



FINANCIAL SUPERVISORY COMMISSION

OF THE

COOK ISLANDS

ANNUAL REPORT

2020/2021

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REPORT ON ACTIVITIES

2020/2021

Major Achievements

The year ended 30 June 2021 marked the eighteenth 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 nine 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 2020/2021 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.

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.

The major achievements for the FSC and FIU for the year to 30 June 2021 are highlighted below:

- Completion of all items under the 3-year Supervision Framework Enhancement project by the FSC and PFTAC¹;
- Conducted enhanced monitoring and supporting our banking industry through COVID-19 pandemic impacts by implementing and revising a high frequency monitoring programme and continuing the COVID-19 loan deferral programme;
- Developed and implemented our new online prudential filing system for financial reporting by our bank licensees which will enable better use of prudential data for analysis by supervisors;

¹ Pacific Financial Technical Assistance Centre

- Issued the remaining five Banking Prudential Statements developed under the PFTAC Supervision Framework Enhancement Project;
- Licensed Ararat Limited and Stonewood Insurance Limited as Captive Insurers in January and February 2021;
- Completed alongside the ADB the scoping and diagnostics review of the Registry for the upgrade of the online Registry;
- Launched scam awareness campaigns “Be KukiWise – STOP the Scam” in March 2021 and the “Get Safe Online” platform in June 2021;
- Increased financial analysis and investigative support for a number of critical law enforcement operations in 2020/2021 conducted by other law enforcement agencies, as outlined further in this report.

This year supervisory activities were focused on conducting a comprehensive offsite review for all licensees, followed by targeted onsite visits for high to medium risk licensees. 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 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 2020 to 30 June 2021

(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. 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. Ararat Limited and Stonewood Insurance Limited were licensed as Captive Insurers in January and February 2021.

(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 2020/21 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 limited down time for the online registry of international companies, trusts, partnerships and limited liability companies in 2020/21. 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 development of the Commission’s three-year strategic plan along with continued support for the development of industry led legislation such as the International Relationships Property Trust Bill 2021.

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

Actual Performance – This was achieved. The Commission continued to fully utilise all offers of training for supervision staff as specifically referred to later in this Annual Report, observing that a number of these were delivered virtually, rather than in person.

(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 – Achieved. This annual report will be filed with the Minister on or before 30 September 2021. 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 2020/21; 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’s recommendations and 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 reporting institution’s internal AML/CFT 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, which recommenced when borders re-opened to New Zealand. These have provided opportunities for upskilling of border and FIU staff as well as improving 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 complete implementation of the recommendations of the September 2018 Mutual Evaluation Report with priority given to increasing capacity and resourcing around financial investigations.

(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 vest with the Registrar under the International Companies Act 1981/82.

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, particular in light of developments around the impact of the COVID-19 pandemic on global banking. In general, 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 a focus on cybersecurity risks for our licensed banks and their internal systems and controls to address those risks. Market and Investment risk was also a focus for supervisory activities.

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 final follow up mission was conducted in January 2021 and the purpose of this was to provide support for the continued implementation of the enhancements made to our framework.

In addition, the FSC issued the five remaining Banking Prudential Statements covering Audit, Fit and Proper, Liquidity Risk, Large Exposures and Related Lending, Activities and Entities in December 2020.

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 2020/21.

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; this includes the development of an annual return for captive licensees to enhance the Commission's offsite monitoring.

Money Changing & Remittance Businesses

The Commission undertook primarily offsite analysis of the four licensed Money Changers during 2020/21, however the first onsite visit for new licensee Vodafone Cook Islands was completed as well.

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.

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 2020/21 was 47, no change from the previous year.

International Companies

The number of International Companies for which registration and renewal fees were received in 2020/21 was 790, a decrease of 13 (-2%) 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 and is forecast to continue.

International Trusts

The number of International Trusts for which registration and renewal fees were received in 2020/21 was 2,225, an increase of 85 (+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 2020/21 was 426, an increase of 33 (+8%) 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 2020/21 was 4, 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 of 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.

2020/2021 FIU Activities

Since the completion of the FIU WIZARD project in June 2020, the system has been used to facilitate data collected from reporting institutions. This has assisted the FIU to interrogate and analyse data for intelligence purposes.

For the period 2020/2021 the FIU has been actively involved in the Cook Islands National Intelligence Taskforce. Meetings are held monthly with each agency on the taskforce taking turns to chair and host. Core work achieved by the taskforce was the collection of intelligence on a Cook Islands linked organized crime group with chapters in New Zealand and Australia and presentation of this intelligence to the heads of CINIT agencies. This work was supported by the NZ Transnational Crime Unit and is ongoing.

In March 2021, the FIU assisted the Cook Islands Transnational Crime Unit (CITCU) with chairing three sub-regional Pacific Transnational Crime Network (PTCN) meetings for the

Micronesia, Melanesia, and Polynesia regions. The theme of the meetings was “Financial crime links to other crimes”. Part of chairing these meetings required CITCU to present a case study linked to the theme. CITCU presented the case study Operation KOTAA involving Police, Customs, Immigration, CIFIU, NZFIU and New Zealand Police. This case study involved the detection and dismantling of a drug syndicate between NZ and the Cook Islands and the laundering of proceeds to NZ. All four agencies contributed to the presentation with FIU providing insights into the work done around analysis of suspicious activity reported to FIU that led to intelligence work being done and eventually search warrants and arrests being made.

In April 2021, the FIU participated in a large joint investigation led by the Cook Islands Police Service into serious financial misconduct involving two government departments. The FIU has seconded a staff member to the Cook Islands Police Service at their request to provide investigate support. This investigation is ongoing.

The STOP the Scam campaign was launched in March 2021. Initial groundwork on the campaign commenced in April 2020 due to the increase of reported Covid-19 pandemic related online scams. The FIU capitalised on frequently utilised media platforms to get the message to the public. Posters in English, Cook Islands Maori, Fijian, and Filipino were posted at the Rarotonga Puna’s, as well as on major public and private business premises. The scam campaign was also extended to Aitutaki. Local newspapers, radio talk-back shows, and social media platforms were also used. In December 2020, the FIU engaged a local business to create an animated video production called “Be KukiWise – STOP the Scam” which launched in March 2021. This campaign was run over a four-month period with the awareness video being run on CITV three times per week at peak viewing times. The video had both an English and Cook Island Maori version and was uploaded on YouTube and shared via Facebook.

In June 2021, “Get Safe Online UK”, another awareness product on scams and cybercrime, was launched on the Cook Islands online platform hosted by the Office of the Prime Minister’s ICT division. The program was a collaboration with Prime Minister’s Office ICT Unit, Vodafone and the FIU. The FIU collaboration resulted in the first Pyramid Scheme issue included as content for the program and rolled out to Get Safe Online partners and supporters in the Pacific Region.

In January 2021, the FIU attended the first National Security Council Meeting, organised by Director National Security with the PM. Key points from that meeting included establishment of a mailing list for Heads of National Security, circulation of a monthly meeting schedule, discussion of a proposed MoU, and information on the rollout of the National Security Policy.

To support the Cook Islands Government response to the COVID-19 pandemic, in April 2021 the FIU provided personnel to support the Te Marae Ora Quarantine Free Travel Response Scenario Exercise.

Compliance Work

The table below shows the work conducted by compliance for the period 2020/21.

Activity	2019/2020	2020/2021
Desk based reviews ongoing	2	1
Desk based reviews completed	3	2
Joint On-sites with Supervision completed	-	5
SAR related focus audits	-	1
MLRO Public Private Partnership sessions	-	4

The progress on the Maritime Cook Islands desk-based review came to a pause due to COVID-19 pandemic restrictions on global travel. Technical assistance from the US federal agency's Pacific Northwest National Laboratory (PNNL), who have experts in the "sanction realm", was expected with delivery of tailored training before the scheduled onsite compliance audit in May 2020. The onsite compliance audit visit has been rescheduled for the next financial year.

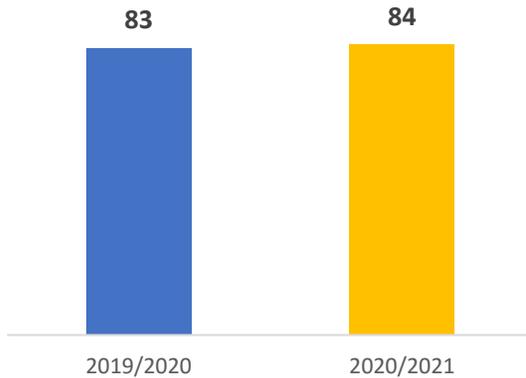
Intelligence Activities

The table below shows the number of reports received by the FIU in 2020/21 & 2019/2020 figures are included for comparative purposes.

Type of Report	2019/2020	2020/2021	% increase/decrease
Suspicious Activity Reports	83	84	+1.20%
Cash Transaction Reports	4,010	2,999	-25.21%
Electronic Funds Transfer Reports	82,595	77,592	-6.12%
Border Currency Reports	27	1	-96.3%
Intelligence Reports	32	115	+259.38%
TOTAL	86,805	80,791,	-6.93
Monthly Average	7,234	6,733	

Suspicious Activity Reports (SAR's)

G1. SUSPICIOUS ACTIVITY REPORTS (SAR'S)

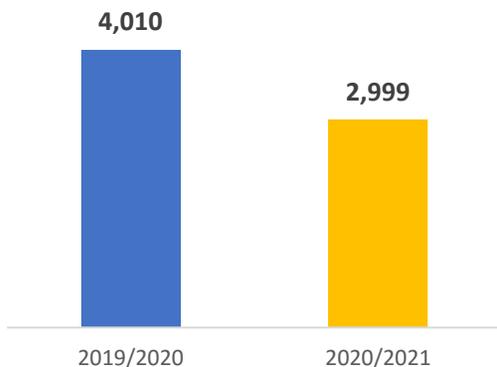


Reporting institutions have an obligation under section 47 of the FTRA 2017 to report any suspicious activity to the FIU. Reporting institutions are required to submit suspicious activity reports within 48 hours of the suspicion.

The G1 graph shows that the FIU received 84 SARs in 2020/21 or an average of 7 SARs per month. This reflects an increase of 1 SAR compared to 83 in 2019/20, especially in the business of manipulating individuals into “making quick cash” scams.

Cash Transaction Reporting (CTR's)

G2. CASH TRANSACTION REPORTS (CTR'S)

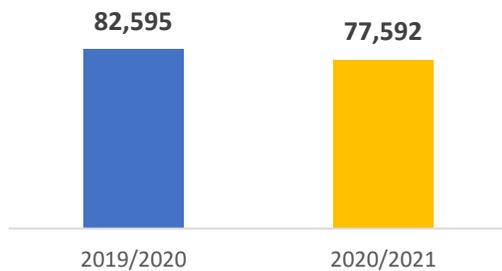


Reporting institutions have an obligation to provide reports (stipulated under section 45) for cash transactions that are equivalent to or more than the threshold amount of \$10,000.

The G2 graph shows that the FIU received 2,999 CTRs in 2020/21 or an average of around 250 EFTRs per month. This shows a decline of 25.21 percent compared to 4,010 CTRs reported to the FIU in 2019/20, due to the impact of Covid-19 affecting the business trading operation.

Electronic Funds Transfers (EFTR's)

G3. ELECTRONIC FUNDS TRANSFER REPORTS (EFTR'S)

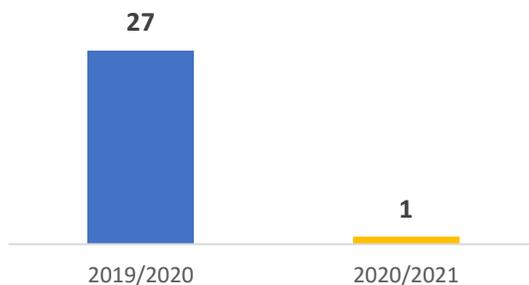


Reporting institutions are required to report all electronic funds transfers in & out of the country under section 46 of the FTRA 2017.

The G3 graph shows that there were 77,592 EFTRs in 2020/21 or an average of around 6,466 EFTRs per month. This shows a decline of 6.12 percent compared to 82,595 EFTRs reported to the FIU in 2019/20. 60.09% (46,625) of the EFTRs were transfers out of the Cook Islands while 30,967 were transfers into the country.

Border Currency Reports (BCR's)

G4. BORDER CURRENCY REPORTS (BCR'S)



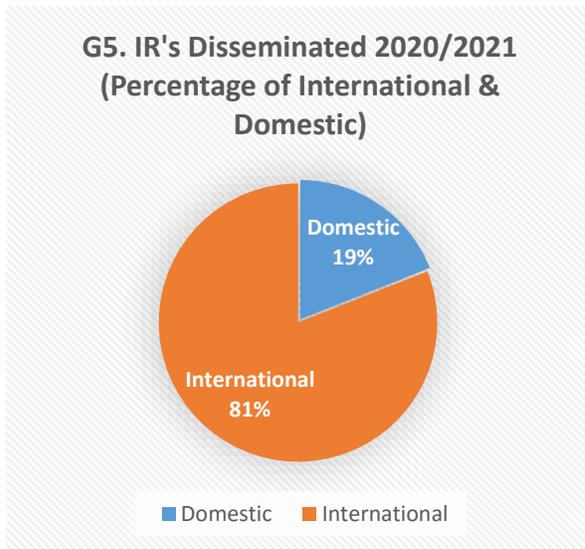
The Currency Declaration Act 2015/2016 which is administered by the Cook Islands FIU and assisted by the Border Agencies (Customs/Immigration). All travelers arriving at and departing from the Cook Islands border are required to undertake a declaration (under section 7 of the Currency Declaration Act 2015/2016) for any currency of a value of \$10,000 or more (or its equivalent in foreign currency). Declarations must be reported to the Cook Islands FIU.

Due to Covid-19 lockdowns, there were flight cancellations which reflects in the number of BCRs. Only one BCR was reported to FIU for 2020/21.

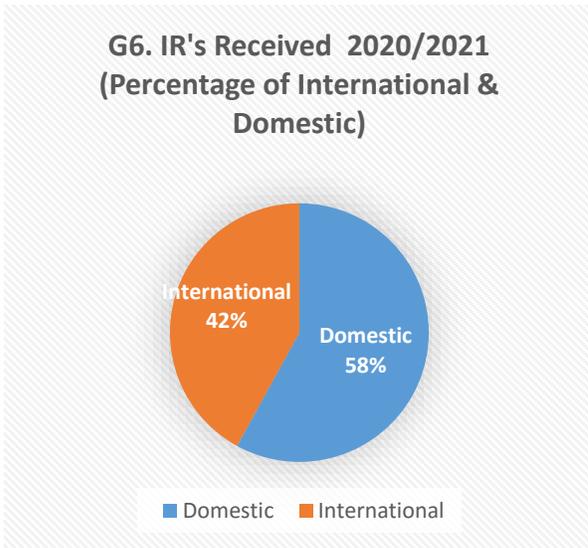
Intelligence Reports (IR's)

Intelligence reports relate to reports we receive and disseminate both domestically from/to other local law enforcement agencies, government departments as well as private citizens, and from/to international law enforcement counterparts through different networks such as the Egmont Secured Network (ESW), APAN, ARIN AP, NZTCU, JIATF West and NZNDIB.

	2019/2020	2020/2021
Total Received	31	130
Domestic	23	76
International	9	54
Total Disseminated	18	102
Domestic	4	19
International	14	83

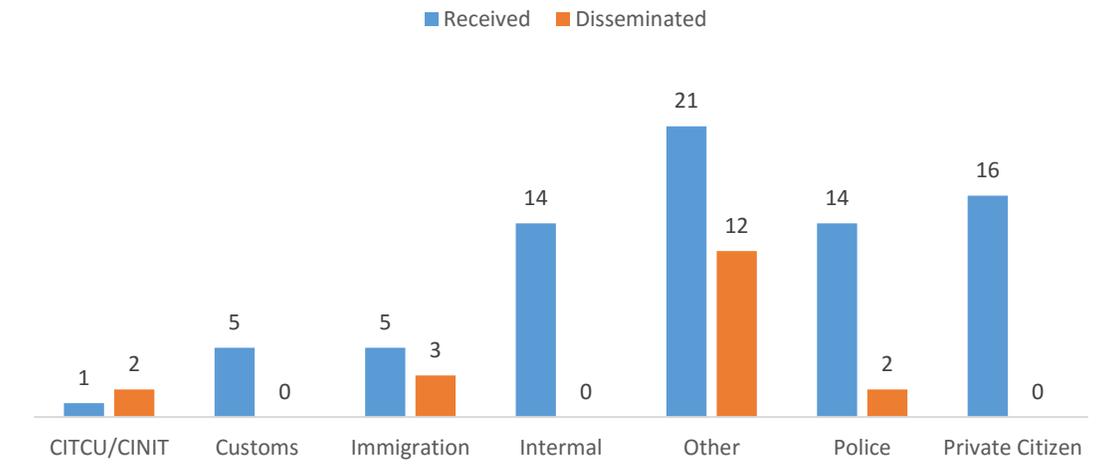


Graph G5 illustrates that for the 2020/2021 period, 81% of the total IR's were disseminated internationally compared to only 19% domestically. This trend can be attributed to the AML/CFT work being done by the FIU to address risks in the offshore sector, and reporting institutions identifying and reporting high-risk clients and activity.



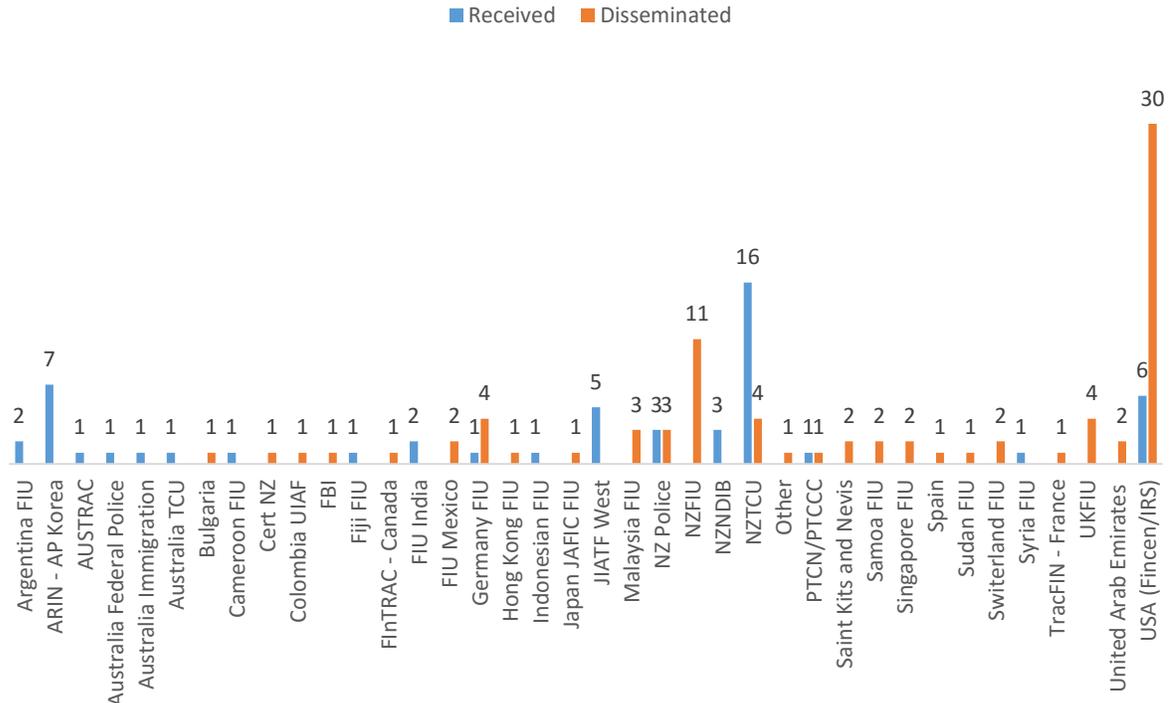
Graph G6 illustrates that 58% of the IRs received were domestic. This trend can be attributed to the work being done domestically between Law Enforcement intelligence networks such as the Cook Islands National Intelligence Taskforce where intelligence is being shared more freely. This is also due to the Public Private Partnership (PPP) approach that the FIU are taking to engage with and work more closely with the private sector to address AML/CFT risk. Public awareness campaigns such as the “Kukiwise – STOP THE SCAM” also contributed to this trend with more reports being received from private citizens and other government departments.

G7: Sources of IR's Received and Disseminated - Domestic



Graph G7 summarises domestic IR’s received and disseminated domestically. For domestic disseminations, the highest recorded is ‘other’ sources with 12 disseminations. The work done with the PPP program as well as the Kuki Wise – STOP THE SCAM campaign contributed to this. The ‘other’ category includes agencies and other government departments that are not law enforcement agencies (e.g. Ministry of Culture, BTIB, FSC, etc.).

G8: Sources of IR's Received and Disseminated - International



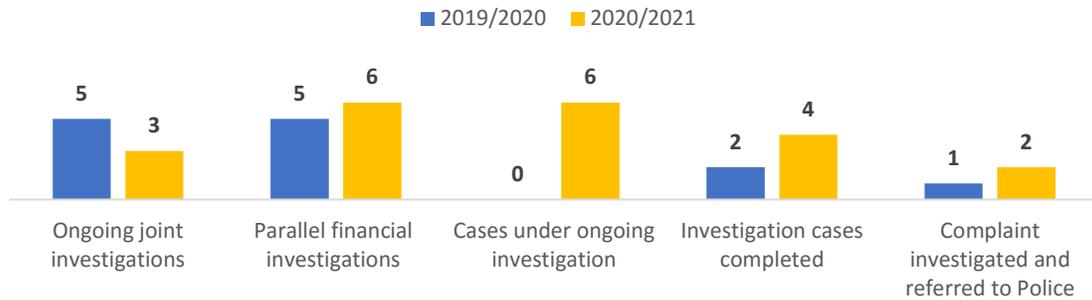
Graph G8 shows the breakdown for international IR's received and disseminated. NZTCU is recorded as the highest source of IR's received with 16, and the US Fin CEN/IRS is recorded as the highest international counterpart for IR's disseminated to with 30. NZTCU being the highest for IR's received can be attributed to the work NZTCU are doing with actively monitoring and notifying CITCU of any gang members travelling to the Cook Islands. For US FinCEN/IRS being the highest source for disseminations, this can be attributed to the fact that the offshore industry is predominately US clientele.

Investigations

The table show the outcome of investigation work conducted by the FIU for the year under review:

Activity	2019/2020	2020/2021
Ongoing joint investigations	5	3
Parallel financial investigations	5	6
Cases under ongoing investigation	0	6
Investigation cases completed	2	4
Complaint investigated and referred to Police	1	2

INVESTIGATION WORK 2020-2021 PERIOD



The FIU continues to provide support to local law enforcement agencies and is currently assisting the Cook Island Police Service with three large scale joint investigations. These investigations relate to serious financial misconduct.

For the period 2020/2021, the FIU was part of a joint transnational crime investigation led by the Cook Islands Police and the New Zealand Police with their FIU unit. The investigation resulted in a drug syndicate being identified and dismantled involving a New Zealand-based Cook Islander linked to an organised crime group supplying drugs to a Cook Islands-based syndicate who then distributed the drugs locally and laundered the proceeds back to NZ via bank accounts established in the Cook Islands. The termination phase of the investigation resulted in search warrants being executed in both the Cook Islands and NZ simultaneously with arrests in both countries. This case is also the first of its kind in the Cook Islands where Money Laundering charges under the Crimes Act have been laid. This case is currently still before the courts.

The FIU also receives complaints from the public and other government agencies where the FIU Act 2015 allows the FIU to investigate, collect evidence and submit this for prosecutorial action or warning.

The FIU investigated and referred two investigations to the Police for further action relating to cybercrime. Two cases related to cybercrime reported via a Suspicious Activity Report. The FIU has seen a marked increase in this type of activity over the 2020/2021 period

FIU Training and Development

During the year to 30 June 2021 FIU staff members were restricted in travel and opted to participate in a number of external virtual training and professional development opportunities including the following:

- AUSTRAC Refinitiv World-Check on “Tips and Tricks” (24th August 2020) – Online training with Refinitiv World-Check IT support
- Australia US Embassy (FBI) on “Cybersecurity & Cybercrime” (22nd September 2020) – Webinar training

- USP Cook Islands “Certificate Course in Business Computing” (25th September 2020) – In country face to face
- New Zealand Police on “Organised Crime Disruption Conference” (27th to 29th October 2020) – Webinar training
- AUSTRAC on “Pacific Intelligence Fundamental Course (PIFC)” (9th, 10th, 12th, & 16th November 2020) – Webinar training.
- New Zealand Financial Intelligence and ACAMs Conference 9th – 11th November 2020
- PTCN Team Leaders Meeting – 3rd March 2021 – CITCU Delivered OPS Kotaa.
- Presentation to Cook Islands Customs Service Compliance Team on “CIFIU role, parallel financial investigation and Trade-based Money Laundering (TBML)” (19th November 2020 – In country face to face
- Cyber Safety Pacifika on “Cyber Investigations and Industry Engagement Training” (2nd December 2020) – Webinar training
- APG Typology Workshop on “Financing and Facilitation of Foreign Terrorist Fighters” (1st February 2021), “Digital ID/KYC” (2nd February 2021), “Digital KYC Stream” (3rd February 2021), “Plenary Typology” (4th February 2021) – Webinar workshop
- On the 23rd March 2021, FIU delivered training with co-host PTCN, to TCU Samoa, Tuvalu and Kiribati – Investigation Pyramid Schemes Cook Islands Experience.
- APG DNFBPs Regulations on “FATF Standards and Implementation” (27th April 2021) – Webinar workshop
- AUSTRAC “Pacific Cyber Week” (17th, 18th, & 20th May 2021) – Webinar training
- APG Risk Assessment and DNFBPs on “Regulatory and Supervisory Strategies to Address Risk” (15th June 2021) – Webinar workshop
- RBNZ host of Pacific AML/CFT Supervisors Forum on a quarterly meeting – Webinar sessions

Financial Performance

The 2020/21 Financial Performance of the Commission exceeded expectations. This was primarily attributable to significant savings in operations due to changes in staffing for the Commission and reduced expenditure on items such as travel, conference hosting and some maintenance costs.

A new COVID-19 expense line was introduced to the financial accounts in March 2020 and was continued in the 2020/2021 financial year. This primarily comprises the costs of the high frequency bank reporting analysis outsourced to KPMG Rarotonga and Auckland.

Actual revenue for the year to 30 June 2021 was \$1,496,701 and expenditure totalled \$1,010,179 resulting in a net surplus of \$486,522. This net surplus figure represented an increase of \$206,688 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 \$400,000 was returned to the Crown as excess funds, pursuant to section 24(2) of the FSC Act 2003.

On 29 September 2020 the Cook Islands Audit Office (CIAO) issued an unqualified audit opinion on the FSC's 2020/21 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 2021 comprised:

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

During the year the FSC Board met on 14 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. Former Commissioner Louise Wittwer left office in October 2020 and was replaced by then Deputy Commissioner Cheryl McCarthy. Long time Senior Supervisor Margaret Tangimetua was promoted to 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 continuing border restrictions, no travel was undertaken by either personnel during this financial year however virtual participation in all regular international forums was attended by the Commissioner or Deputy Commissioner; including:

- the Annual Plenary Meeting for the Asia Pacific Group on Money Laundering and subsequent Technical Assistance Forum in July 2020;
- the Group of International Insurance Centre Supervisors annual meeting in July 2020;
- the Corporate Registers Forum Annual Meeting in November 2020;
- the Association of Financial Supervisors of Pacific Countries annual meeting in March 2021;

- the Group of International Financial Center Supervisor’s summer plenary meeting in May 2021;
- the PFTAC Annual Meeting for Pacific Supervisor’s April 2021, and Steering Committee Meetings in June 2021.

Staffing

With the departure of the previous Commissioner and appointment of the new Commissioner, a focus for 2020/2021 was to consolidate the resources within the office. A new administration assistant was recruited in December 2020 and casual staff were engaged to assist with ad-hoc work in the administration and supervision areas.

The Commission has been actively recruiting new staff with a focus on skills in information technology and finance and this recruitment remains ongoing.

As at 30 June 2021, the staff of the Commission comprised of the Commissioner, the Deputy Commissioner, the Acting Head of FIU and six staff members.

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

Professional Training & Development

All external professional training and staff development opportunities have in most part taken place virtually in 2020/2021. Opportunities for Commission staff have included:

- Approaches to Cyber Supervision in Insurance – Group of International Insurance Supervisor’s Forum;
- World Check Tips and Tricks Training Session – Austrac/Refinitiv August 2020;
- FBI Cybersecurity/Cybercrime Training – Federal Bureau of Investigation September 2020;
- ADB Conference on Availability of Beneficial Ownership Information September 2020;
- FinTech & Regulatory Innovation Course – Cambridge Centre for Alternative Finance November 2020;
- Bank Supervision Risk Matrix Refresher Training – Pacific Financial Technical Assistance Centre;
- Selected Issues in the Evolving Financial Regulatory Framework Webinar– IMF-STI March 2021;
- Beneficial Ownership Technical Workshop – Corporate Registrar’s Forum April 2021.

The technical training and support provided by the APG, Austrac, RBNZ, NZ Police Pacific Financial Technical Assistance Centre (PFTAC) and IMF’s Singapore Regional Training Institute (IMF-STI) 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.

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 matter is being progressed for completion in the 2021/2022 period.

For and on behalf of the Board



Geoff Stoddart
Chairman
29 September 2021



FINANCIAL SUPERVISORY COMMISSION

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021



FINANCIAL SUPERVISORY COMMISSION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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FINANCIAL SUPERVISORY COMMISSION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

DIRECTORY

Minister

The Honourable Mac Mokoroa

Members of the Board

Geoffrey Stoddart (Chairman)

Christina Newport

Fletcher Melvin

Gaye Whitta

Martha Henry

Business Address

Ground Floor, Bermuda House

Avarua, Rarotonga

Cook Islands

Postal Address

PO Box 594

Rarotonga

Cook Islands

Contact Details

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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)

Bank of South Pacific Limited (BSP)

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 2021.

A blue ink signature of Cheryl McCarthy, consisting of a large, stylized 'C' followed by a horizontal line.

Cheryl McCarthy
Commissioner

22 September 2021
Date

A blue ink signature of Geoffrey Stoddart, consisting of a stylized 'G' followed by a horizontal line.

Geoffrey Stoddart
Chairman

22 September 2021
Date





Independent Auditor's Report

To the readers of the financial statements of the Financial Supervisory Commission for the year ended 30 June 2021.

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 2021 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with generally accepted accounting practices as defined by the Ministry of Finance and Economic Management Act 1995-96 and International Public Sector Accounting Standards (IPSAS) issued by the International Public Sector Accounting Standards Board.

We have audited the accompanying financial statements which comprise:

- the statement of financial position as at 30 June 2021;
- 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
- notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

My audit was completed on 22 September 2021. 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 130 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:

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

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

Auditor's responsibilities for the audit of the financial statements

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 130 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 2021

In New Zealand Dollars	Notes	Budget 2021 \$	Actual 2021 \$	Actual 2020 \$
Revenue				
Trading Revenue	2	1,577,284	1,482,357	1,611,417
Other Revenue	2	15,000	14,000	16,326
Total Revenue		1,592,284	1,496,357	1,627,743
Expenditure				
Personnel Expenses	3	728,000	530,757	722,256
Audit Fees		3,000	2,500	2,500
Covid-19 Expenses		150,000	118,962	171,001
Depreciation and Amortisation Expenses	11,12	67,750	54,264	58,343
Other Expenses	4	363,700	303,697	369,026
Total Expenditure		1,312,450	1,010,179	1,323,126
Operating Profit Before Other Gains and Losses (OBEGAL)		279,834	486,178	304,618
Other Gains/(Losses)				
Other Gains from Disposal of Property Plant and Equipment		-	343	-
Total Other Gains/(Losses)		-	343	-
Net Surplus		279,834	486,522	304,618

Explanations of major variances against the budget are provided in Note 19.

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



FINANCIAL SUPERVISORY COMMISSION

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

In New Zealand Dollars	Notes	Actual 2021 \$	Actual 2020 \$
Assets			
Current Assets			
Cash and Equivalents	5	61,543	39,572
Vested Assets Clearing Account		281	160
Trust Accounts	10	558,026	121,659
Reserve Accounts	6	510,000	510,000
Prepayments		26,361	24,812
Debtors and Other Receivables	7	3,900	-
Accrued Interest		3,272	3,911
Total Current Assets		1,163,383	700,114
Non-Current Assets			
Property, Plant, and Equipment	11	38,084	38,726
Intangible Assets	12	164,602	83,608
Intangible Assets - Work In Progress		-	16,489
Total Non-Current Assets		202,685	138,823
Total Assets		1,366,069	838,937
Liabilities			
Current Liabilities			
Creditors and Other Payables	8	79,003	73,045
Employee Entitlements	9	18,501	20,216
Trust Liabilities	10	558,026	121,659
Total Current Liabilities		655,530	214,920
Total Liabilities		655,530	214,920
Net Assets		710,539	624,018
Equity			
Contributed Capital		750,400	750,400
Accumulated Surplus / (Deficit)		(39,861)	(126,382)
Total Equity	13	710,539	624,018

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 2021

In New Zealand Dollars	Notes	Budget 2021 \$	Actual 2021 \$	Actual 2020 \$
Balance as at 1 July		624,018	624,018	750,400
Total Net Surplus for the year		279,834	486,522	304,618
Return of Excess to the Crown		(280,000)	(400,000)	(431,000)
Balance as at 30 June	13	623,852	710,539	624,018

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 2021

In New Zealand Dollars	Actual 2021 \$	Actual 2020 \$
Cash Flows from Operating Activities		
Receipts from Licensees	1,470,308	1,612,858
Receipts from Interest	14,639	15,126
Payments to Employees	(616,001)	(810,813)
Payments to Suppliers	(329,193)	(438,212)
Net Cash Flows from Operating Activities	539,754	378,959
Cash Flows from Investing Activities		
Sale of Property Plant and Equipment	343	-
Purchase of Property, Plant, Equipment and Intangible Assets	(118,126)	(75,375)
Net Cash Flows used in Investing Activities	(117,783)	(75,375)
Cash Flows from Financing Activities		
Distributions to the Crown	(400,000)	(431,000)
Cash transferred from Reserve Accounts	-	100,000
Net Cash Flows used in Financing Activities	(400,000)	(331,000)
Net Increase in Cash and Equivalents	21,971	(27,416)
Cash and Equivalents as at 1 July	39,572	66,988
Cash and Equivalents as at 30 June	61,543	39,572

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 2021

In New Zealand Dollars	Actual 2021 \$	Actual 2020 \$
Reconciliation of Net Surplus / (Deficit) to Net Cash Flows from Operating Activities		
Reported Surplus	486,522	304,618
Add / (less) Non-cash items		
Depreciation and Amortisation	54,264	58,343
(Gain) / Loss on Sale of Assets	343	-
<i>Total Non cash items</i>	540,442	362,961
Add / (less) movements in Statement of Financial Position items		
(Increase) / decrease in Debtors and Other Receivables	(3,900)	6,100
(Increase) / decrease in Prepayments	(1,549)	11,611
(Increase) / decrease in Accrued Interest	639	(1,200)
(Increase) / decrease in Tenancy Bond	-	2,080
(Increase) / decrease in Vested Assets Clearing Account	(121)	(62)
Increase / (decrease) in Accounts Payable	14,372	4,145
Increase / (decrease) in Credit Card Liability	(1,134)	(60)
Increase / (decrease) in Pay As You Earn (PAYE) Payable	(1,396)	(2,641)
Increase / (decrease) in Superannuation Payable	1,567	(3,237)
Increase / (decrease) in Value Added Tax (VAT) Payable	699	3,051
Increase / (decrease) in Revenue Received in Advance	(8,149)	(4,660)
Increase / (decrease) in Employee Entitlements	(1,716)	872
<i>Net movement in working capital items</i>	(688)	15,999
Net Cash Flows from Operating activities	539,754	378,960

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 2021

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 2021

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 2020/2021, as approved by the Board of Directors on 19 March 2020.

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 2021

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 2021 \$	Actual 2021 \$	Actual 2020 \$
Trading revenue			
Licensing fees	115,305	115,414	116,635
Registration fees	123,744	133,223	120,332
Renewal fees	1,255,235	1,128,096	1,226,784
Other fee income	83,000	105,625	147,665
Total trading revenue	1,577,284	1,482,357	1,611,417
Other revenue			
Interest revenue	15,000	14,000	16,326
Total other revenue	15,000	14,000	16,326

Note 3: Personnel Expenses

Accounting Policy

Superannuation schemes

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

Breakdown of personnel expenses

	Budget 2021 \$	Actual 2021 \$	Actual 2020 \$
Salaries and wages	693,476	509,332	693,514
Defined contribution plan - employer contributions	34,524	23,140	27,870
Increase / (decrease) in employee entitlements	-	(1,716)	872
Total personnel expenses	728,000	530,757	722,256

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 2021

Note 4: Other Expenses

Breakdown of other expenses

	Budget 2021 \$	Actual 2021 \$	Actual 2020 \$
Board Fees	84,000	83,700	83,550
Computer Costs	32,000	9,839	23,727
Conferences & Workshops	-	-	10,844
Electricity	14,400	8,043	8,646
Lease Costs	36,000	36,000	31,500
Legal and Professional Fees	35,000	17,933	26,205
Online Prudential Expenses	-	5,168	-
Online Registry Expenses	39,600	67,869	58,737
Recruitment and Relocation Expenses	-	-	13,866
Staff Training	5,000	1,042	2,712
Subscriptions	28,000	30,728	28,121
Travel	32,700	174	33,229
Other Operating Costs	57,000	43,201	47,890
Total other expenses	363,700	303,697	369,026

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 2021 \$	Actual 2020 \$
Cash at bank (ANZ CI)	59,788	38,220
Cash at bank (ANZ NZ)	1,655	1,152
Petty Cash	100	200
Total cash and equivalents	61,543	39,572

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 2021

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 2021 \$	Actual 2020 \$
Term Deposit (BCI)	6 months	3.75%	250,000	250,000
Term Deposit (ANZ CI)	1 year	1.90%	260,000	260,000
Total reserve accounts			510,000	510,000

Note 7: Debtors and Other Receivables

Accounting Policy

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

A receivable is considered uncollectable when there is evidence the amount due will not be fully collected.

The amount that is uncollectable is the difference between the amount due and the present value of the amount expected to be collected.

Breakdown of receivables and further information

	Actual 2021 \$	Actual 2020 \$
Receivables under non-exchange transactions		
Accounts Receivable (gross)	3,900	-
Less: Provision for doubtful debts	-	-
Accounts Receivables (net)	3,900	-
Total debtors and other receivables	3,900	-
Inter-ministry receivables included above to Crown Agencies	-	-

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

	2021			2020		
	Gross	Provision	Net	Gross	Provision	Net
Not past due	3,900	-	3,900	-	-	-
Past due 0 - 30 days	-	-	-	-	-	-
Past due 31 - 60 days	-	-	-	-	-	-
Past due over 60 days	-	-	-	-	-	-
	3,900	-	3,900	-	-	-

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.

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 2021

Note 8: Creditors and Other Payables

Accounting Policy

Short-term payables are recorded at the amount payable.

Breakdown of payables and further information

	Actual 2021 \$	Actual 2020 \$
Payables under exchange transactions		
Accounts Payable	24,572	10,201
Credit Card Liability	136	1,270
Pay As You Earn (PAYE) Tax Payable	9,123	10,519
Cook Islands Superannuation Payable	4,757	3,190
Value Added Tax (VAT) Payable	18,588	17,890
Revenue Received in Advance	21,826	29,975
<i>Total payables under exchange transactions</i>	<i>79,003</i>	<i>73,045</i>
Total creditors and other payables	79,003	73,045
Inter-ministry payables included above to Crown Agencies	35,343	34,473

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 2021 \$	Actual 2020 \$
Accrued salaries and wages	12,431	11,257
Annual leave	6,070	8,959
Total employee entitlements	18,501	20,216

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 2021

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 2021 \$	Actual 2020 \$
Trust assets		
New Zealand Dollar (NZD) Vested Assets Account (ANZ CI)	19,409	-
New Zealand Dollar (AUD) Vested Assets Account (ANZ CI)	438,476	-
Australian Dollar (AUD) Vested Assets Account (ANZ NZ)	-	40,906
New Zealand Dollar (NZD) Client Trust Account (CSB-WU)	10,000	10,030
New Zealand Dollar (NZD) Client Trust Account (CSB-VF)	10,000	10,000
United States Dollar (USD) Client Trust Account (CSB)	80,141	60,723
Total trust assets	558,026	121,659
Trust liabilities		
NZD Vested Assets Account on behalf of the Crown (ANZ CI)	19,409	-
AUD Vested Assets Account on behalf of the Crown (ANZ CI)	438,476	-
AUD Vested Assets Account on behalf of the Crown (ANZ NZ)	-	40,906
NZD Client Security Bond (CSB-WU)	10,000	10,030
NZD Client Security Bond (CSB-VF)	10,000	10,000
USD Client Imprest Account (CSB)	80,141	60,723
Total trust liabilities	558,026	121,659

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 2021

Note 11: Property, Plant, and Equipment

Accounting Policy

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

Additions

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

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

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

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

Disposals

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

Depreciation

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

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

Impairment of property, plant and equipment

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

Non-cash generating assets

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

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

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

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



FINANCIAL SUPERVISORY COMMISSION

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021**

Note 11: Property, Plant and Equipment (continued)

Breakdown of property, plant and equipment and further information

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

	Computer Equipment \$	Furniture & Fittings \$	Motor Vehicles \$	Plant Equipment \$	Leasehold Improvements \$	Total \$
Cost						
Balance as at 1 July 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
Accumulated depreciation and impairment losses						
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
Carrying Amount						
As at 30 June 2020	13,630	4,163	16,226	-	4,707	38,726
Cost						
Balance as at 1 July 2020	160,196	40,920	44,463	43,301	84,337	373,217
Additions	-	-	-	12,632	-	12,632
Disposals	46,053	7,330	-	24,660	-	78,043
Balance as at 30 June 2021	114,143	33,590	44,463	31,272	84,337	307,805
Accumulated depreciation and impairment losses						
Balance as at 1 July 2020	146,566	36,756	28,237	43,302	79,630	334,491
Depreciation	5,874	759	4,868	1,299	475	13,274
Accumulated depreciation on disposals	46,053	7,330	-	24,660	-	78,043
Impairment losses	-	-	-	-	-	-
Balance as at 30 June 2021	106,387	30,185	33,105	19,941	80,105	269,722
Carrying Amount						
As at 30 June 2021	7,757	3,404	11,358	11,332	4,232	38,084

Capital commitments

There were no property, plant and equipment commitments at year end (2020: nil).

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 2021**

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 \$
Cost	
Balance as at 1 July 2019	369,250
Additions	50,071
Disposals	-
Balance as at 30 June 2020	419,321
Accumulated amortisation and impairment losses	
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
Carrying Amount	
As at 30 June 2020	83,608
Cost	
Balance as at 1 July 2020	419,321
Additions	121,984
Disposals	-
Balance as at 30 June 2021	541,305
Accumulated amortisation and impairment losses	
Balance as at 1 July 2020	335,713
Amortisation	40,990
Accumulated amortisation on disposals	-
Impairment losses	-
Balance as at 30 June 2021	376,703
Carrying Amount	
As at 30 June 2021	164,602

Capital commitments

In June 2021 the Commission received approval for Asian Development Bank funding to upgrade its Online Registry, which will take place during the course of 2021/2022.

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 2021**

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.

Breakdown of equity

	Actual 2021 \$	Actual 2020 \$
Opening Equity		
Balance as at 1 July	750,400	750,400
Capital Funding for the year	-	-
Balance as at 30 June	750,400	750,400
Accumulated Surplus / (Deficit)		
Balance as at 1 July	(126,382)	-
Surplus / (Deficit) for the year	486,522	304,618
Return of Excess to the Crown	(400,000)	(431,000)
Balance as at 30 June	(39,861)	(126,382)
Total Equity	710,539	624,018

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 2021

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 2021	Actual 2020
Remuneration	\$ 355,526	\$ 385,278
Full-time equivalent members	5	6

Note 15: Financial Instruments

Accounting Policy

Financial assets

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

Financial liabilities

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

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



FINANCIAL SUPERVISORY COMMISSION

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2021

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 2021 \$	Actual 2020 \$
Receivables		
Cash and Equivalents	61,543	39,572
Vested Assets Clearing Account	281	160
Prepayments	26,361	24,812
Reserve Accounts	510,000	510,000
Debtors and Other Receivables	3,900	-
Accrued Interest	3,272	3,911
Trust Accounts	558,026	121,659
<i>Total receivables</i>	1,163,383	700,114
Other Liabilities		
Creditors and Other Payables	79,003	73,045
Employee Entitlements	18,501	20,216
Trust Liabilities	558,026	121,659
<i>Total other liabilities</i>	655,530	214,920

Financial Instrument risks

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

Foreign Currency risk

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

Liquidity risk

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

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



FINANCIAL SUPERVISORY COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

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 2021 \$	Actual 2020 \$
Within one year	36,000	34,402
Within one to two years	9,000	72,000
	45,000	106,402

Online Prudential Filing Commitment (Parklane):

	Actual 2021 \$	Actual 2020 \$
Within one year	18,900	68,500
Within one to two years	-	-
	18,900	68,500

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

	Actual 2021 \$	Actual 2020 \$
Within one year	62,475	59,000
Within one to two years	-	118,000
	62,475	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 2021

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

On 9th July 2020 Cabinet Minute CM (20) 0272 recorded Cabinet's endorsement 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." Amendments to the legislation will be completed during the course of 2021/2022.

Note 19: Explanation of major variances against the budget

Explanation of major variances from 30 June 2021 budgeted figures are as follows:

Statement of Financial Performance

Trading Revenue

Actual trading revenue is lower than budgeted by \$94,927. This is solely attributable to the exchange variance of 0.72c actual vs 0.63c budgeted, although overall registry activity have increased by 141 entities compared to budget.

Personnel Expense

Actual personnel expense was lower than budgeted by \$197,243 primarily due to the vacancies of the Head of Financial Intelligence Unit (FIU) and IT Supervisor and the slight reduction in the new Commissioner salary.

Other Expenses

Actual other expense is lower than budgeted by \$60,003. This is primarily due to staff not being able to travel due to Covid. Also, we saw a reduction in communication and electricity costs due to Covid reductions and less staff. Expenses planned for Professional services and FIU in a box did not eventuate due to other pressing matters and unforeseen circumstances.

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

