



FINANCIAL SUPERVISORY COMMISSION

OF THE

COOK ISLANDS

ANNUAL REPORT

2017/2018

REPORT ON ACTIVITIES

2017/2018

Major Achievements

The year ended 30 June 2018 marked the fifteenth 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 six years ago on 1 July 2012, however the FIU has retained its operational independence and powers; as per the Financial Intelligence Unit Act 2015.

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

To be a World Leader in Financial Regulation and Supervision.

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

To maintain a regulatory and supervisory framework that exceeds international standards; which is applied locally, in an appropriate and consistent, manner.

We will build robust legislation, work collaboratively with our stakeholders and contribute to the development of the Cook Islands.

Our workplace will be a stimulating, inclusive, safe and fair environment, focused on the professional development of our staff.

The 2017/18 year was another period of significant activity for the FSC and FIU. The major achievements, aligning well with our Mission Statement, are scheduled below:

- Leading on the third round Mutual Evaluation of the Cook Islands Anti Money Laundering and Countering the Financing of Terrorism regime which included:
 - completing a comprehensive effectiveness questionnaire for the Asia Pacific Group on Money Laundering (APG) in July 2017;
 - facilitating a number of industry presentations and workshops focusing on implementation of the suite of legislative changes enacted in June 2017 to bring the Cook Islands law up to international standards in respect to Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT);
 - hosting the Mutual Evaluation team of eight evaluators in-country for two weeks in November 2017 and overseeing all of their meetings with both the key crown agencies and the private sector;

- compilation of case studies, statistics, and provision of a multitude of examples to substantiate the systems and procedures in place in the Cook Islands in an effort to evidence the effectiveness of our AML/CFT regime; and
- providing ongoing feedback and analysis to the Evaluators as they drafted their report of more than 200 pages, ahead of tabling the Cook Islands MER at the APG plenary in Kathmandu in July 2018.
- licensing Alpha Trustees (Cook Islands) Limited as a Trustee Company in July 2017 and Allied Pacific Limited as a money changer and remitter in June 2018;
- publishing two terrorist financing bulletins to industry, one in relation to Foreign Fighters and the other in respect to terrorist financing indicators. This was supported by delivery of a Terrorist Financing (TF) presentation to industry.
- issuing the second publication of the Cook Islands Typologies Report on ML/TF Trends;
- executing a Memorandum of Understanding with the Reserve Bank of New Zealand and the Financial Intelligence Units of New Zealand and Ecuador, formalising our close working relationship and exchange of information with the respective agencies;
- presenting at the FSDA's inaugural Cook Islands Financial Industry Roadshow in Hong Kong in November 2017;
- hosting the two-day BSP Supervisory College on behalf of the home regulator, the Bank of Papua New Guinea, in August 2017;
- completing the second-year supervision framework enhancement programme with the International Monetary Fund's Pacific Financial Technical Assistance Centre (PFTAC);
- securing the Australian Prudential Regulation Authority's technical assistance for the onsite supervision inspection to Bank South Pacific in September 2017 and PFTAC's technical assistance to the onsite review of Capital Security Bank in February 2018;
- implementing the electronic Document Management System – M-Files;
- enacting the Currency Declaration Amendment Act 2017 and the Financial Transactions Reporting Amendment Act 2017 to clarify minor technical deficiencies identified during the first part of the Mutual Evaluation process;
- overseeing the multi-agency two-week risk assessment exercise Operation Bordeaux;
- hosting the 2017 two-day Annual Meeting of the Association of Financial Supervisors of Pacific Countries followed by a three-day workshop focussing on technology risk;
- establishing a Board Focus Group to consider the likely implications that changes in technology will have on the Commission, in its role as financial regulator, in the foreseeable future;
- publishing the Managed Trustee Company Guidelines in January 2018; and
- establishment of the AML/CFT compliance regime which will deliver, through a process of development, education and firm compliance, an effective framework to ensure compliance with the Financial Transactions Reporting Act 2017.

The Commission's focus for the year is essentially determined by the Statement of Corporate Intent that is provided to the Minister of Finance by 31 March of the preceding year. During this year the Commission was very pleased to complete all of the activities outlined in the Statement of Corporate Intent for 2017/18, particularly in light of the extensive resource requirement necessary to meet the Mutual Evaluator's timeline.

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

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

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

The Cook Islands third round Mutual Evaluation on Money Laundering and Terrorist Financing was completed on 1 December 2017 by the Asia Pacific Group on Money Laundering (APG). The Cook Islands was evaluated for its compliance with the 2012 FATF Recommendations on money laundering and terrorist financing. The focus of the evaluation was not only on how our laws and policies comply with those recommendations but primarily on how effective the Cook Islands has been in implementing and enforcing those laws and policies. The FSC was the lead agency for the evaluation overseeing the collection of data and information to support the Cook Islands case for effective implementation. In addition to overseeing the passage of the laws referred to above, the key tasks have included:

- collecting data and statistics from law enforcement and regulatory government agencies, interviewing their staff on policies and procedures and obtaining case studies. Information has also been collected from the different financial service providers and designated non-financial providers such as accountants, lawyers, motor vehicle dealers, pearl dealers and real estate agents;
- expanding upon the Cook Islands assessment of risk for money laundering and terrorist financing through the assessment of high risk sectors and primary threats and low risk sectors to form the 2017 Cook Islands National Risk Review; and
- liaising with the APG and other agencies to obtain technical assistance in readying the Cook Islands for its November 2017 mutual evaluation.

Performance Targets for the year from 1 July 2017 to 30 June 2018

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

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

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

Actual Performance – This was achieved.

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

Actual Performance – This was achieved. All new licence applications were considered and approved within the prescribed timeframe. Alpha Trustees (Cook Islands) was licensed as a Trustee Company on 26 July 2017 and subsequently as a Managed Trustee Company on 20 March 2018. Allied Pacific Limited was licensed on 28 June 2018 as a Money Changer and Remitter.

(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 2017/18 trustee company onsite reviews focused on some areas of their operations considered higher risk, including intermediary arrangements, IT security, corporate conduct and advertising.

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

Actual Performance – This was achieved. There was very limited down time for the online registry of international companies, trusts, partnerships and limited liability companies in 2017/18. 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 two pieces of legislation enacted during 2017/18, the Currency Declaration Amendment Act 2017 and the Financial Transactions Reporting Amendment Act 2017, to clarify minor technical deficiencies identified in the first part of the Mutual Evaluation process. In addition, the following four sets of Regulations were promulgated during the period under review: Countering Terrorism & Proliferation of Weapons of Mass Destruction (Targeted Financial Sanctions), Currency Declaration (Forms), Financial Transactions Reporting (Maritime Cook Islands) and the primary Financial Transactions Reporting Regulations.

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

Actual Performance – This was achieved. The Commission continued to fully utilise all offers of training for the supervision staff as specifically referred to later in this Annual Report. In addition to attending technical training abroad, the Commission hosted an APRA led onsite inspection to Bank South Pacific and PFTAC led onsite inspection to Capital Security Bank. In addition, the 2017 Annual Meeting of the Association of Financial Supervisors of Pacific Countries was held in Rarotonga, followed by a Workshop on Financial Institution Resolution and FinTech Supervision. During 2017/18 the Commission hosted PFTAC's second, third and fourth missions in respect to the 'Supervision Framework Enhancement Strategy' 2017-2019 technical assistance plan.

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

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

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

Actual Performance – This will be achieved. This annual report will be filed with the Minister on or before 30 September 2018. The Commission has actively administered the fifteen enactments it is the administering agency for including the:

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

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

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

Actual Performance – This was achieved. There was a requirement to exercise formal enforcement action during 2017/18 against one insurance company licensee (conduct and advertising) and one bank licensee (fit and proper).

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

Actual Performance – The FIU commissioned a Cook Islands sector specific Money Laundering and Terrorist Financing: Primary Threats and High-Risk Sectors, and Low-Risk Sectors, report during 2017/18 to publish the Cook Islands National Risk Review. This built additional sector risk specific knowledge; further expanding on the 2015 National Risk Assessment.

(13) To develop policies, procedures and guidelines to 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 – This was achieved. The FIU published its AML/CFT bulletin to industry in May 2018 outlining how the FIU will ensure industry compliance with the FTRA 2017.

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

Actual Performance – The investigative and prosecution powers given to the FIU in the 2015 enactment have been progressed with cases under investigation. In addition, the FIU has been working with other stakeholders to ensure that the Currency Declaration Act 2015/16 is effectively administered and an AML/CFT supervision programme has been commenced by the FIU in conjunction with FSC support.

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

Actual Performance – This was achieved, albeit that it is a work-in-progress until the MER is published on 7 September 2018. The FSC/FIU have commenced implementation of the Cook Islands Mutual Evaluation preliminary recommendations with the Deputy Commissioner taking the lead on this project.

(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 luxury yacht vesting with the Registrar under the International Companies Act 1981/82 was realised within nine months and close monitoring of pending vesting assets is an ongoing administrative task at Executive level.

Supervisory Activities

Banking

The Commission bases its supervisory approach for the banking industry on the Basel Core Principles for Banking Supervision. The Commission continues to update its supervisory approach, considering issuances from the Basel Committee on Banking Supervision and other international standard setting bodies such as the FATF. Banking supervision is performed by undertaking quarterly offsite analysis of information provided by the four licensed banks; combined with an annual onsite inspection.

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

On 30 June 2017 the Commission executed the 2017-2019 Banking Supervision Enhancement Strategy and Technical Assistance Plan with the Pacific Financial Technical Assistance Centre. This three-year programme included three mission visits to the Cook Islands during the year to 30 June 2018 to develop a regional leading, fully integrated and cohesive risk based supervision framework.

Insurance

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

A risk based programme of ongoing supervision through onsite inspection, and offsite analysis, was carried out on all licensed insurers in 2017/18.

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; including an annual face-to-face meeting with the company directors.

Money Changing & Remittance Businesses

The Commission continued its desk-based programme of supervision for the single Money-changing and Remittance Business licensee in 2017/18. Going forward, these supervision and regulatory procedures will also be applied to Allied Pacific Limited, licensed immediately before this reporting year end on 28 June 2018.

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.

Specific Managed Trustee Company Guidelines were published in January 2018 to enhance the regulation and supervision of these licensees.

Superannuation

The Commission has commenced developing enabling legislation to provide for the regulatory oversight of the superannuation industry in the Cook Islands. Work has begun on reviewing and developing the licensing and registration as well as the role of the trustee and managers for the supervision bill. Given the compulsory nature of the Cook Islands National Superannuation Fund, the ongoing regulatory oversight by the Commission is seen as fundamental to providing an appropriate level of comfort to Cook Islanders investing in their retirement. It is intended that this legislation will be completed in 2018/19.

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 2017/18 was 51, a decrease of one (2%) from the previous year.

International Companies

The number of international companies for which registration and renewal fees were received in 2017/18 was 931, a decrease of 56 (6%) from the previous year.

International Trusts

The number of international trusts for which registration and renewal fees were received in 2017/18 was 2,182, a decrease of 93 (4%) from the previous year.

Limited Liability Companies

The number of limited liability companies for which registration and renewal fees were received in 2017/18 was 358, a decrease of seven (2%) from the previous year.

International Partnerships

The number of international partnerships for which renewal fees were received in 2017/18 was four, equal to the previous year.

Financial Intelligence Unit

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

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

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

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

During the year to 30 June 2018 FIU staff members partook in a range of training and professional development opportunities including the following:

- In September and October 2017, Ms. June George and Mr. James Cargill completed Operational Analysis training developed by the Egmont Group of Financial Intelligence Units in conjunction with the International Centre for Asset Recovery. The e-learning course centred around the core functions of a Financial Intelligence Unit, and the evaluation of intelligence from suspicious transactions related to money laundering or the financing of terrorism;
- All FIU and Commission staff participated in Microsoft Office 2016 training from Prime Solutions Training & Consulting in December 2017. This was designed to ensure that the computer software upgrades carried out during the 2017/18 year were understood and being used effectively by all staff;
- Mr. Phil Hunkin undertook a one-week AML/CFT attachment in February 2018 with the Financial Markets Authority, New Zealand. This included meetings with New Zealand's Department of Internal Affairs, Serious Fraud Office and Police; and
- Ms. June George, Mr. Walter Henry and Mr. Phil Hunkin attended the Cook Islands Police Methamphetamine and Clandestine Lab workshop in Rarotonga in May 2018. The workshop was delivered by the New Zealand Police, New Zealand Customs and Australian Federal Police departments.

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

- the Anti-Money Laundering and Countering the Financing of Terrorism Conference in Wellington, New Zealand in September 2017; and
- the Egmont Working Group and Heads of FIUs Meeting in Argentina in March 2018.

Suspicious Activity Reports

Reporting institutions are required, under section 47 of the FTRA 2017, to report any suspicious activity to the FIU. The FIU received 128 Suspicious Activity Reports (SAR) in 2017/18, and seven were disseminated to the relevant law enforcement and regulatory authorities in the Cook Islands and five to counterpart authorities in other jurisdictions.

Other Transaction Reports

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

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

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

The table below shows the number of reports received by the FIU in 2017/18. 2016/17 figures are included for comparative purposes.

Type of Report	Number of Reports 2017/18	Number of Reports 2016/17	% increase/decrease
Suspicious Activity Report	126	58	+117%
Cash Transaction Report	4,484	3,354	+34%
Electronic Funds Transfer Report	42,310	24,452	+73%
Border Cash Report	23	29	-20%
Intelligence Report	24	20	+20%

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

Parallel Financial Investigations

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

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

The outcome for the year under review is:

- one completed investigation for hearing on 23 August 2018; and
- three cases remain under ongoing investigation.

The FIU has also assisted a number of foreign authorities throughout the year through the auspices of Mutual Legal Assistance requests, Egmont Requests and Agency to Agency Requests external to Egmont. The FIU received a total of 10 Egmont Requests:

- one request related to tax crime;
- one related to violation of United Nations sanctions (Ship-to-Ship transfer); and
- eight for fraud and money laundering.

Other external requests for assistance:

- two from the US Internal Revenue Service; and
- one from the United Nations Security Council.

Domestic requests for assistance:

- one from the Ministry of Internal Affairs;
- one from the Business Trade and Investment Board;
- eight from the Cook Islands Police Service;
- two from the Customs Services; and
- two from the Financial Supervisory Commission (FSC).

Significant activity delivered by FIU

In September 2017, the FIU initiated a Joint Multi – Agency investigation in relation to a Pyramid Scheme operating in the Cook Islands. Agencies involved included the Ministry of Internal Affairs, Police, Crown Law Office and the Business Trade Investment Board. This operation involved both a Public Awareness Programme and Ongoing Investigation.

Operation Bordeaux was a Border Currency Risk Assessment project. This multi – agency operation involved the FIU, Police, Customs, Aviation Security and New Zealand Customs in October 2017. The operation targeted airport activity (Inbound/Outbound flights) from Australia, New Zealand, USA and Tahiti and cruise ship activity to/from the Cook Islands.

A sub group around terrorism was established as part of NACC in December 2017. The group produced and delivered a joint Terrorism Plan document developed to identify how the government authorities would act, and who would be responsible, if there were to be a terrorist, or terrorist financing act identified. This involved the FIU, FSC, Police, Customs and the Crown Law Office.

In May 2018, the FIU took part in a multi-agency operation which was organised and executed as part of a Methamphetamine and Clandestine Lab training. This operation involved the execution of search warrants on locals suspected of drug trafficking activity. The operation involved the FIU, Customs and Immigration and resulted in drugs, cash, arrests and the restraint of Bank Accounts. This case is currently before the Court.

Financial Performance

The 2017/18 Financial Performance of the Commission fell short of budgeted figures by \$53,593. This was primarily attributable to a downfall in international registry activity and the unbudgeted recruitment and retention costs of the new Head of the FIU.

Actual revenue for the year to 30 June 2018 was \$1,454,198 and expenditure totalled \$1,226,449 resulting in a net surplus of \$227,749.

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 \$261,743 was returned to the Crown as excess funds, pursuant to section 24(2) of the FSC Act. This amount represented the income derived from the additional fee imposed for registering, or renewing the registration of, an international trust. This levy was established in March 2009 to assist in funding the operations of the Financial Services Development Authority.

On 25 September 2017 the Cook Islands Audit Office issued an unqualified audit opinion on the Commission's 2016/17 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 2018 comprised the same five board members as at 30 June 2017, being:

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

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

The Commissioner and Deputy Commissioner

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

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

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

During 2016/17 the Commissioner was appointed the Chairperson of the ADB APEC Financial Regulators Training Initiative for a two year term which concluded at the June 2018 annual meeting in Hanoi. Likewise, her term as Chairperson of the Association of Financial Supervisors of Pacific Countries concluded in August 2017.

Both the Commissioner, and Deputy Commissioner, roles involve representing the Commission at international forums to ensure the regulatory environment in the Cook Islands keeps abreast of international developments. During 2017/18 the Commissioner took part in the following six international meetings:

- the Group of International Financial Centre Supervisor's (GIFCS) meeting in Hamilton, Bermuda in November 2017;
- the IMF Correspondent Banking and De-risking meeting, and the Pacific Island Forum Secretariat's Steering Committee meeting, in Suva, Fiji in March 2018;
- the PFTAC Insurance Legislative Reform workshop in Suva, Fiji in May 2018; and
- the PFTAC Online Prudential Reporting working group meeting in Sydney, Australia, immediately ahead of the APEC Financial Regulators Training Initiative annual meeting in Hanoi, Vietnam in June 2018.

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

- the APG plenary in Colombo, Sri Lanka in July 2017;
- the Financial Services Development Authority's 'Cook Islands Financial Industry Roadshow' in Hong Kong in November 2017;
- the Group of International Insurance Centre Supervisors (GIICS) annual meeting in Hamilton, Bermuda in May 2018; and
- the IMF AML/CFT standards workshop, focused on beneficial ownership, in Singapore in June 2018.

Personnel

As at 30 June 2018, the staff of the Commission comprised the Commissioner, the Deputy Commissioner/Registrar, the Head of the FIU, and nine staff members. The previous long-standing Registrar, Ms. Ngametua Arakua, opted to take early retirement as of 31 May 2018. On 1 June 2018 the Registrar's role officially became part of the Deputy Commissioner's duties and functions.

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

Training & Development

As well as hosting the Association of Financial Supervisors of Pacific Countries three-day workshop on Financial Institution Resolution and FinTech Supervision, attended by four

FSC staff members, a number of individual training and professional development opportunities were undertaken by staff including:

- Ms. Margaret Tangimetua attended a one-week APG ‘Money Laundering Typologies Forum’ in Busan, Korea in November 2017;
- Ms. Emilie Pierce, Ms. Margaret Tangimetua and Ms. Munokoa Porea attended the three-day Group of International Insurance Centre Supervisors workshop on Insurance Supervision in Auckland, New Zealand in January 2018; and
- Ms. Amanda Tuatai attended a one-week PFTAC Insurance Legislative Reform workshop in Suva, Fiji in May 2018.

The technical training and support provided by APRA, APG, Pacific Financial Technical Assistance Centre and APEC’s Financial Regulators Training Initiative is invaluable to the Commission.

The Commission will continue to seek relevant training opportunities to enhance the development of all staff and was very pleased to see Ms. Emilie Pierce gain her Diploma in Accountancy from the University of the South Pacific (USP) during the 2017/18 year. Ms. Amanda Tuatai received a Certificate in Proficiency in Project Management from the Auckland University in Technology after completing a course based at the USP in February 2018.

The Finance and Information Technology Administrator, Mr. James Cargill, successfully completed two further modules of his Chartered Accountancy professional programme in Auckland, New Zealand in December 2017 and April 2018. He is currently obtaining his practical experience at the FSC following the Commission attaining ‘Approved Training Organisation’ status from the Chartered Accountants Australia and New Zealand Institute (CAANZ) on 28 August 2016. The Commissioner is his approved CAANZ mentor.

In January 2018, Board Members Newnham and Melvin attended a one-week Negotiation Skills workshop at the local USP campus facilitated by the Small Countries Financial Management Centre, based in the Isle of Man.

Other Matters

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

The Commission was more focused on ensuring the currency of news on the FSC website throughout 2017/18 with significantly enhanced disclosures made to the public in respect to AML/CFT matters ahead of the Mutual Evaluation in November 2017.

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. In this regard, the Commission is currently a member of the 'EU Working Group' considering various taxation amendments.

A high-level review of the Commission's 2015/16 Disaster Risk Management Plan was completed, indicating areas for further enhancement during the 2018/19 financial year.

No specific written policy directions were raised by the Minister of Finance during the period covered by this report, however the Chairman received the Minister's approval for the Commission to retain the FSDA Levy going forward from 1 July 2018.

For and on behalf of the Board

A handwritten signature in black ink, appearing to read 'R. Newnham', written in a cursive style.

Raymond Newnham
Chairman
19 September 2018



FINANCIAL SUPERVISORY COMMISSION

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2018



FINANCIAL SUPERVISORY COMMISSION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

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FINANCIAL SUPERVISORY COMMISSION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

DIRECTORY

Minister

The Honourable Mark Brown

Members of the Board

Raymond Newnham (Chairman)

Fletcher Melvin

Geoffrey Stoddart

Madeilene Sword

Gaye Whitta

Business Address

Ground Floor

Bermuda House

Avarua

Rarotonga

Cook Islands

Postal Address

PO Box 594

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 Limited (BCI)

Capital Security Bank Limited (CSB)

Solicitors

Crown Law Office

Tim Arnold





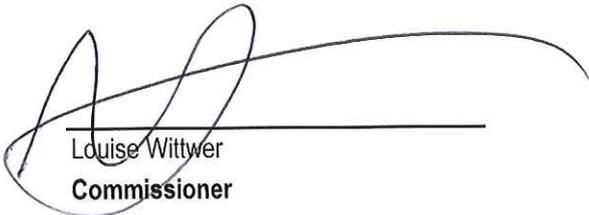
FINANCIAL SUPERVISORY COMMISSION

STATEMENT OF RESPONSIBILITY

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

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

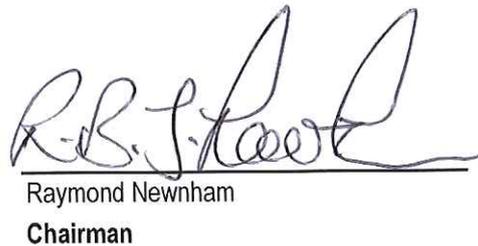
In our opinion, these financial statements fairly reflect the financial position and operations of the Financial Supervisory Commission for the year ended 30 June 2018.



Louise Wittwer
Commissioner

19 September 2018

Date



Raymond Newnham
Chairman

19 September 2018

Date





Independent Auditor's Report

To the shareholder of the Financial Supervisory Commission.

Report on the Audit of the Financial Statements

Opinion

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

- i. present fairly in all material respects the Commission's financial position as at 30 June 2018 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 2018;
- the statement of comprehensive revenue and expenses, the statement of changes in equity, the statement of appropriations and cash flow statement for the year then ended; and
- notes to the financial statements, including a summary of significant accounting policies.

Basis for Opinion

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

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

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

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

Other Information

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objective is:

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

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

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

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

http://www.issai.org/en_us/site-issai/issai-framework/4-auditing-guidelines.htm

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

Our audit was completed on 19 September 2018 and our opinion is expressed as at that date.



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



FINANCIAL SUPERVISORY COMMISSION
STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSES
FOR THE YEAR ENDED 30 JUNE 2018

In New Zealand Dollars	Notes	Budget 2018 \$	Actual 2018 \$	Actual 2017 \$
Revenue				
Trading Revenue	2	1,450,882	1,438,772	1,506,968
Other Revenue	2	15,900	15,426	16,816
<i>Total Revenue</i>		1,466,782	1,454,198	1,523,784
Expenditure				
Personnel Expenses	3	756,800	792,929	721,021
Audit Fees		3,000	2,500	2,500
Depreciation and Amortisation Expenses	11&12	63,840	59,457	59,891
Other Expenses	4	361,800	371,563	365,464
<i>Total Expenditure</i>		1,185,440	1,226,449	1,148,875
Surplus		281,342	227,749	374,909
Other Comprehensive Revenue and Expense				
Other Comprehensive Revenue and Expense		-	-	-
<i>Total Other Comprehensive Revenue and Expense</i>		-	-	-
Total Comprehensive Revenue and Expense		281,342	227,749	374,909

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 2018

In New Zealand Dollars	Notes	Actual 2018 \$	Actual 2017 \$
Assets			
Current Assets			
Cash and Equivalents	5	76,964	60,381
Vested Assets Clearing Account		113	173
Prepayments		26,748	53,056
Reserve Accounts	6	510,000	510,000
Debtors and Other Receivables	7	10,753	32,335
Accrued Interest		2,498	3,120
Tenancy Bond		2,080	-
Trust Accounts	10	342,169	162,072
Intangible Assets In-Progress	12	-	18,576
Total Current Assets		971,325	839,713
Non-Current Assets			
Property, Plant, and Equipment	11	53,438	46,987
Intangible Assets	12	104,765	101,011
Total Non-Current Assets		158,203	147,998
Total Assets		1,129,528	987,711
Liabilities			
Current Liabilities			
Creditors and Other Payables	8	47,515	47,926
Employee Entitlements	9	13,038	16,913
Trust Liabilities	10	342,169	162,072
Total Current Liabilities		402,722	226,911
Total Liabilities		402,722	226,911
Net Assets		726,806	760,800
Equity			
Contributed Capital		709,960	709,960
Accumulated Surplus / (Deficit)		16,846	50,840
Total Equity	13	726,806	760,800

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 2018

In New Zealand Dollars	Notes	Budget 2018 \$	Actual 2018 \$	Actual 2017 \$
Balance as at 1 July		760,800	760,800	709,960
Total Comprehensive Revenue and Expense for the year		281,342	227,749	374,909
Return of Excess to the Crown		-	-	(50,000)
Financial Services Development Authority (FSDA) Levy paid to the Crown		(262,014)	(261,743)	(274,069)
Balance as at 30 June	13	780,128	726,806	760,800

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 2018

In New Zealand Dollars	Actual 2018 \$	Actual 2017 \$
Cash Flows from Operating Activities		
Receipts from Licensees	1,460,354	1,487,467
Interest	16,049	16,778
Payments to Employees	(879,269)	(803,912)
Payments to Suppliers	(267,723)	(287,757)
Net Cash Flows from Operating Activities	329,411	412,576
Cash Flows from Investing Activities		
Purchase of Property, Plant, Equipment and Intangible Assets	(51,085)	(26,347)
Net Cash Flows used in Investing Activities	(51,085)	(26,347)
Cash Flows from Financing Activities		
Distributions to the Crown	-	(50,000)
Financial Services Development Authority (FSDA) Levy paid to the Crown	(261,743)	(274,069)
Cash transferred to Reserve Accounts	-	(60,000)
Net Cash Flows used in Financing Activities	(261,743)	(384,069)
Net Increase in Cash and Equivalents	16,583	2,160
Cash and Equivalents as at 1 July	60,381	58,221
Cash and Equivalents as at 30 June	76,964	60,381

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 2018**

In New Zealand Dollars	Actual 2018 \$	Actual 2017 \$
Reconciliation of Net Surplus / (Deficit) to Net Cash Flows from Operating Activities		
Reported Surplus	227,749	374,909
Add / (less) Non-cash items		
Depreciation and Amortisation	59,457	59,891
<i>Total Non Cash Items</i>	287,206	434,800
Add / (less) movements in Statement of Financial Position items		
(Increase) / decrease in Debtors and Other Receivables	21,582	(28,892)
(Increase) / decrease in Prepayments	26,307	(9,697)
(Increase) / decrease in Accrued Interest	623	(38)
(Increase) / decrease in Tenancy Bond	(2,080)	-
(Increase) / decrease in Vested Assets Clearing Account	60	69
Increase / (decrease) in Accounts Payable	(296)	468
Increase / (decrease) in Accrued Payables	(4,000)	4,150
Increase / (decrease) in Credit Card Liability	(1,307)	1,499
Increase / (decrease) in Paye As You Earn (PAYE) Payable	1,535	(1,961)
Increase / (decrease) in Value Added Tax (VAT) Payable	3,656	(282)
Increase / (decrease) in Revenue Received in Advance	-	9,391
Increase / (decrease) in Employee Entitlements	(3,875)	3,069
<i>Net movement in working capital items</i>	42,205	(22,224)
Net Cash Flows from Operating Activities	329,411	412,576

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 2018**

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 2018**

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 2017/2018, as approved by the Board of Directors on 22 March 2017.

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 2018**

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

Revenue from the provision of services are recognised as revenue in proportion to the stage of completion at balance date. The stage of completion is assessed by reviewing the amount of actual work performed. Revenue from the provision of services is measured at the fair value of the consideration received or receivable, net of trade discounts.

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 2018 \$	Actual 2018 \$	Actual 2017 \$
Trading Revenue			
Licensing fees	107,084	111,478	115,027
Registration fees	124,257	126,754	119,033
Renewal fees	1,159,541	1,126,783	1,199,295
Other fees revenue	60,000	73,757	73,613
Total Trading Revenue	1,450,882	1,438,772	1,506,968
Other Revenue			
Interest revenue	15,900	15,426	16,816
Total Other Revenue	15,900	15,426	16,816

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 2018 \$	Actual 2018 \$	Actual 2017 \$
Salaries and Wages	717,800	759,501	683,022
Defined Contribution Plan - Employer Contributions	36,000	37,303	34,929
Increase / (decrease) in Employee Entitlements	3,000	(3,875)	3,070
Total Personnel Expenses	756,800	792,929	721,021

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 2018

Note 4: Other Expenses

Breakdown of Other Expenses

	Budget 2018 \$	Actual 2018 \$	Actual 2017 \$
Board Fees	84,000	84,000	84,000
Computer Costs	12,000	10,747	10,235
Conferences & Workshops	12,000	12,514	15,764
Electricity	14,400	12,464	12,675
Lease Costs	30,000	30,000	30,000
Legal and Professional Fees	25,000	20,143	46,617
Online Registry Expenses	39,600	34,068	33,380
Recruitment and Relocation Expenses	-	16,156	14,270
Staff Training	10,000	14,091	9,419
Subscriptions	26,500	26,879	26,276
Travel	47,000	48,836	38,644
Other Operating Costs	61,300	61,665	44,184
Total Other Expenses	361,800	371,563	365,464

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 2018 \$	Actual 2017 \$
Cash at bank (ANZ)	76,914	60,331
Petty Cash	50	50
Total Cash and Equivalents	76,964	60,381

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 2018

Note 6: Reserve Accounts

Accounting Policy

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

Breakdown of Reserve Accounts

	Term	Interest Rate	Actual 2018 \$	Actual 2017 \$
Term Deposit (BCI)	6 months	4.00%	250,000	250,000
Term Deposit (ANZ)	3 months	1.90%	160,000	260,000
Term Deposit (ANZ)	1 months	1.80%	100,000	-
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 2018 \$	Actual 2017 \$
Receivables under non-exchange transactions	\$	\$
Accounts Receivable (gross)	-	-
Less: Provision for doubtful debts	-	-
Accounts Receivables (net)	-	-
Sundry Receivables	10,753	32,335
Total Debtors and other Receivables	10,753	32,335
Inter-ministry receivables included above to Crown Agencies	-	-

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 2018

Note 8: Creditors and Other Payables

Accounting Policy

Short-term payables are recorded at the amount payable.

Breakdown of Payables and further information

	Actual 2018 \$	Actual 2017 \$
Payables under exchange transactions		
Accounts Payable	6,518	6,813
Accrued Payables	150	4,150
Credit Card Liability	1,803	3,110
Pay As You Earn (PAYE) Tax Payable	12,312	10,777
Value Added Tax (VAT) Payable	17,341	13,685
Revenue Received in Advance	9,391	9,391
<i>Total payables under exchange transactions</i>	47,515	47,926
Total Creditors and other Payables	47,515	47,926
Inter-ministry payables included above to Crown Agencies	32,528	27,337

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 2018 \$	Actual 2017 \$
Accrued Salaries and Wages	8,274	7,427
Annual Leave	4,764	9,486
Total Employee Entitlements	13,038	16,913

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 2018**

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 2018 \$	Actual 2017 \$
Trust Assets		
New Zealand Dollar (NZD) Vested Assets Account (ANZ)	170,041	-
Australian Dollar (AUD) Vested Assets Account (CSB)	109,269	102,472
New Zealand Dollar (NZD) Client Trust Account (CSB)	10,030	10,030
United States Dollar (USD) Client Trust Account (CSB)	52,829	49,570
Total Trust Assets	342,169	162,072
Trust Liabilities		
NZD Vested Assets Account on behalf of the Crown (ANZ)	170,041	-
AUD Vested Assets Account on behalf of the Crown (CSB)	109,269	102,472
NZD Client Security Bond (CSB)	10,030	10,030
USD Client Imprest Account (CSB)	52,829	49,570
Total Trust Liabilities	342,169	162,072

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 2018**

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 2018

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 2016	136,089	37,518	43,057	43,301	59,729	319,694
Additions	1,050	999	-	-	5,722	7,771
Disposals	-	-	-	-	-	-
Balance as at 30 June 2017	137,139	38,517	43,057	43,301	65,451	327,465
Accumulated depreciation and impairment losses						
Balance as at 1 July 2016	128,668	34,822	35,007	36,202	27,968	262,667
Depreciation	3,389	405	4,025	3,593	6,399	17,811
Accumulated depreciation on disposals	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-
Balance as at 30 June 2017	132,057	35,227	39,032	39,795	34,367	280,478
Carrying Amount						
As at 30 June 2017	5,082	3,290	4,025	3,506	31,084	46,987

Cost						
Balance as at 1 July 2017	137,139	38,517	43,057	43,301	65,451	327,465
Additions	15,789	2,874	-	-	4,426	23,089
Disposals	-	-	-	-	-	-
Balance as at 30 June 2018	152,928	41,391	43,057	43,301	69,877	350,554
Accumulated depreciation and impairment losses						
Balance as at 1 July 2017	132,057	35,227	39,032	39,795	34,367	280,478
Depreciation	3,081	482	4,025	2,247	6,803	16,638
Accumulated depreciation on disposals	-	-	-	-	-	-
Impairment losses	-	-	-	-	-	-
Balance as at 30 June 2018	135,138	35,709	43,057	42,042	41,170	297,116
Carrying Amount						
As at 30 June 2018	17,790	5,682	-	1,259	28,707	53,438

Capital commitments

There were no property, plant and equipment commitments at year end (2017: 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 2018**

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 2016	322,677
Additions	-
Disposals	-
Balance as at 30 June 2017	322,677
Accumulated amortisation and impairment losses	
Balance as at 1 July 2016	179,586
Amortisation	42,080
Accumulated amortisation on disposals	-
Impairment losses	-
Balance as at 30 June 2017	221,666
Carrying Amount	
As at 30 June 2017	101,011
Cost	
Balance as at 1 July 2017	322,677
Additions	46,573
Disposals	-
Balance as at 30 June 2018	369,250
Accumulated amortisation and impairment losses	
Balance as at 1 July 2017	221,666
Amortisation	42,819
Accumulated amortisation on disposals	-
Impairment losses	-
Balance as at 30 June 2018	264,485
Carrying Amount	
As at 30 June 2018	104,765

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 2018**

Note 13: Equity

Accounting Policy

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

- > contributed capital
- > accumulated surplus / (deficit)

Return of excess to the Crown

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

Financial Services Development Authority Levy

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

Breakdown of Equity

	Actual 2018 \$	Actual 2017 \$
Capital Contributions		
Balance as at 1 July	709,960	709,960
Balance as at 30 June	709,960	709,960
Accumulated Surplus / (Deficit)		
Balance as at 1 July	50,840	-
Surplus / (Deficit) for the year	227,749	374,909
Return of Excess to the Crown	-	(50,000)
Financial Services Development Authority (FSDA) Levy paid to Crown	(261,743)	(274,069)
Balance as at 30 June	16,846	50,840
Total Equity	726,806	760,800

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



**FINANCIAL SUPERVISORY COMMISSION
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Note 14: Related party transactions

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

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

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

Key management personnel compensation

	Actual 2018	Actual 2017
Remuneration	\$ 461,543	\$ 405,542
Full-time equivalent members	6	6

Note 15: Financial Instruments

Accounting Policy

Financial Assets

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

Financial Liabilities

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

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



**FINANCIAL SUPERVISORY COMMISSION
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Note 15: Financial Instruments (continued)

Financial instrument categories

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

	Actual 2018 \$	Actual 2017 \$
Receivables		
Cash and Equivalents	76,964	60,381
Vested Assets Clearing Account	113	173
Prepayments	26,748	53,056
Reserve Accounts	510,000	510,000
Debtors and Other Receivables	10,753	32,335
Accrued Interest	2,498	3,120
Tenancy Bond	2,080	-
Trust Accounts	342,169	162,072
<i>Total Receivables</i>	971,325	821,137
Other Liabilities		
Creditors and Other Payables	47,515	38,535
Employee Entitlements	13,038	16,913
Trust Liabilities	342,169	162,072
<i>Total Other Liabilities</i>	402,722	217,520

Financial Instrument Risk

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 2018**

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 2018 \$	Actual 2017 \$
Within one year	34,500	34,500
Within one to two years	27,316	34,500
Total Financial Commitments	61,816	69,000

There were no other financial commitments at balance date.

Note 17: Contingencies

Accounting Policy

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

Contingent Liabilities

The Commission has no contingent liabilities as at balance date (2017: nil).

Contingent Assets

The Commission has no contingent assets as at balance date (2017: nil).

Note 18: Events after balance date

There were no subsequent events after the balance date.

Note 19: Explanation of major variances against the budget

Explanations for major variances from 30 June 2018 budgeted figures are as follows:

Statement of Comprehensive Revenue and Expense

Personnel Expenses

Actual personnel expense was higher than budgeted by \$36,129. This was mainly due to the unbudgeted costs relating to the new Head of the Financial Intelligence Unit which cost the Commission approximately \$30,000 during the year.

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

