission also undertook annual onsite inspections of each licensee for compliance with Part 2 of the Financial Transaction Reporting Act 2004.

As in previous years, the Commission continued to work throughout 2015/16 on legislative reform with the primary focus on the Financial Transactions Reporting Bill 2016 ('FTR 2016').

The proposed FTR 2016 bill focuses on improving the Cook Islands anti-money laundering and the countering of terrorist financing and proliferation regime. The aim is to better meet relevant international standards in this area, which were revised in 2012, and to respond to deficiencies noted in the last international evaluation of our regime, carried out by the Asia Pacific Group on Money Laundering (APG) in 2009.

The Cook Islands next mutual evaluation, which will be carried out by the APG and the Group of International Financial Centre Supervisors ('GIFCS'), is scheduled to commence early next year in 2017. The pending evaluation will be more focused on the efficiency of how our legislation and policies are executed, with an international move to direct attention to the 'effectiveness and implementation' of a jurisdiction's regime, rather than simply recognising technical compliance.

Accordingly, as with the Trustee Companies Act 2014 and the Financial Intelligence Act 2015, the Commission remains focused on having the new FTR 2016 bill enacted in as timely a manner as possible.

During the year under review, drafting work on other pieces of legislation has been carried out to further strengthen the regulatory capacity of the Commission, thereby supporting and encouraging a strong and competitive financial services industry.

A Currency Declaration Bill was drafted and consulted upon in 2014/15 to better improve the declaration of currency and the seizure, detention or forfeiture of undeclared currency when people enter or leave the Cook Islands. This Bill will allow the FIU to perform a more central role in the process and is expected to be tabled for enactment in the latter part of 2016.

The final significant Bill which was progressed during 2015/16 was the Superannuation Supervision Bill. This Bill is to provide for the prudent establishment and management of superannuation funds in the Cook Islands and to provide for their regulatory supervision by the Commission. It will also bring the Cook Islands National Superannuation Fund under the regulatory responsibility of the FSC.

Whilst future enactment depends upon the availability of Parliamentary time, it is envisaged that each of these Bills will be passed by the end of 2016 or shortly thereafter.

Minor amendments were enacted in respect to the Banking Act 2011 and the International Companies Act 1981-82 in December 2015.

Performance Targets for the year from 1 July 2015 to 30 June 2016; as depicted in the Statement of Corporate Intent 2015/16.

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

Actual Performance – This was achieved.

(2) To undertake offsite reviews of all data supplied by banks and insurers on a quarterly basis.

Actual Performance – This was achieved.

(3) To administer new applications for the licensing of a financial institution on a timely basis with all applications for new licenses being determined within three months of the receipt of the completed application.

Actual Performance – There were five applications for new licenses or approvals in the period covered which were processed, approved and the licenses or approvals issued within the statutory required time limit.

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

Actual Performance – This was achieved.

(5) To review the operations of each licensed Trustee Company in relation to the Statement of Best Practice issued by the GIFCS and the Trustee Companies Act 2014.

Actual Performance – This was achieved.

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

Actual Performance – This was achieved.

(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 – A number of pieces of legislation have been identified as requiring amendment or replacement to keep abreast of changing international standards and best practice. Drafts are awaiting enactment or being drafted and consulted upon as follows:

- Currency Declaration Bill 2016
- Financial Transactions Reporting Bill 2016
- Superannuation Supervision Bill 2016
- Foundations Amendment Bill 2016

Although no new Acts administered by the Commission were enacted in 2015/16 the drafting of the bespoke legislation for the Pacific Catastrophe Risk Insurance Facility was overseen by the FSC. By way of background, this facility was discussed at the Pacific Islands Forum Economic Ministers Meeting in October 2015 where the decision was made to establish a Pacific Catastrophe Risk Assessment and Financing Initiative facility, whose beneficiaries are Forum Island countries. The sole purpose of the facility was to establish and own an insurance captive to provide disaster and climate risk insurance, created as an independent legal entity. The Pacific Islands Forum Secretariat stated the domicile would be in the Cook Islands, primarily due to the regulatory and supervision regime in place.

(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 (IMF), the Australian Prudential Regulation Authority (APRA) and the Financial Stability Institute (FSI).

Actual Performance – The Commission continued to fully utilise all offers of training for the supervision staff as specifically referred to later in this Annual Report.

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

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

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

Actual Performance – One piece of legislation required reporting on during the period under review, this was the Pacific Catastrophe Risk Insurance Facility Act 2016 which was enacted by Parliament in June 2016. The Deputy Commissioner provided briefings and assisted the Minister in presenting this Bill before Parliament for enactment.

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

Actual Performance – There was a requirement to exercise formal enforcement action during 2014/15 against one trustee company licensee of which the action concluded during the period under review. In June 2016 judgment on this matter was issued in favour of the Commission.

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

Actual Performance – The Head of FIU coordinated the ongoing implementation of the National Risk Assessment for the Cook Islands, developed in line with the revised Financial Action Task Force’s (FATF) Methodology for assessing compliance with their Recommendations on Combatting Money Laundering and the Financing of Terrorism & Proliferation.

(13) To develop policies, procedures and guidelines in administering the Financial Transactions Reporting Bill and Currency Declaration Bill when enacted, and on an annual basis review those policies and guidelines in line with any changing circumstances or changes in legislation.

Actual Performance – Neither of these Bills were enacted in 2015/16. They are now expected to be passed in 2016/17. The Currency Declaration Bill is awaiting Parliament and the Financial Transactions Reporting Bill is entering the second round of consultation.

(14) To effectively administer and enforce the Financial Intelligence Unit Act, the Financial Transactions Reporting Bill and the Currency Declaration Bill when they are enacted.

Actual Performance – The FIU Act was enacted in late 2014/15 and has been enforced and administered. The two other pieces of draft legislation are expected to be enacted in 2016/17.

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

Actual Performance – This was fully achieved.

Supervisory Activities

Banking

The Commission bases its supervisory approach for the banking industry on the Basel Core Principles for Banking Supervision. The Commission continues to update its supervisory approach, taking into account issuances from the Basel Committee on

Banking Supervision and other international standard setting bodies such as the FATF. Banking supervision is performed by undertaking quarterly offsite analysis of information provided by the four licensed banks; combined with an annual onsite inspection. The FIU staff also completed an onsite inspection of each bank focusing on compliance with Part 2 of the Financial Transactions Reporting Act 2004 ('FTRA').

On 7 July 2015 licences were issued to the Bank of South Pacific (BSP) to carry out domestic and international banking business in the Cook Islands under the Banking Act 2011. The application was received by the Commission in March 2015, and decided upon by the FSC Board at a special meeting held in June 2015, but the decision was made to grant the issue of the required licenses on formal sale agreement being reached between BSP and Westpac Banking Corporation.

Application of risk based supervision methodology resulted in return visits and additional engagement with, some bank licensees during the year under review. Additionally, 2015/16 saw a six week period of out-sourced enhanced supervision in respect to one bank licensee.

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.

On 22 March 2016 the Commission issued an approval to act as an external insurer to BSP Health Care (Fiji) Limited.

A risk based programme of ongoing supervision through onsite inspection, and offsite analysis, was carried out on all licensed insurers in 2015/16.

Captive Insurance

In May 2015 the Commission issued the first Captive Insurance licence in the Cook Islands. The licence was issued to Ovation Risk Limited as per section 7 of the Captive Insurance Act 2013 and allows them to carry-out Captive Insurance business for associated companies in the Group Ovation are part of. The first supervisory review for Ovation Risk Limited was successfully carried out during the year under review.

As at 30 June 2016, the Commission was awaiting the second Captive Insurance licence application to be lodged with the FSC; this is expected from the Pacific Catastrophe Risk Insurance Company.

Money Changing & Remittance Businesses

On 23 June 2010, the Board approved and granted a licence to Jetsave Cook Islands Limited to carry on money-changing and remittance business in the Cook Islands in

accordance with Sections 7 and 9 of the Money-changing and Remittance Businesses Act 2009. The Commission continued its desk-based programme of supervision for this licensee in 2015/16.

Trustee Company Business

Three new trustee companies were licensed by the Commission during the year under review and with HSBC leaving the jurisdiction, in December 2015, industry has increased from six trustee company licensees as at 30 June 2015 to eight trustee company licensees as at 30 June 2016.

One of the new Trustee Companies represents the first 'Managed Trustee Company' licensed in the Cook Islands.

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

Superannuation

As previously reported the Commission continued to develop enabling legislation to provide for the regulatory oversight of the superannuation industry in the Cook Islands. Given the compulsory nature of the Cook Islands National Superannuation Fund the ongoing regulatory oversight by the Commission is seen as fundamental to providing an appropriate level of comfort to Cook Islanders, investing in their retirement. It is anticipated that this legislation will be presented to Parliament in early 2017.

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 2015/16 was 28, an increase of 10 (56%) from the previous year.

International Companies

The number of international companies for which registration and renewal fees were received in 2015/16 was 1,095, an increase of 5 from the previous year.

International Trusts

The number of international trusts for which registration and renewal fees were received in 2015/16 was 2,373, a decrease of 132 (5%) from the previous year. This decrease was primarily attributable to HSBC re-domiciling all international trusts under their administration, before leaving the jurisdiction at the end of 2015.

Limited Liability Companies

The number of limited liability companies for which registration and renewal fees were received in 2015/16 was 402, a decrease of 6 (1%) from the previous year.

International Partnerships

The number of international partnerships for which renewal fees were received in 2015/16 was 4, an increase of 1 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 tasked with regulating and conducting compliance examinations of all registered Reporting Institutions in the Cook Islands as stipulated by the FIU Act.

The FIU has also been mandated by Cabinet to coordinate the implementation of the Cook Islands anti-money laundering and countering the financing of terrorism (AML/CFT) regime, through the National AML/CFT Coordinating Committee

Internationally, the FIU is part of the Egmont Group of Financial Intelligence Units and the Association of Pacific Islands Financial Intelligence Units. Nationally it is part of the Anti-Corruption Committee, the Combined Law Agency Group and the Cook Islands National Intelligence Unit.

The Head of FIU, Bob Williams and the (then) Commissioner, Paul Heckles, attended the annual meeting of the APG in Auckland in July 2015 to discuss membership issues and the progress made by the Cook Islands in addressing the deficiencies identified during the mutual evaluation process.

During the year to 30 June 2016 the Head of FIU and various FIU staff members partook in a range of training and professional development opportunities including the following:

- Walter Henry, Senior Intelligence Officer, attended the APG Assessor Training in Korea in August 2015;
- Bob Williams, Head of FIU, attended the APRA Training and Westpac PNG onsite examination in October 2015;
- Cedric Toru, Senior Compliance Officer, attended the APG Typologies and Capacity Building workshop in Kathmandu in November 2015;
- Bob Williams attended the APG Proliferation Financing workshop in Kuala Lumpur in March 2016; and
- June George attended the UNODC/UNDP training on the detection, deterrence, disruption, suppression and prevention workshop on money laundering in Fiji in June 2016.

Additionally the Head of FIU was invited, as a trainer, to the APG Training of Assessors forum in Macau in May 2016. Some attendees from this training will likely form part of the pending Cook Islands Mutual Evaluation team.

During the year to 30 June 2016 Mr Williams was a member of the desk review team of experts reviewing Fiji's Mutual Evaluation Report.

The FIU implemented a new database to capture the various reports made to the Unit, by the financial industry, during the 2014/15 year. In July 2015 the database commenced receiving electronic batch reports direct from the banks, marking a significant enhancement in the FIU's system for receiving reports from industry.

Suspicious Transaction Reports

Reporting institutions are required, under section 11 of the FTRA, to report any suspicious transaction to the FIU. The FIU received 31 Suspicious Transaction Reports (STR) in 2015/16, and 3 were disseminated to the relevant law enforcement and regulatory authorities in the Cook Islands and 22 to FIUs and law enforcement authorities in other jurisdictions.

Other Transaction Reports

Reporting institutions are required, under section 10 of the FTRA, to report to the FIU any cash transaction of \$10,000 and above including any electronic funds transfer of \$10,000 and over; both in and out of the Cook Islands.

All travellers coming into the Cook Islands or going out of the Cook Islands are required under section 96 of the Proceeds of Crimes Act 2003 to declare if they are carrying cash or negotiable bearer instruments of \$10,000 or more (or its equivalent in foreign currency). A Customs Officer is required under section 97A of the Proceeds of Crime Amendment Act 2003 to report any movement across the border of the Cook Islands of any cash or negotiable bearer instrument over \$10,000 to the FIU.

The FIU, under section 27 of the FTRA, may also receive information voluntarily provided about suspicions of a serious offence, a money laundering offence or a financing of terrorism offence.

The table below shows the number of transaction reports, other than STRs, received by the FIU in 2015/16:

Type of Report	Number of Reports
Cash transaction report	2,871
Electronic funds transfer report	18,734
Border cash report	22
Other transaction report	8

The FIU has continued to assist the Cook Islands Police with a number of their investigations, some of which have ended in successful prosecutions. A number of cases are not yet finalised and remain ongoing.

The FIU has also assisted a number of foreign authorities throughout the year, often through the auspices of Mutual Assistance requests, routed through Crown Law.

Financial Performance

The 2015/16 Financial Performance of the Commission materially exceeded budgeted figures.

A positive net surplus, \$197,272 above budget, was achieved. Actual revenue for the year to 30 June 2016 was \$1,756,675 and expenditure totalled \$1,281,312 resulting in a net surplus of \$475,363. The majority of the additional revenue, well beyond the budgeted revenue amount, was attributable to the USD exchange rate fluctuations during the year in the Commission's favour.

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 \$250,000 was returned to the Crown in line with section 24(2) of the Financial Supervisory Commission Act 2003.

Additionally, an amount of \$304,602 was returned to the Crown as surplus funds, pursuant to section 24(2) of the FSC Act. This amount represented the income derived from the additional fee imposed for registering, or renewing the registration of, an

international trust. This levy was established in March 2009 to assist in funding the operations of the Financial Services Development Authority.

An amount of \$288,457 was also passed to the Crown as vested assets pursuant to section 199(3) of the International Companies Act 1981-82.

The Board

The Board of the Commission as at 30 June 2016 comprised the same 5 board members as at 30 June 2015, being:

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

Board member Raymond Newnham remained as Chairman, as appointed by the Minister of Finance in accordance with section 4(4) of the FSC Act.

During the year the FSC Board met on 14 occasions. The Board was able to deal with all matters before it on a timely basis.

The Commissioner

The Commissioner is responsible for the day-to-day running of the Commission and reports directly to the FSC Board.

There was a change in Commissioner during the period under review with Paul Heckles returning to the Isle of Man in December 2015 and the then Deputy Commissioner, Louise Wittwer, commencing as Commissioner on 21 December 2015.

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

In fulfilling this role the Commissioner will represent the Commission at international forums to ensure the regulatory environment in the Cook Islands keeps abreast of international developments.

During 2015/16 the Commissioner took part in the following two international meetings:

- the Association of Financial Supervisors of Pacific Countries annual meeting in Honiara in August 2015; and

- the Group of International Financial Centre Supervisors (GIFCS) London plenary meeting in April 2016.

Amanda Tuatai, Supervisory Analyst, represented the Commission at the Group of International Insurance Centre Supervisors (GIICS) annual meeting in London in June 2016. Ms Tuatai opened the forum with her presentation 'Jurisdiction in Focus: Cook Islands' which led on to the Commission being unanimously voted in as a full member of GIICS at the adjacent annual general meeting.

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

Personnel

As at 30 June 2016, the staff of the Commission comprised the Commissioner, the Deputy Commissioner; the Head of FIU; the Registrar of International and Foreign Companies and nine staff members.

A new Deputy Commissioner, Cheryl McCarthy, joined the Commission at the end of February 2016. Ms. McCarthy is a Cook Islands and New Zealand admitted lawyer of the bar.

The Commission was well served by its staff during the year and the Board thanks them for their continuing contribution.

Training & Development

The Commission was successful in securing Commonwealth Secretariat funding to engage technical assistance in respect to insurance supervision, and more specifically captive insurance supervision. The Guernsey Financial Services Commission delivered this invaluable training in-country for two weeks in both October 2015 and March 2016. The level of expertise dedicated to this assignment in the Cook Islands had significant impact on the supervisory regime in respect to insurance licensees.

A number of formal training and development opportunities were undertaken by various Commission staff including:

- Amanda Tuatai attended a two week Australian Prudential Regulation Authority (APRA) led onsite market risk inspection of the ANZ Bank in Fiji in May 2016;

- Margaret Tangimetua and Cheryl McCarthy attended the one week annual Association of Pacific Country Financial Supervisors meeting in Palau in June 2016; and
- Munokoa Purea also attended a two week APRA led onsite insurance supervision inspection in Timor Leste in June 2016.

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

The Commission will continue to seek relevant training opportunities to enhance the development of all staff and supported two members undertaking University of the South Pacific studies during the 2015/16 year.

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

In April 2016 the Board of Directors and Executive Management Team attended a Governance Essentials Programme facilitated by the NZ Institute of Directors, focusing on the enhancement of corporate governance and management within the Commission.

Other Matters

The Commission agreed to assist, from a regulatory oversight perspective, with the government's proposed move to incorporating the Cook Islands Payments System within the New Zealand Payments System. It is envisaged the Commission will work alongside the Reserve Bank of New Zealand in respect to regulatory review of the proposed changes.

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

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

For and on behalf of the Board



Raymond Newnham
Chairman
21 September 2016



**Financial Supervisory Commission
Cook Islands**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016



FINANCIAL SUPERVISORY COMMISSION

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

CONTENTS

	Page
Directory	3
Statement of Responsibility	4
Audit Report	5 - 6
Statement of Financial Performance	7
Statement of Financial Position	8
Statement of Movements in Equity	9
Statement of Cash Flows	10 - 11
Notes to the Financial Statements	12 - 20



FINANCIAL SUPERVISORY COMMISSION

DIRECTORY

Minister

The Honourable Mark Brown

Members of the Board

Raymond Newnham (Chairman)

Fletcher Melvin

Geoffrey Stoddart

Madeilene Sword

Gaye Whitta

Commissioner

Louise Wittwer

Business Address

Ground Floor

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Rarotonga

Cook Islands

Postal Address

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Rarotonga

Cook Islands

Contact Details

Phone: (682) 20 798

Email: inquire@fsc.gov.ck

Auditors

Cook Islands Audit Office

Bankers

Australia and New Zealand Banking Group Limited (ANZ)

Bank of the Cook Islands (BCI)

Capital Security Bank Limited (CSB)

Solicitors

Crown Law Office

Tim Arnold





**Financial Supervisory Commission
Cook Islands**

P.O. Box 594, Avarua, Rarotonga Phone: (682) 20798 Fax: (682) 21798
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FINANCIAL SUPERVISORY COMMISSION

STATEMENT OF RESPONSIBILITY

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

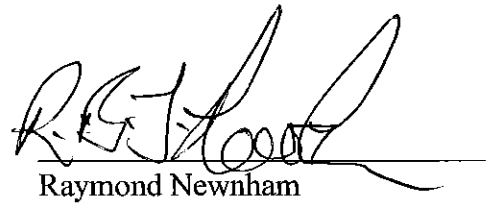
We have the responsibility of establishing and maintaining, and we have established and maintained, a system of internal control procedures that provide reasonable assurance as to the integrity and reliability of financial reporting.

In our opinion, these financial statements fairly reflect the financial position and operations of the Financial Supervisory Commission for the year ended 30 June 2016.



Louise Wittwer
Commissioner

16 September 2016



Raymond Newnham
Chairman

16 September 2016





INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF THE FINANCIAL SUPERVISORY COMMISSION

Report on the Financial Statements

We have audited the accompanying financial statements of Financial Supervisory Commission ("Commission") on pages 7 to 20. The financial statements comprise of the statement of financial position as at 30 June 2016, the statement of financial performance, the statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

We are the appointed auditor of the Commission under Article 71(1) of the Cook Islands Constitution

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAI) 1000 – 2999 series. Those standards require that we comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



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

Opinion

In our opinion the financial statements of the Commission on pages 7 to 20 for the year ended 30 June 2016 comply with generally accepted accounting practices as defined by the Ministry of Finance and Economic Act 1995-96 and present fairly, in all material respects, the financial position of the Commission as at 30 June 2016 and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

Our audit was completed on 16 September 2016 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 FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2016**

<i>In New Zealand Dollars</i>	Budget	Note	2016	2015
REVENUE	1,433,431	2	1,756,675	1,586,970
EXPENSES	1,155,340	3	1,281,810	1,275,278
NET SURPLUS	<u>\$278,091</u>		<u>\$474,865</u>	<u>\$311,692</u>


The accompanying notes form an integral part of these financial statements



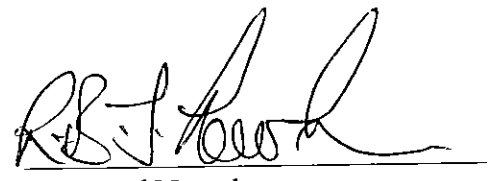
FINANCIAL SUPERVISORY COMMISSION

**STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016**

<i>In New Zealand Dollars</i>	Note	2016	2015
EQUITY		<u>\$709,960</u>	<u>\$789,697</u>
Represented by:			
CURRENT ASSETS			
Cash and Equivalents		58,171	54,559
Other Current Assets	4	50,176	25,095
Term Deposits		450,000	450,000
Trust Accounts	5	<u>183,649</u>	<u>401,325</u>
TOTAL CURRENT ASSETS		<u>\$741,996</u>	<u>\$930,979</u>
 PROPERTY, PLANT & EQUIPMENT	 6	 57,026	 64,325
 INTANGIBLE ASSETS	 7	 143,091	 267,020
 TOTAL ASSETS		 <u>\$942,113</u>	 <u>\$1,262,324</u>
 CURRENT LIABILITIES			
Accounts Payable		3,471	3,378
Related Party Payables	8	29,579	45,202
Sundry Creditors and Accruals	9	15,454	22,723
Trust Accounts	5	<u>183,649</u>	<u>401,325</u>
TOTAL CURRENT LIABILITIES		<u>\$232,153</u>	<u>\$472,628</u>
 TOTAL LIABILITIES		 <u>\$232,153</u>	 <u>\$472,628</u>
 NET ASSETS		 <u>\$709,960</u>	 <u>\$789,697</u>


Louise Wittwer
Commissioner

16 September 2016


Raymond Newnham
Chairman

16 September 2016



FINANCIAL SUPERVISORY COMMISSION

**STATEMENT OF MOVEMENTS IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2016**

<i>In New Zealand Dollars</i>	Budget	2016	2015
EQUITY AS AT 1 JULY	789,697	789,697	821,791
Net surplus for the year	278,091	474,865	311,692
Distributions to the Crown	(15,000)	(250,000)	(65,000)
FSDA Levy to the Crown	(262,065)	(304,602)	(278,787)
EQUITY AS AT 30 JUNE	<u>\$790,723</u>	<u>\$709,960</u>	<u>\$789,697</u>

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



FINANCIAL SUPERVISORY COMMISSION

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016**

<i>In New Zealand Dollars</i>	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash was provided from:		
Crown Appropriation	0	35,000
Fee Income	1,722,722	1,551,368
Interest	17,517	16,993
	<u>1,740,239</u>	<u>1,603,361</u>
Cash was applied to:		
Payments to employees and board members	807,158	843,627
Payments to suppliers	355,266	370,232
	<u>1,162,424</u>	<u>1,213,859</u>
Net cash flows from operating activities	<u>\$577,815</u>	<u>\$389,502</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash was provided from:		
Sale of property, plant & equipment	0	0
Cash was applied to:		
Purchase of property, plant & equipment	19,602	8,380
Net cash flows from investing activities	<u>(\$19,602)</u>	<u>(\$8,380)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash was applied to:		
Distributions to the Crown	250,000	65,000
FSDA Levy to the Crown	304,602	278,787
Net cash flows from financing activities	<u>(\$554,602)</u>	<u>(\$343,787)</u>
Net Increase / (Decrease) in Cash Held	3,611	37,335
Opening Cash Balance	504,559	467,224
Closing Cash Balance	<u>\$508,171</u>	<u>\$504,559</u>



FINANCIAL SUPERVISORY COMMISSION

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016**

<i>In New Zealand Dollars</i>	2016	2015
Closing Cash Comprises:		
Cash at Bank	58,171	54,559
Term Deposits	450,000	450,000
	<hr/>	<hr/>
	\$508,171	\$504,559
	<hr/>	<hr/>
 RECONCILIATION OF SURPLUS TO CASH FLOWS FROM OPERATING ACTIVITIES		
 Net Surplus	 474,865	 311,692
Add / (less): Non-cash items		
Depreciation	26,901	38,971
Amortisation	123,929	15,715
Add / (less): Items classified as Investing		
(Gain)/Loss on sale of property, plant & equipment	0	0
	<hr/>	<hr/>
	150,830	54,686
Add / (less): Movements in working capital items		
(Increase) / decrease in other current assets	(25,081)	11,279
Increase / (decrease) in accounts payable	93	(468)
Increase / (decrease) in related party payables	(15,623)	19,441
Increase / (decrease) in sundry creditors & accruals	(7,269)	(7,128)
	<hr/>	<hr/>
	(47,880)	23,124
	<hr/>	<hr/>
 Net Cash Flows from Operating Activities	 \$577,815	 \$389,502
	<hr/>	<hr/>



FINANCIAL SUPERVISORY COMMISSION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

1 STATEMENT OF ACCOUNTING POLICIES

Basis of Preparation

(i) Reporting Entity

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

(ii) Statement of Compliance

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

(iii) 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 Financial Supervisory 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.

SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies, which significantly affect the measurement of financial performance, financial position and cash flows have been applied:

(i) Revenue

The Financial Supervisory Commission derives revenue from various fees charged relating to the provision of services by 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.

(ii) Expenses

Expenses are recognised when incurred and are reported in the financial period to which they relate.

Realised gains or losses arising from sales of assets or the early settlement of a liability are recognised in the Statement of Financial Performance in the period in which the transaction is concluded.



FINANCIAL SUPERVISORY COMMISSION

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2016

SIGNIFICANT ACCOUNTING POLICIES

(iii) Depreciation & Amortisation

Depreciation of fixed assets and amortisation of intangible assets 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. The estimated useful lives are:

Fixed Assets

Furniture and fittings	10 years
Leasehold improvements	10 years
Motor vehicles	5 years
Office equipment	4 years

Intangible Assets

Software	3 - 8 years
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(iv) Foreign Aid

Aid monies received are recorded in the Statement of Financial Performance as they are utilised. Revenue is recognised at the same time the equivalent expense is incurred. Any unused aid money is held as an Aid Liability until such time as it is used and/or any applicable conditions attached to the funding are satisfied.

(v) 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 are translated at closing rates. Gains and losses due to currency fluctuations on these items are included in the Statement of Financial Performance.

(vi) Property, Plant & Equipment

The cost of purchased property, plant & 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.

(vii) Intangible Assets

Intangible assets are recorded at cost less accumulated amortisation. The cost of purchased intangibles such as software is the value of the consideration given to acquire the assets and the value of other directly attributable costs such as installation which have been incurred in bringing the assets to the location and condition necessary for their intended service.

(viii) Leased Assets

Operating lease payments, where the lessor retains substantially all the risks and rewards incidental to ownership, are representative of the pattern of benefits derived from the leased assets and accordingly are charged to the Statement of Financial Performance in the periods in which they are incurred.



FINANCIAL SUPERVISORY COMMISSION

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2016

SIGNIFICANT ACCOUNTING POLICIES

(ix) Taxation

The Financial Supervisory 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.

(x) Provision for Employee Entitlements

Annual leave and time off in lieu of overtime worked are recognised as they accrue to employees.

(xi) Financial Instruments

Financial instruments primarily consist of bank balances, receivables and payables. Gains and losses in relation to all financial instruments are recognised in the Statement of Financial Performance.

(xii) 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.

(xiii) Contingent Liabilities

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

(xiv) Statement of Cash Flows

Cash is considered to be cash balances on hand, current accounts in banks and term deposits, net of bank overdrafts.

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.

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

Financing activities comprise aid funding and capital injections by, or repayment of capital to, the Crown. Return of excesses to the Crown form part of Financing activities.



FINANCIAL SUPERVISORY COMMISSION

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2016

SIGNIFICANT ACCOUNTING POLICIES

(xv) 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.

(xvi) Superannuation Scheme

The Commission contributes to the National Superannuation Fund. This is classified as a Defined Contribution Scheme for the Commission. As such, the only impact on these financial statements is in the Statement of Financial Performance where payments into the scheme are recognised as a personnel expense in the period they are due.

CHANGES IN ACCOUNTING POLICIES

There have been no changes in accounting policies since the date of the last audited Financial Statements.

	Budget	2016	2015
2. REVENUE			
<i>Fee Income</i>			
Crown Appropriation	0	0	35,000
Licensing fees	94,220	136,285	113,207
Registration fees	137,510	165,942	138,090
Renewal fees	1,126,501	1,320,180	1,186,037
Other fee income	60,000	116,402	97,947
	\$1,418,231	\$1,738,809	\$1,570,281
<i>Other Income</i>			
Interest	15,200	17,866	16,689
	\$15,200	\$17,866	\$16,689
Revenue	\$1,433,431	\$1,756,675	\$1,586,970

Disclosure of services in-kind not recognised

The Commission received services in-kind to an estimated value of \$89,000 from the Commonwealth Secretariat. This is related to in country professional development delivered by the Guernsey Financial Services Commission during the year ended 30 June 2016.



FINANCIAL SUPERVISORY COMMISSION
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2016

	Budget	2016	2015
3. EXPENSES			
Amortisation	15,720	123,929	15,715
Audit Fee	3,000	2,500	2,500
Bank Application Costs	0	0	76,815
Board Fees	84,000	84,000	84,000
Computer Costs	12,000	7,042	12,137
Conferences & Workshops	0	2,596	36,467
Depreciation	26,520	26,901	38,971
Electricity	14,400	12,095	13,692
Enforcement Action Costs	0	3,021	33,380
Lease Costs	30,000	30,035	30,000
Legal and Professional Fees	20,000	30,077	3,940
Online Registry Expenses	39,600	48,372	39,497
Personnel	748,800	717,872	745,600
Recruitment and Relocation Expenses	22,000	30,847	0
Staff Training	10,000	21,803	7,294
Subscriptions	20,000	23,501	18,847
Travel	50,000	47,927	51,875
Other Operating Costs	59,300	69,292	64,548
Expenses	<u>\$1,155,340</u>	<u>\$1,281,810</u>	<u>\$1,275,278</u>
4. OTHER CURRENT ASSETS			
Accounts Receivable		3,443	2,128
Accrued Interest		3,083	2,734
Petty Cash		50	50
Prepayments		43,358	18,739
Tenancy Bond		0	750
Vested Assets Clearing Account		242	693
		<u>\$50,176</u>	<u>\$25,095</u>
5. TRUST ACCOUNTS			
Trust Assets			
ANZ NZD Vested Assets Account		0	288,457
ANZ USD Client Trust Account		73,372	0
CSB AUD Vested Assets Account		100,248	0
CSB NZD Client Trust Account		10,029	10,030
CSB USD Client Trust Account		0	102,838
		<u>\$183,649</u>	<u>\$401,325</u>
Trust Liabilities			
ANZ NZD Vested Assets on behalf of Crown		0	288,457
ANZ USD Client Imprest Accounts		73,372	0
CSB AUD Vested Assets on behalf of Crown		100,248	0
CSB NZD Client Security Bond		10,029	10,030
CSB USD Client Imprest Accounts		0	102,838
		<u>\$183,649</u>	<u>\$401,325</u>



FINANCIAL SUPERVISORY COMMISSION

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2016**

6. PROPERTY, PLANT & EQUIPMENT

<u>As at 30 June 2016</u>	Furniture & Fittings	Leasehold Improvements	Motor Vehicles	Office Equipment	Total
Opening Balance	3,065	24,052	12,074	25,134	64,325
Additions	0	12,515	0	7,087	19,602
Disposals	0	0	0	0	0
Accum Depn on Disposals	0	0	0	0	0
Depreciation	(370)	(4,806)	(4,025)	(17,700)	(26,901)
Closing Balance	\$2,695	\$31,761	\$8,049	\$14,521	\$57,026

Gross Carrying Amount	37,518	59,729	43,057	179,390	319,694
Accum Depreciation	(34,823)	(27,968)	(35,008)	(164,869)	(262,668)
Net Carrying Amount	\$2,695	\$31,761	\$8,049	\$14,521	\$57,026

<u>As at 30 June 2015</u>	Furniture & Fittings	Leasehold Improvements	Motor Vehicles	Office Equipment	Total
Opening Balance	3,437	28,773	16,099	54,987	103,296
Additions	0	0	0	0	0
Disposals	0	0	0	1,847	1,847
Accum Depn on Disposals	0	0	0	(1,847)	(1,847)
Depreciation	(372)	(4,721)	(4,025)	(29,853)	(38,971)
Closing Balance	\$3,065	\$24,052	\$12,074	\$25,134	\$64,325

Gross Carrying Amount	37,518	47,214	43,057	172,303	300,093
Accum Depreciation	(34,452)	(23,162)	(30,982)	(147,169)	(235,767)
Net Carrying Amount	\$3,065	\$24,052	\$12,074	\$25,134	\$64,325



FINANCIAL SUPERVISORY COMMISSION

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2016**

	2016	2015
7. INTANGIBLE ASSETS		
Opening Balance	267,020	274,355
Additions	0	8,380
Disposals	0	0
Accum Amortisation on Disposals	0	0
Amortisation	<u>(123,929)</u>	<u>(15,715)</u>
Closing Balance	<u>\$143,091</u>	<u>\$267,020</u>
Gross Carrying Amount	322,677	322,677
Accum Amortisation	<u>(179,586)</u>	<u>(55,657)</u>
Net Carrying Amount	<u>\$143,091</u>	<u>\$267,020</u>

CHANGE IN ACCOUNTING ESTIMATE

The Commission's Online Registry Software was originally estimated to have a life of 20 years. This estimate has been reviewed in 2015/2016 and revised to reflect the likely useful life of the asset now, which is deemed to be 8 years.



FINANCIAL SUPERVISORY COMMISSION

**NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2016**

8. RELATED PARTY PAYABLES	2016	2015
<p>The Financial Supervisory Commission enters into transactions with Government ministries, Crown agencies and State Owned Enterprises on an arms length basis. The balances due to related parties as at 30 June follow:</p>		
<p>Related Party Payables:</p>		
Cook Islands Audit Office	2,875	2,875
Revenue Management – PAYE	12,737	20,501
Revenue Management – VAT	13,967	21,826
	<u>\$29,579</u>	<u>\$45,202</u>
<p>9. SUNDRY CREDITORS AND ACCRUALS</p>		
Accrual for Employee Entitlements	8,341	11,366
Accrual for Personnel Costs	5,503	0
Credit Card	1,610	(4,730)
Revenue Received in Advance	0	16,087
	<u>\$15,454</u>	<u>\$22,723</u>
<p>10. FINANCIAL COMMITMENTS</p>		
<p>Operating Tenancy Lease commitments:</p>		
Within one year	34,500	36,107
Within one to two years	10,114	34,500
	<u>\$44,614</u>	<u>\$70,607</u>
<p>Online Registry commitments:</p>		
Within one year	0	10,450
Within one to two years	0	0
	<u>\$0</u>	<u>\$10,450</u>

There were no other financial commitments at balance date.



FINANCIAL SUPERVISORY COMMISSION

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2016

11. CONTINGENT LIABILITIES

There were no contingent liabilities as at balance date (2015: nil).

12. FINANCIAL INSTRUMENTS

a) Currency, Interest Rate and Credit Risks

i) Currency

The Financial Supervisory Commission is exposed to significant levels of currency risk as its registry fee revenue is denominated in United States dollars.

ii) Interest Rate

There is some exposure to interest rate risk due to the Commission's holdings of interest bearing term deposits.

iii) Concentrations of Credit Risk

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

b) Fair Values

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

13. SEGMENT APPRAISAL

The Financial Supervisory Commission provides services within the Cook Islands.

14. SUBSEQUENT EVENTS

There were no subsequent events.

