Anguilla Financial Services Commission
ANNUAL REPORT
2016

OUR MISSION

To enhance the safety, stability and integrity of Anguilla's financial system and contribute to Anguilla being a premier financial centre, through appropriate regulation and legislation, judicious licensing, comprehensive monitoring and good governance.

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BOARD OF DIRECTORS

HELEN HATTON

Chairman

Managing Director of Sator Regulatory Consulting Limited and former Deputy Director General of the Jersey Financial Services Commission, was appointed Chairman of the Anguilla Financial Services Commission in May 2010. Mrs. Hatton has over twenty years senior regulatory experience and is widely recognised as the prime architect of the modern and highly acclaimed regulatory regime in Jersey.

Mrs. Hatton joined the Board at an important point in the jurisdiction's regulatory development as the Commission assumed additional responsibilities for the oversight of non-regulated service providers and non-profit organizations, and engaged in significant amendments to the laws governing the Commission, Insurance, and Money Service Business.

Mrs. Hatton is a Fellow of the Institute of Advanced Legal Studies and a Freeman of the Worshipful Company of International Bankers.

RALPH HODGE MBE

Deputy Chairman

is a native of Anguilla, British West Indies. He holds a degree in Management Studies (Hons) with an accounting bias from the University of the West Indies, Mona (Jamaica) Campus. He was a member of the Anguilla Public Service from February 1966 to July 2003, 31 years of which were spent in the Ministry of Finance.

In the Ministry of Finance his service included assignments as Accountant General, Permanent Secretary – Budgets and Accounts, Director of Finance and Planning, Principal Assistant Secretary, Finance and Planning and he acted on numerous occasions as Financial Secretary. He has served as a Director of the Eastern Caribbean Central Bank and the Caribbean Development Bank. He also has served as Permanent Secretary Health, Social Development and Sports.

He was also Chairman of the Anguilla Economic Advisory Committee and has acted on several occasions as Deputy Governor of Anguilla.

BOARD OF DIRECTORS... *CONTINUED*

DELROY LOUDEN

Member

the first President of Anguilla Community College, was appointed to the Board of the Anguilla Financial Services Commission in March 2012.

Professor Louden received his Ph.D. at the University of Bristol, England and his Post-Doctoral training in Epidemiology and Public Health at Johns Hopkins University, Maryland, USA. He has been the recipient of several awards notably: Fulbright Scholar; the US Bureau of Primary Health Care Policy Fellowship; and a Fellowship from the Royal Society of Public Health, UK.

Professor Louden came to Anguilla Community College from Lincoln University, Pennsylvania, USA where he had been Professor and Principal Investigator on several funded research projects. He brings a distinguished record of research, teaching and scholarship, having held senior appointments in academia and the non-profit community in England, Nigeria, West Africa, the Caribbean, Canada and United States.

He has published widely in professional journals and is the co-editor of six books.

GERRY HALISCHUK

Director

has over twenty-five years of Canadian and international regulatory experience. He has held senior management positions at a number of Canadian securities and market regulators including the Ontario Securities Commission; Market Regulation Services Inc., the market regulator predecessor to the Investment Industry Regulatory Organization of Canada, where he was Vice-President, Market Regulation, Western Region; the British Columbia Securities Commission, where he served as Director of the Capital Markets Regulation Division, Deputy Director of the Compliance Division and Manager of Investigations; and the Saskatchewan Securities Commission.

From 2006 to 2012, Mr. Halischuk worked with the Cayman Islands Stock Exchange where he filled various roles including Acting Chief Executive Officer, Head of Markets and Compliance and Head of Business Development.

OUR TEAM

Front (L-R): Charonay Carty, Ojeda Vanterpool, Teresa Harrigan-Heyliger and Evorna Hodge.

Back (L-R): Lavie Hobson, Gerry Halischuk, Maria Smith, Jacelle Richardson, Tina Bryan-Bannister, Charo Richardson, Wilda Hughes, Sherine Brooks, Glyne Buchanan and Robert Hudson *(until June 2016)*

COMMISSION'S ORGANOGRAM

BOARD OF DIRECTORS

Corporate Governance;
Strategic Planning;
Policy Formulation

GERRY HALISCHUK
DIRECTOR
Implementation of Board Policies & Strategies;
Risk Management; Staffing and Training;
Legislation; External Relations

TINA BRYAN-BANNISTER
DEPUTY DIRECTOR
Enforcement & AML/CFT
Compliance

MARIA SMITH
HEAD, ADMINISTRATION
Administration; Human
Resources; Accounting

LAVIE HOBSON
SENIOR REGULATOR
Prudential Supervision (All Sectors)

MARY CLARE HASKINS
SENIOR LEGAL COUNSEL

SHERINE BROOKS
EXECUTIVE SECRETARY
Administration

WILDA HUGHES
CLERICAL OFFICER
Administration

GLYNE BUCHANAN
REGULATOR I
Offshore Banks;
Insurance

CHARO RICHARDSON
REGULATOR II
Offshore Banks;
Insurance

OJEDA VANTERPOOL
REGULATOR I
Anti-Money
Laundering &
Terrorist Financing

JACELLE RICHARDSON
REGULATOR II
Anti-Money
Laundering &
Terrorist Financing

EVORNA HODGE
REGULATOR II
Company Managers;
Insurance; Money
Services Business

TERESA HARRIGAN-HEYLIGER
REGULATOR I
Mutual Funds; Insurance; Credit
Unions; Friendly Societies

CHARONAY CARTY
REGULATOR II
Mutual Funds; Insurance; Credit
Unions; Friendly Societies

GOVERNOR'S REPORT

This will be my last contribution to the Commission's Annual Report as my term as Governor will end prior to completion of the 2017 financial year. I would like most of all to take this opportunity to express my thanks to the Board and staff of the Commission for the advice and assistance they have given me, and for their hard work skillfully and effectively carried out over the past eventful four years.

This is also a chance for me to provide some thoughts on the financial services sector in Anguilla and how best to move it forward. It is fair to say that issues relating to Anguilla's financial services sector have proven to be some of the most significant, interesting, challenging and to some degree, frustrating, of my tenure. Along with tourism, the financial services sector of the Anguillian economy is one in which the jurisdiction has some significant definable and expandable competitive advantage. Unfortunately, however, growth in the sector has been stagnant over the past several years. This is due in part to the international financial crisis and its aftermath. But it is also in part a failure of the jurisdiction to accept fully, adapt effectively to, and develop opportunities from fundamental changes that have taken place, and continue to take place, in how financial services business is conducted internationally. The ongoing issues deriving from the failure of the indigenous banks have not helped and pose additional challenges to overcome so that the sector can move beyond historic inefficiencies and move forward to develop opportunities in financial services that will propel the island's economy forward. This is a shared responsibility of my office, the Government of Anguilla, the FSC and the local financial services industry. I am hopeful that given all share the same objective of a thriving industry and resilient economy in Anguilla, none of these parties will permit political or personal differences to stand in the way of working together to identify opportunities to grow Anguilla's financial services sector.

Some of the potential opportunities for the sector were presented at the Commission's 2016 Industry Day. One opportunity presented and discussed was the locally developed concept of Caribbean based trading companies which builds on the historic trading and associated financial connections between Anguilla and other island nations in the region. Another was a proposal that Anguilla find a way to link its financial services sector to the growing movement internationally towards "green", "sustainable"/"socially responsible" investing and the development and implementation of innovative financing methods. Other opportunities could be developed out of the exploding interest in financial technology solutions for increasing the efficiency of delivery of financial services around the world and from the increasing international pressure for greater transparency and for more effective compliance to address AML/CFT risks. I encourage both the government and the financial services industry on the island to give serious and open-minded consideration to identifying and implementing a plan to adapt to these new realities, supported by enabling legislation, effective leadership, and carefully targeted resources.

As I prepare to hand over my responsibilities to my successor, I am conscious that he will be inheriting both outstanding issues bedeviling the financial services sector for which effective solutions have yet to be established, and fascinating potential opportunities for the sector that could, if pursued effectively, transform the economy of the island. I trust that the Government of Anguilla, the FSC and the financial services industry on the island will work together with him to resolve outstanding matters and to identify and take advantage of appropriate opportunities. I wish all parties the very best as they work together towards their shared objective.

CHAIRMAN'S REPORT

2016 was the year of Trump, Russia's alleged interference in the US election, the concept of "fake news", BREXIT and Iran severing diplomatic relations with Saudi Arabia. It was also, thankfully the year that sensible folk in Austria elected the Green Party rather than the Freedom Party: thus saving Austria from the stigma of becoming the first European country since the Second World War to elect a far-right candidate head of state.

The Chairman's Statement last year drew out the patterns of behaviour in world news and contrasted them with the patterns of behaviour in financial institutions. Given we are all human and behaviours are broadly consistent whether we are at work or at home, in our private life or in public life, this is not an unreasonable position.

So what is there to glean from international events in 2016 as contrasted with local Anguillian events of the same year?

Interference, fake news, failing relations and polarising political positions seem pretty familiar at island level too.

By the new year of 2016 the Financial Services Commission had reluctantly concluded it could not rely on the ECCB Conservatorship of, or resolution plans for, Anguilla's two failing indigenous banks to ensure that all depositors, including in particular those of the offshore banking subsidiaries of the parent banks under conservatorship, would be treated equally under the pending resolution of the parent banks and, as a result, petitioned the High Court of Justice Anguilla Circuit to appoint a firm from the BVI to act as Administrator of the offshore banking subsidiaries. These documents can be viewed at Claim No. AXA/HCV 2016/0005.

The Administrator appointment enabled tracing actions to commence tracking down where monies of subsidiaries were paid away and recovering sums where possible. The Administrator also began work to manage the assets and liabilities of the subsidiary banks, all with a view to protecting the interests of their depositors.

Full quarterly reports were made to the Court on the progress of the Administrator's appointment during the year and regular letters were sent by the Administrator to update Depositors on his progress. The Administrator also established a creditors' committee to ensure full transparency.

Throughout, the Commission has sought – so far as it can within the rules of restricted information – to put salient facts into the public domain, in accordance with its duty to protect the public interest and powers to petition the Court, for example to appoint an Administrator.

It was a very difficult and pressured year and I must extend my thanks to my fellow board members who stood firm, to the Director for his outstanding leadership of the executive and to the executive staff themselves, who are a great team of whom I am very proud.

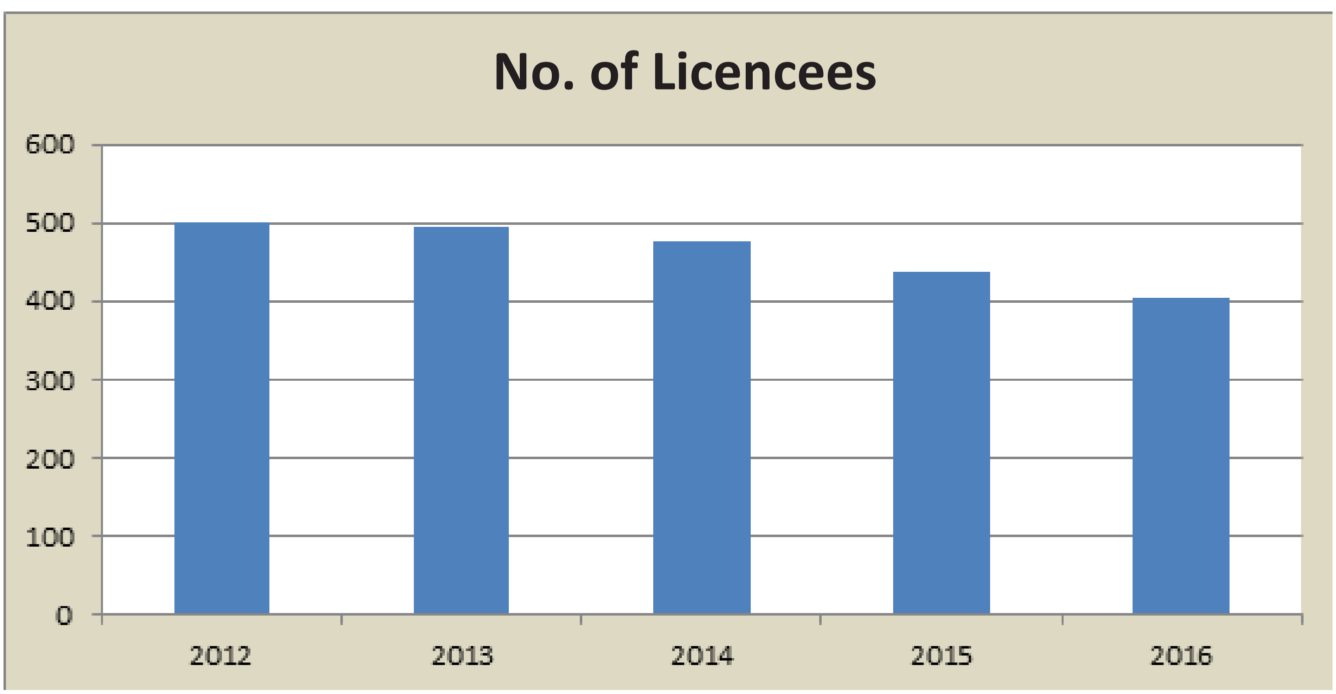
DIRECTOR'S REPORT

The Financial Services Commission is responsible under the provisions of the Financial Services Commission Act, R.S.A. c. F28 ("FSC Act") for administering the financial services enactments listed on the back page of this Annual Report, including licensing and prudential supervision of licensees under those enactments and taking enforcement action where necessary in cases of non-compliance with requirements under those enactments.

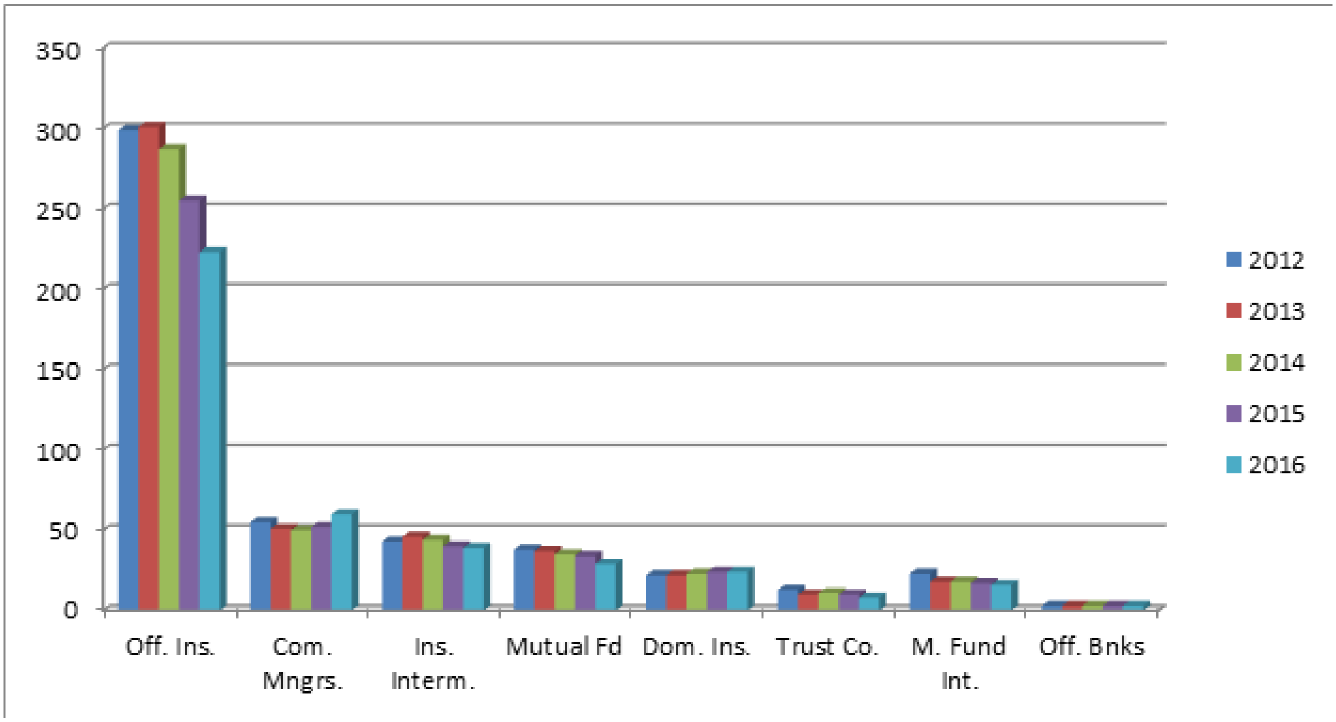
The Commission also is responsible for registering externally regulated service providers, non-regulated service providers and non-profit organisations under AML/CFT legislation and for monitoring and enforcing compliance by those registrants, as well as by licensees, with their AML/CFT obligations.

Number of Licensees

As reflected in the chart below, the Commission continued to experience a decline in the overall number of its licensees, marking the fourth consecutive year of decline. The total number of licensees was 404 as at 31 December 2016, a decline of 7.6% from the previous year as compared to an 8.4% reduction as at 31 December 2015. The captive insurance sector in particular, comprising more than 50% of the Commission's licensees, continued its decline in numbers falling from 249 licensees as at 31 December 2015 to 218 as at 31 December 2016, a decline of 12.4%. Most of the Commission's captive insurance licensees are owned by U.S. residents and provide insurance to related companies located in the United States. Increased competition from U.S. states to attract captive insurance company incorporations, combined with various actions by the U.S. Internal Revenue Service directed at small captive insurance companies, has led to many U.S. owned captives favoring a U.S. domicile and has resulted in this jurisdiction replacing fewer captive insurance licensees than it has lost over the past year from normal attrition.



The following chart provides an industry sector breakdown of licensees, excluding the money services business sector that comprises only 2 licensees. The dominance of the offshore captive insurance sector continues and, even with the decrease in the number of licensed captive insurers, demonstrates Anguilla's continued position as one of the world's leading jurisdictions in relation to the number of companies licensed to carry on business in the captive insurance market.



Sector Reports

Insurance Sector

Domestic insurers, agents and brokers

As at 31 December 2016, there were 24 licensed domestic insurers and 18 licensed agents/brokers, representing no change from 2015. The Commission is the principal regulator for two of the licensed domestic insurers and conducted an onsite examination of one of these insurers in 2016. The Commission is in the process of implementing risk-based supervision of its licensed insurers and benefited during 2016 from the assistance of a consultant from the Caribbean Association for Regional Technical Assistance, including one week of onsite training.

Single insurance market project

In 2009, the Monetary Council of the Eastern Caribbean Currency Union ("ECCU") established a Ministerial Subcommittee on Insurance in response to the challenges created by the failure of the CL Financial Group. This subcommittee is responsible for, among other things, overseeing development of a single insurance market for the ECCU, including a regional regulatory body. The subcommittee is chaired by The Hon Ralph Gonsalves, Prime Minister of Saint Vincent and the Grenadines.

The Ministerial Subcommittee on Insurance is supported by a Technical Core Committee on Insurance, which has comprised government and ECCB officials as well as international insurance and legal experts.

In October 2014, the Monetary Council appointed a Steering Committee to coordinate activities leading to the establishment of a single insurance and pensions market and regulator for the ECCU.

A draft Insurance Act for the ECCU region, as well as a draft Agreement Establishing the Eastern Caribbean Financial Services Regulatory Commission ("ECFSRC"), the proposed regional insurance regulatory body, have been produced but have not yet been enacted by the ECCU member states. In November 2015, the Steering Committee came to Anguilla and held a public consultation with the insurance industry, updating industry members on the status of the project, the Single Insurance and Pensions Market Project ("SIPMP"), and soliciting comments and concerns. The first round of public consultations across the ECCU on the SIPMP was completed in September 2016. Specifics on the structure, funding and location of the ECFSRC have yet to be determined.

Non-Domestic Insurers

Captive Insurers

As at 31 December 2016, there were 218 licensed captive insurers. During the year 4 new companies were licensed, 33 licensed captive insurers surrendered their licences and 2 licences were revoked.

Foreign Insurers

As at 31 December 2016, there were 5 licensed foreign insurers. No new licences were issued and 1 licence was surrendered during 2016.

Insurance Managers

As at 31 December 2016, there were 21 licensed insurance managers. No new licenses were issued and 1 licence was surrendered during 2016.

During the year, Commission staff conducted onsite prudential examinations of three insurance managers, each of which was located in the United States. The insurance managers provide insurance management services to captive insurance companies licensed in Anguilla. The examinations were full scope in nature, including a review of governance, operations, internal controls, financial soundness and compliance with the Insurance Act R.S.A. c. I16 and the Insurance Regulations thereunder by both the insurance managers and the insurers under their management.

The onsite examination of each insurance manager took place over the course of 3-5 days and was conducted by 2-4 of the Commission's insurance supervision staff.

Key findings included required improvements in capital management practices, claims administration and reinsurance procedures, financial statement filing compliance and governance policies and procedures including in relation to risk management.

Mutual Fund Sector

Funds

As at 31 December 2016, there were 20 private funds and 9 professional funds licensed. There were no new licences granted or issued and 2 private funds and 3 professional funds surrendered their licenses during 2016.

Fund Managers and Administrators

As at 31 December 2016, there were 16 licensed fund managers and administrators. There were no new licences issued and 1 license was surrendered during the year.

Mutual Fund Sector Compliance Review

The Commission gradually has increased the rigour of its regulatory activities in support of ensuring compliance with the legislation it has responsibility for regulating. The Commission's approach is in line with the regulatory trend internationally to strengthen enforcement programs with the objective of evidencing, both to the investing public and to international overseers, a credible deterrence to legislative breaches. In this respect, the Commission in 2016 commenced a comprehensive review of its mutual fund sector, including funds, fund managers and fund administrators.

Company Management and Trust Company Management Sector

As at 31 December 2016, there were 5 general trust companies, 3 restricted trust companies and 60 licensed company managers. The Commission has encouraged its company managers to convince their larger overseas agents to become licensed as a means of addressing AML/CFT obligations more effectively. A number of the larger overseas agents have applied for and received licences. During the year, 8 new company management licenses were issued while no licenses were surrendered. Two general trust company licensees surrendered their licences while no new trust company licenses were issued during 2016.

In March 2016 the Commission together with the Anguilla Ministry of Finance circulated for comment to Commission Licensees conducting company management business a Consultation Paper entitled "Overseas Agents in a Changing Regulatory Environment". The Consultation Paper presented a draft proposal to replace the existing overseas agent system with direct licensing by the Commission to conduct company management business. The draft proposal was presented in consideration of

- the money laundering and terrorist financing risks faced by the sponsoring licensees in Anguilla;
- the liability of licensees for the non-compliance of overseas agents with AML/CFT legislation;
- the reputation of the jurisdiction; and
- the application of international standards.

The Consultation Paper, revised after consideration of comments received, was recirculated for comment in August 2016.

The Board of the Commission, after reviewing the Consultation Paper and the comments of financial services industry members, approved implementation of the following recommendation:
"The transitioning out of the overseas agent system (except in the case where the overseas agent is an affiliate or subsidiary of the licensee) over the course of a one-year period during which existing overseas agents must submit an application to the Commission to become licensees or enter into an agreement with a licensee to become an intermediary or introducer of the licensee where the licensee incorporates all companies. In cases where the overseas agent is an affiliate or subsidiary of the licensee, the licensee must have adequate policies and procedures in place to address compliance with the AML/CFT legislation."

The one-year period, during which an existing overseas agent must submit an application to the Commission to become a licensee or enter into an agreement with a licensee to become an intermediary or introducer of the licensee where the licensee incorporates all companies, commences 1 January 2017.

Offshore Bank Sector

Despite efforts made by the Commission in 2015 to encourage the Eastern Caribbean Central Bank ("ECCB") to move forward with an equitable resolution plan for National Bank of Anguilla Ltd. ("NBA") and Caribbean Commercial Bank (Anguilla) Ltd. ("CCB"), the parent banks of Anguilla's two indigenous offshore banks, National Bank of Anguilla (Private Banking & Trust) Ltd. ("PBT") and Caribbean Commercial Investment Bank Ltd. ("CCIB") (together the "offshore banks"), that included fair treatment of depositors in the offshore banks, by the end of that year it remained unclear as to how the ECCB intended to treat PBT and CCIB under a resolution of the parent banks. In order to meet its regulatory obligations under the Trust Companies and Offshore Banking Act, R.S.A. c. T60 and the FSC Act, as well as to complement the structure that would be in place under proposed banking legislation for the resolution of the parent banks, the Commission applied for and obtained, on 22 February 2016, an order of the Eastern Caribbean Supreme Court made pursuant to section 37 of the FSC Act. The order appointed William Tacon of FTI Consulting Ltd. as administrator to take over and manage the business of the offshore banks in order to protect and preserve the business and property of the offshore banks in the interests of the offshore banks' customers and creditors. The administrator has made periodic reports to the Court as well as to depositors in the two offshore banks throughout 2016, providing them with updates on the affairs of each of PBT and CCIB, the steps taken initially to ascertain their financial position and ongoing efforts to protect and obtain the return of depositors' money.

On 22 April 2016 the ECCB initiated its resolution plan for NBA and CCB, placing each of NBA and CCB in receivership and ceasing the carrying on of banking business by NBA and CCB and, by extension, PBT and CCIB. Under the resolution plan, the assets, and certain liabilities, of NBA and CCB were transferred to a newly established bank, the National Commercial Bank of Anguilla Ltd. ("NCBA"), an entity wholly owned by the Government of Anguilla. However, NCBA did not assume any obligation to repay either of PBT and CCIB the funds of PBT's and CCIB's depositors held at the parent banks on behalf of PBT and CCIB when the resolution plan was initiated. The resolution plan treated the offshore banks as creditors and not as depositors, ensuring that the assets of NBA and CCB, including funds deposited by the offshore banks, even those deposited during the period of time the parent banks were under the conservatorship initiated by the ECCB, would be distributed to the benefit of the depositors of the parent banks and not the depositors of the offshore banks. As a result, the administrator of the offshore banks initiated a number of legal actions in both Anguilla and New York, which are ongoing, for the purpose of advocating for the legal rights of PBT, CCIB and their depositors to share in the assets distributed under the ECCB's resolution plan.

Externally and Non-Regulated Service Providers

The Externally and Non-Regulated Service Providers Regulations ("ENRSP Regulations") introduced in 2013 gave the Commission responsibility for the supervision of domestic banks and companies licensed under the Securities Act, R.S.A. c. S13 (together, "ERSPs") and non-regulated financial service providers ("NRSPs") for compliance with AML/CFT requirements under the Proceeds of Crime Act, R.S.A. c. P98 ("POCA").

Service providers as defined under POCA are required to register under the ENRSP Regulations. During 2016, the Commission registered one ERSP, being the National Commercial Bank of Anguilla, and 8 NRSPs, primarily real estate dealers and micro lenders.

The Commission also issued 5 Investor Alerts involving Anguilla incorporated companies in the business of dealing in forex and binary options trading that had failed to comply with the requirement to register under the ENRSP Regulations. Failure to register while continuing to engage in a business requiring registration is a violation of section 158 of POCA and can result, on summary conviction, to imprisonment for a term of 12 months or to a fine of $50,000 or to both; or on conviction on indictment, to imprisonment for a term of 5 years or to a fine of $100,000 or to both.

Non-Profit Organizations

The Commission is responsible for the registration of non-profit organisations ("NPOs") under the Non-Profit Organisations Regulations, R.R.A. P98-2 and for supervising their compliance with anti-terrorist financing requirements under POCA. In 2016, the Commission registered 14 NPOs and exempted 15 NPOs from registration. An NPO can be exempted from registration if its gross annual income does not exceed EC$5,000 and its assets do not exceed EC$10,000.

AML/CFT Supervision

2016 Offsite and Onsite Inspections

The Commission recognizes that its licensed company managers are faced with significant responsibilities under AML/CFT legislation to address money laundering and terrorist financing risks. Their failure to be vigilant in complying with AML/CFT legislation exposes licensees to enforcement action by the Commission and possible criminal prosecution and could create reputational damage to Anguilla. The Commission as a result has conducted a several year campaign to educate company managers on their responsibilities, in particular as stated in the Anti-Money Laundering and Terrorist Financing Code, R.R.A. P98-5 (“AML/CFT Code”) and the Anti-Money Laundering and Terrorist Financing Regulations, R.R.A. P98-1 (“AML/CFT Regulations”). The education campaign included Industry Day presentations, numerous training sessions and one on one meetings as well as publications via its website.

In March 2016, the Commission published a report on the results of onsite examinations of licensed service providers conducted during 2014 to assess their level of compliance with AML/CFT legislative requirements. The report evidenced that the general level of compliance with AML/CFT requirements by service providers in Anguilla remains substandard. The report identified areas where service providers’ performance was found to be deficient and provided commentary on the specific improvements required. Principal areas identified in the report to require improvement included customer due diligence (relationship) information, risk assessments (business and customer), enhanced customer due diligence and ongoing monitoring, and relationships with intermediaries. More specific findings were as follows:

- Eighteen percent (18%) of the licensed service providers examined failed to conduct sufficient customer due diligence, in particular documenting the purpose and intended nature of the business.
- Fifty-five percent (55%) of the service providers examined did not document their business risk assessment while thirty-six percent (36%) did not document their customer risk assessments.
- Forty-five percent (45%) of licensed service providers sampled failed to conduct enhanced customer due diligence and any ongoing monitoring on a regular basis. Since 2011, this has been a recurring issue.
- Twenty-seven percent (27%) of licensed service providers did not have policies in place on conducting business with introducers/intermediaries, including where reliance was placed on those third parties.

The Commission in March 2015 commenced a comprehensive offsite examination program to review all of its licensees carrying on company management business to ascertain their level of compliance with customer due diligence provisions of the AML/CFT legislation, in particular with the following basic AML/CFT requirements:

- licensee’s business risk assessment (section 16(f) of the AML/CFT Regulations)
- customer risk assessments (section 10 of the AML/CFT Regulations)
- identification and verification information of the customer, third party, and beneficial owner (section 10 of the AML/CFT Regulations)
- AML/CFT policies and procedures manual (section 16 of the AML/CFT Regulations)

The offsite examination program commenced in March 2015 and continued throughout 2016.

The Commission previously disclosed its intention to consider issuing administrative penalties against licensees who proved during the offsite examination program commenced in 2015 to have failed to comply with their obligations under the AML/CFT Code and AML/CFT Regulations. As an initial outcome from the offsite examination program, the Commission issued an administrative penalty on 30 August 2016 against a licensee as a result of findings from the examination program, in the amount of EC$1,400. The penalty was due to the licensee failing to apply adequate customer due diligence measures, specifically the failure to obtain identification information, including a passport or any other identification documentation, and proof of address documents for a principal of one of its managed companies; failing to certify that original documentation was seen verifying the identity of 3 principals of 3 companies; and failing to conduct ongoing monitoring to update the expired identification documentation for one principal of one of its managed companies.

Investor Alerts

The Commission issued a total of 5 Investor Alerts during 2016, mostly in relation to unregulated investment business involving forex or binary options trading. The Commission is using its powers under the Proceeds of Crime Act, the Anti-Money Laundering and Terrorist Financing Regulations and the Externally and Non-Regulated Service Providers Regulations to address the risks of money laundering and terrorist financing posed by unregulated investment business. Specifically, the Commission will hold company managers, as well as trust companies carrying on company management business, accountable where their clients are carrying on unregulated investment business and the company manager or trust company has failed to conduct appropriate customer due diligence, including ongoing due diligence. The Commission will also enforce the requirement that unregulated investment businesses, as service providers, register as non-regulated service providers. Again, where effective supervision is not practical or possible, such businesses will not be registered and will be required to leave the jurisdiction.

National Risk Assessment

CFATF's 4th Round Mutual Evaluation Review of Anguilla is scheduled to be conducted in the fourth quarter of 2021. Central to Anguilla meeting the requirements of the review is the conduct of a national risk assessment ("NRA"). The NRA is a responsibility of the Government of Anguilla deriving from its membership in the CFATF. The NRA exercise includes identifying the risks for money laundering and terrorist financing in the jurisdiction, reasonable means of addressing those risks and measuring their effectiveness, and the production of a detailed report documenting the exercise conducted and its results.

The Government approved the initiation of the NRA in November 2016. The NRA is expected to take approximately three years to complete and will be conducted through a Working Group reporting to a Steering Council. The NRA will cover the principal sectors of the economy susceptible to the risks of money laundering and terrorist financing, and will include assessing the effectiveness of the government organizations in place to address those risks, comprising the Commission, the Financial Intelligence Unit, the Royal Anguilla Police Force, Immigration and Customs departments, Attorney-General's Chambers and Inland Revenue. In order to assist in the conduct of the NRA, the Commission offered to provide the coordinator for the Working Group, which offer was accepted by the Government. The Commission hired a senior legal counsel in 2016 whose responsibilities include filling the role of NRA coordinator as well as ensuring that the Commission addresses its own obligations under the NRA.

<u>Enforcement Activity</u>

The Commission has continued to emphasize its enforcement activities in order to provide, and to evidence both to the investing public and international overseers, a credible deterrence to legislative breaches. This approach corresponds with the regulatory trend internationally to strengthen enforcement programs. During 2016, the Commission issued 53 demands for the provision of information and production of documents (2015: 113), 16 notices of intent to suspend (2015: 10) and 2 suspensions (2015: 7), 2 notices of intent to revoke (2015: 24) and 2 revocations (2015: 22), 32 notices of intent to impose an administrative penalty (2015: 6) and 5 administrative penalties imposed (2015: 3) totaling US$19,002 (2015: US$7,589).

<u>*Industry Development*</u>

Commission Website

The Commission's updated and more user friendly website went live on 2 February 2016. It has been designed to make it easier for Commission licensees and potential licensees as well as the general public to locate regulatory information applicable to each industry sector regulated by the Commission.

Guidelines and Policies

During 2016 the Commission amended the *Guidelines for Audit Exemption Applications by Certain Captive Insurers* to increase the upper limit of net written premiums in a year for purposes of enabling a captive insurer to qualify for an exemption from the requirement to prepare audited annual accounts for that financial year. The upper limit was increased from US$1.2 million to US$2.2 million, or such other amount that is established from time to time under the United States Internal Revenue Code ("USIRC") for purposes of qualifying for the section 831(b) election under that legislation. The upper limit was revised to match the revised limit established under the USIRC.

The Commission also distributed for comment draft *Guidelines for the Conduct of Company Management Business through an Intermediary* and met with a number of licensed company managers to discuss the draft Guidelines. The Guidelines will not be compulsory but are intended to provide a roadmap for licensees to follow and to represent best practices in relation to both pre-incorporation and post incorporation customer due diligence practices.

Industry Events

The Commission held its 2016 Industry Day on 15 December at the Teachers' Resource Centre in The Valley. It was a well-attended, positive and constructive event centred on the theme of "The changing environment for the financial services industry in Anguilla – how do we adapt?"

Presentations on "the changing environment for the financial services industry in Anguilla", were made by representatives of (i) the Commission and Anguilla Finance Ltd. ("AFL") addressing challenges in the captive insurance market; (ii) the Commission and STEP on the increasing regulatory requirements facing the company management sector; (iii) the Anguilla Financial Services Association and BDO LLC (Anguilla) on the significance of and need for local offshore banking facilities; and (iv) the Commission and D-3 Enterprises on the potential impact of the proposal by the Eastern Caribbean Currency Union ("ECCU") to develop a regional body to regulate financial services across the ECCU, beginning with the insurance sector.

Presentations were made on "how do we adapt" by representatives of (i) the Government of Anguilla and Innovative Finance on "sustainable investment" and "innovative finance" opportunities; (ii) AFL on its current initiatives to market the jurisdiction; (iii) Sator Regulatory Consulting Ltd. on the criteria clients use to jurisdiction shop for corporate service providers; and (iv) Stafford Corporate Services Ltd., Counsel Limited and AFL with ideas on how Anguilla corporate services providers can maintain profitability and build business.

Staff Training

Insurance regulatory staff attended the Captive Insurance Companies Association conference in March in Arizona. Other staff attended the CARTAC sponsored annual meeting and workshop of the Caribbean Group of Securities Regulators held in the Bahamas in April and an AML/CFT training conference in Antigua in June. A week long follow up training session was presented in-house in April to insurance regulatory staff by a consultant from CARTAC as a follow up to the previous year's in-house training for risk-based supervision, focusing as well on the development of a risk-based supervision manual.

The Director attended the CARTAC/ECCB/World Bank sponsored "US-Caribbean Public-Private Dialogue on Correspondent Banking" in Jamaica in April, which discussed the withdrawal of correspondent banking services being experienced across the Caribbean, the reasons for it and how best to address it. Also in April, the Deputy Director, Enforcement and AML/CFT Compliance attended the 26th Annual Institute for Securities Market Growth and Development training program in Washington D.C., an intensive 10 day course presented for regulators from countries around the world by the U.S. Securities and Exchange Commission. One of the senior prudential regulation managers attended the Toronto Centre's International Program for Insurance and Pensions Supervisors, an intensive one week program of advanced management training held in July in Toronto.

Regulatory Meetings

Staff attended the UK Overseas Territories Financial Services Regulators annual conference in Miami in March, as well as the Group of Financial Centre Supervisors annual meeting in April and the Group of International Insurance Centre Supervisors annual meeting in June, both of which were held in London, U.K. Staff also attended the CARTAC sponsored annual meeting of the Caribbean Association of Insurance Regulators, including the regulatory college held to discuss any outstanding issues with a selected regional insurer, that was held in Surinam in June as well as the CFATF Plenaries in June in Jamaica and in November in the Turks & Caicos Islands.

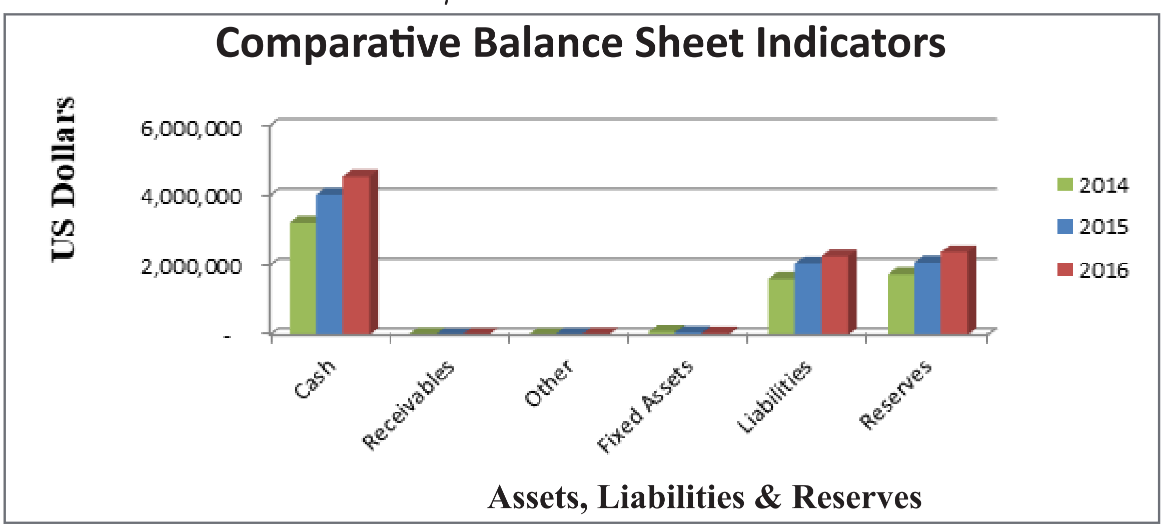
Financial Performance Analysis

The Commission reported net income of US$297,176 for the year ended 31 December 2016 (2015: US$337,781), a 12% decrease year over year. Reserves increased by 14% to US$2,381,361 as at 31 December 2016 from US$2,084,185 as at 31 December 2015. The factors underlying the year's performance are reported below in the discussion of Revenue and Expenses.

Assets, Liabilities and Reserves

As at 31 December 2016, the Commission's total assets were US$4,637,858 (2015: US$4,139,458). Liquid assets, in 2016 being entirely cash, accounted for 98.1% of the Commission's assets (2015: 97.3%).

Table 1: Comparative Balance Sheet Indicators



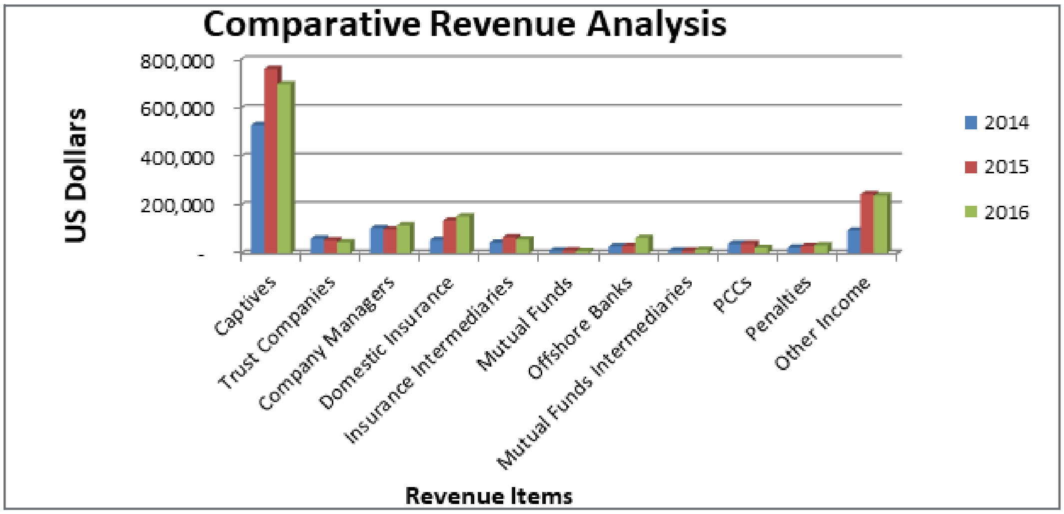
Total liabilities were US$2,256,497 (2015: US$2,055,273) with the increase over the previous year-end reflecting an increase in statutory deposits held by the Commission in connection with approved external insurers licensed in the jurisdiction. Accumulated reserves were US$2,381,361 at year end (2015: US$2,084,185), the increase resulting from the net income reported above.

Revenue

Total revenue decreased by 2.2% or US$33,507 to US$1,462,442 (2015: US$1,495,949). License fee revenue decreased by 2.7% or US$39,735 to US$1,437,350 (2015: US$1,477,085). The insurance sector, including captives, domestic insurance and insurance intermediaries, comprises almost two-thirds of the Commission's revenue ($910,600 or 62.3% of total revenue), with captives comprising the majority of the revenue in the sector. Revenue from captives has decreased by 8.3% or $63,470 to $698,500 (2015: $761,970), primarily due to a decrease in the number of licensees.

Note that the Table below includes, in addition to licence fees paid under each sector, other forms of fees assessed in the sector.

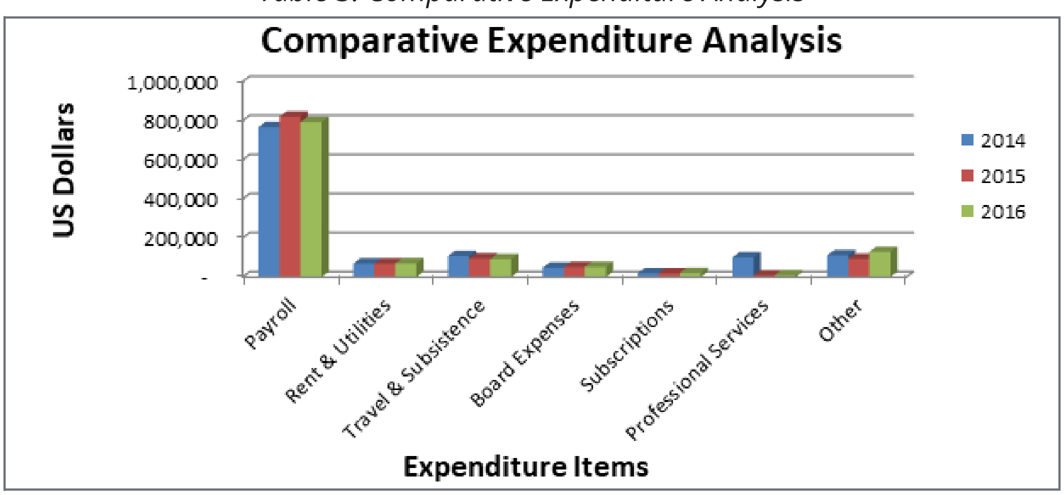
Table 2: Comparative Revenue Analysis



Expenses

Total expenditures increased by US$7,098 to US$1,165,266 (2015: US$1,158,168). Payroll costs declined US$28,198 to US$792,311 (2015: US$820,509), primarily due to the retirement during the year of a senior staff member. "Other" increased by $35,722 to $129,209 (2015: $93,487) mainly due to expenses associated with the appointment of an administrator for the two offshore banks, and Industry Outreach and AML/CFT seminars held in 2016.

Table 3: Comparative Expenditure Analysis



Anguilla Financial Services Commission

FINANCIAL STATEMENTS

December 31, 2016

(Expressed in United States Dollars)

Anguilla Financial Services Commission

Financial Statements for the period ended 31 December 2016

Certificate of Audit and Report of the Chief Auditor

Section 59(2) of the Financial Administration and Audit Act (Revised Statutes of Anguilla Chapter F27 as at 15 December 2010) (the Act) permits me, as Chief Auditor, to accept the audit of the accounts and financial statements of a government agency by an independent auditor of the government agency if the appointment of the auditor has been approved by me, and the audit of the government agency has been performed in accordance with my directions.

After I accept the audit of the accounts and financial statements of a government agency by an independent auditor, Sections 59(6) and (7) of the Act require me to issue a certificate of audit and prepare a report that evidences the acceptance of the audit of the independent auditor, and to send the certificate of audit and report to the government agency, to the minister responsible for the government agency and to the Minister of Finance.

Section 16 of the Financial Services Commission Act (Revised Statutes of Anguilla Chapter F28 as at 15 December 2010) requires the Financial Services Commission to submit to the Governor a copy of its audited accounts, including the report of the auditor on the accounts, and a report on its operations and activities for the financial year (the annual report). The Governor is required, as soon as is reasonably practicable, to cause them to be tabled in the House of Assembly.

The appointment of Grant Thornton (GT) as the independent auditor of the Financial Services Commission was accepted by me. GT were directed to undertake their audit in accordance with appropriate auditing standards, and I accept their audit of the Commission's financial statements for the year ended 31 December 2016.

As recorded in their Auditor's Report, GT have audited the statement of financial position of the Financial Services Commission as of 31 December 2016, the statements of comprehensive income, the statement of changes in accumulated reserves and statement of cash flows for the year then ended, and notes to the financial statements and significant accounting policies. The Commission's management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the Financial Services Commission Act. GT's responsibility is to express an opinion on the financial statements based on their audit.

GT conducted their audit in accordance with International Standards on Auditing. Those standards require that GT comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. GT believe that the audit evidence they have obtained is sufficient and appropriate to provide a basis for their opinion.

In GT's opinion the financial statements present fairly, in all material respects, the financial position of the Anguilla Financial Services Commission as of 31 December 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the Financial Services Commission Act.

I have no observations to make on these financial statements.

John Herniman
Chief Auditor
21 December 2017

Grant Thornton

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Independent Auditor's Report

To the Chief Auditor of Anguilla
Anguilla Financial Services Commission

Opinion

We have audited the financial statements of **Anguilla Financial Services Commission** (the "Commission") which comprise the statement of financial position as at December 31, 2016, and the statement of comprehensive income, statement of changes in accumulated reserves and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Commission as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Commission in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants ("IESBA Code")* together with the ethical requirements that are relevant to our audit of the financial statements in the Eastern Caribbean, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Commission's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Commission or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Commission's financial reporting process.

Grant Thornton

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are 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 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, 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 our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- 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 Commission's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Commission's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Commission to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Grant Thornton

Chartered Accountants
November 2, 2017
Basseterre, St. Kitts

Anguilla Financial Services Commission

Statement of Financial Position

As at December 31, 2016

(expressed in United States dollars)

	2016 $	2015 $
Assets		
Current assets		
Cash (note 6)	**4,547,938**	4,027,917
Accounts receivable	**15,554**	13,233
Other assets (note 7)	**25,105**	23,800
Total current assets	**4,588,597**	4,064,950
Non-current assets		
Property and equipment (note 9)	**49,261**	59,508
Intangible asset (note 8)	–	15,000
Total non-current assets	**49,261**	74,508
Total assets	**4,637,858**	4,139,458
Liabilities		
Current liabilities		
Accounts payable and accrued expenses (note 10)	**129,637**	146,840
Statutory deposits (note 11)	**2,044,260**	1,820,236
Deferred revenue (note 12)	**82,600**	88,197
Total liabilities	**2,256,497**	2,055,273
Reserves		
Accumulated reserves	**2,381,361**	2,084,185
Total liabilities and reserves	**4,637,858**	4,139,458

The notes on pages 29 to 45 are an integral part of these financial statements.

Approved for issue by the Board of Members on November 02, 2017.

Member

Member

VICE CHAIRMAN

Anguilla Financial Services Commission

Statement of Comprehensive Income

As at December 31, 2016

(expressed in United States dollars)

	2016 **$**	2015 $
Income		
Licence fees	**1,437,350**	1,477,085
Interest income	**21,482**	18,259
Other income	**3,610**	605
Total income	**1,462,442**	1,495,949
Operating expenses		
Payroll and related costs (note 14)	**(792,311)**	(820,509)
Travel and subsistence (note 15)	**(92,421)**	(95,530)
Board members allowance	**(52,261)**	(51,900)
Office rent	**(50,632)**	(47,375)
Others	**(36,960)**	(1,894)
Insurance	**(22,841)**	(25,696)
Subscriptions	**(20,685)**	(19,652)
Utilities	**(19,617)**	(21,765)
Depreciation (note 9)	**(17,162)**	(17,963)
Amortisation (note 8)	**(15,000)**	(15,000)
Office supplies	**(11,146)**	(9,250)
Audit fees	**(9,000)**	(9,000)
Professional service fees	**(8,130)**	(7,950)
Cleaning	**(5,539)**	(5,065)
Communications	**(4,839)**	(5,357)
Entertainment	**(4,579)**	(3,096)
Bank charges	**(1,180)**	(1,166)
Impairment loss on accounts receivable	**(963)**	–
Total operating expenses	**(1,165,266)**	(1,158,168)
Net profit for the year	**297,176**	337,781
Other comprehensive income	**–**	–
Total comprehensive profit for the year	**297,176**	337,781

The notes on pages 29 to 45 are an integral part of these financial statements.

Anguilla Financial Services Commission
Statement of Changes in Accumulated Reserves
As at December 31, 2016

(expressed in United States dollars)

	$
Balance at December 31, 2014	**1,746,404**
Net profit for the year	337,781
Balance at December 31, 2015	**2,084,185**
Net profit for the year	297,176
Balance at December 31, 2016	**2,381,361**

The notes on pages 29 to 45 are an integral part of these financial statements.

Anguilla Financial Services Commission
Statement of Cash Flows
As at December 31, 2016

(expressed in United States dollars)

	2016 $	2015 $
Cash flows from operating activities		
Net profit for the year	**297,176**	337,781
Items not involving the movement of cash:		
Depreciation (note 9)	**17,162**	17,963
Amortisation (note 8)	**15,000**	15,000
Impairment loss on accounts receivable	**963**	–
Interest income	**(21,482)**	(18,259)
Cash flows from operations before changes in operating assets and liabilities	**308,819**	352,485
Changes in operating assets and liabilities:		
(Increase)/decrease in accounts receivable	**(3,284)**	15,094
Increase in other assets	**(1,305)**	(4,881)
(Decrease)/increase in accounts payable and accrued expenses	**(17,203)**	60,381
Decrease in deferred revenue	**(5,597)**	(12,939)
Increase in statutory deposits	**224,024**	390,430
Cash generated from operations	**505,454**	800,570
Interest received	**21,482**	18,259
Net cash from operating activities	**526,936**	818,829
Cash flows from investing activity		
Purchase of property and equipment	**(6,915)**	(9,326)
Net increase in cash	**520,021**	809,503
Cash at beginning of the year	**4,027,917**	3,218,414
Cash at end of the year (note 6)	**4,547,938**	4,027,917

The notes on pages 29 to 45 are an integral part of these financial statements.

(expressed in United States dollars)

1 Nature of operations

The Anguilla Financial Services Commission (the "Commission") was established under the Financial Services Commission Act, R.S.A. c. F28 on November 26, 2003 and it commenced operations on February 2, 2004 in The Valley, Anguilla, BWI.

The principal activity of the Commission is to regulate the financial services industry in Anguilla in accordance with the Financial Services Commission Act and the prescribed financial services enactments and to carry out such other functions as determined under section 3 of the Financial Services Commission Act.

2 General information and compliance with International Financial Reporting Standards (IFRS)

The financial statements of the Commission have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as issued by the International Accounting Standards Board (IASB).

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may differ from those estimates. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3 Changes in accounting policies

New standards and amendments to standards effective for the financial year beginning January 1, 2016

Certain new standards, interpretations and amendments to existing standards have been published that became effective during the current financial year. The Commission has assessed the relevance of such new standards and amendments and has concluded that these will not be relevant. Accordingly, the Commission has made no changes to its accounting policies in 2016.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Commission

At the date of authorisation of these financial statements, certain new standards, and amendments to existing standards have been published by the IASB that are not yet effective, and have not been adopted early by the Commission. Information on those expected to be relevant to the Commission's financial statements is provided below.

(expressed in United States dollars)

3 Changes in accounting policies *...continued*

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Commission *...continued*

Management anticipates that all relevant pronouncements will be adopted in the Commission's accounting policies for the first period beginning after the effective date of the pronouncement. New standards, interpretations and amendments either not adopted or listed below are not expected to have a material impact on the Commission's financial statements.

- IFRS 9, 'Financial Instruments', (effective for annual periods beginning on or after January 1, 2018). In July 2014, the IASB issued IFRS 9 which is the comprehensive standard to replace IAS 39 'Financial Instruments: Recognition and Measurement', and includes requirements for classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (OCI) and fair value through Profit or Loss (FVPL). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in OCI, for liabilities designated at FVPL. The standard is effective for accounting periods on or after January 1, 2018. The full impact of IFRS 9 is yet to be assessed.

- IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statement about the nature, amount, timing and uncertainty of revenue and cash flow arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard is effective for annual periods beginning on or after January 1, 2018. The impact of IFRS 15 is being assessed by the Commission.

- IFRS 16 – Leases - IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-statement of financial position finance leases and off-statement of financial position operating leases. Instead, there is a single, on-statement of financial position accounting model that is similar to current finance lease accounting.

  Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. For lessees, the lease becomes an on-statement of financial position liability that attracts interest, together with a right to use assets also being recognized on the statement of financial position. In other words, lessees will appear to become more asset-rich but also more heavily indebted. The impacts are not limited to the statement of financial position. There are also changes in accounting over the life of the lease. In particular, companies will now recognise a front-loaded pattern of expense for most leases, even when they pay constant annual rentals. The standard is effective for annual periods beginning on or after January 1, 2019. The impact of IFRS 16 is being assessed by the Commission.

There are no other new or amended standards and interpretations that are issued but not yet effective, that are expected to have a significant impact on the accounting policies or financial disclosures of the Commission.

(expressed in United States dollars)

4 Summary of accounting policies

The financial statements have been prepared using the significant accounting policies and measurement bases.

a) Cash

Cash comprises cash on hand and cash at banks, which are subject to an insignificant risk of changes in value.

b) Financial instruments

(i) Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the Commission becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expired.

(ii) Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets are classified as loans and receivables upon initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Commission's cash and accounts receivable fall into this category of financial instruments.

All financial assets are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

(expressed in United States dollars)

4 Summary of accounting policies *...continued*

b) Financial instruments *...continued*

(ii) Classification and subsequent measurement of financial assets ...continued

All income and expenses relating to financial assets that are recognised in the statement of comprehensive income are presented within finance costs, finance income or other financial items, except for impairment of accounts receivable which is presented within other expenses.

(iii) Classification and subsequent measurement of financial liabilities

The Commission's financial liabilities include accounts payable and accrued expenses and statutory deposits.

Financial liabilities are measured subsequently at amortised cost using the effective interest method.

c) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

d) Property and equipment

Property and equipment are stated at historical cost, less accumulated depreciation and impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

The cost of repairs and replacements of a routine nature are charged to earnings whilst those expenditures which improve or extend the useful lives of the assets are capitalised.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating income.

Depreciation is computed using the straight-line method to allocate the cost of each asset to its residual values, over the estimated useful life as follows:

Furniture and fittings	5-10 years
Computers and equipment	5-10 years
Leasehold equipment	5-10 years
Motor vehicle	5 years

(expressed in United States dollars)

4 Summary of accounting policies *...continued*

e) Intangible asset

Computer software
Acquired computer software licence is capitalised on the basis of costs incurred to acquire and bring to use the specific software. This cost is amortised over its estimated useful life of five years.

Costs associated with maintaining computer software programmes are recognised as an expense when incurred.

f) Impairment of non-financial assets

Non-financial assets that are subject to depreciation 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 exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

g) Accumulated reserves

Accumulated reserves represent the current and prior year results of operations as reported in the statement of comprehensive income.

h) Revenue recognition

The Commission recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity and when specific criteria have been met for the Commission's activities as described below.

(i) Licence fees
Licence fees comprise of amounts collected from companies licensed by the Commission. Revenue is recognised when the licence fees are due. Annual license fees for the year are receivables as at the beginning of each year. Fees for the year are classified as revenues; the remainder is considered deferred revenue.

(ii) Interest income
Interest income is recognised using the effective interest method for all interest bearing instruments on an accrual basis. Interest income includes income earned on cash.

(iii) Other income
Other income is recognised on the accrual basis.

(expressed in United States dollars)

4 Summary of accounting policies *...continued*

i) Operating expenses

Operating expenses are recognised in the statement of comprehensive income upon utilization of the services or as incurred.

j) Foreign currency transactions

(i) Functional and presentation currency

Items included in the financial statements of the Commission are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The Commission's functional currency is Eastern Caribbean dollars. The financial statements are presented in United States dollars, which is the Commission's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency of the Commission, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign currency gains and losses resulting from the settlement of such transactions and from the remeasurement of monetary items denominated in foreign currency at year-end exchange rates are recognised in the statement of comprehensive income.

k) Provisions

A provision is recognised when the Commission has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(expressed in United States dollars)

4 Summary of accounting policies *...continued*

l) Employee benefits

Pension cost
The Commission's contribution to the Government's defined benefit pension plan is charged to the statement of comprehensive income in the period to which the contributions relate. The Commission does not have its own pension plan and its pension costs are limited to contributions made.

Post-employment obligation
The Commission recognises a liability and an expense for gratuities due to its employees based on the terms of the employment contracts.

Short-term employee benefits
Short-term employee benefits, including holiday entitlement, are current liabilities measured at the undiscounted amount that the Commission expects to pay as a result of the unused entitlement.

m) Leases – Commission as a lessee

Leases in which a significant portion of risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

n) Significant management judgment in applying accounting policies and estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Judgements, estimates and underlying assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

At year end, in the opinion of management, there were 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.

5 Financial risk management

a) Financial risk factors

The Commission's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Commission has not entered into forward contracts to reduce risk exposures. The Commission's risk management focuses on actively seeking to minimise potential adverse effects on its financial performance. Risk management is carried out by management based on policies set by the Board of Members.

(expressed in United States dollars)

5 Financial risk management *...continued*

a) Financial risk factors *...continued*

The most significant financial risks to which the Commission is exposed are described below:

i) Market risk

Foreign currency risk

The Commission conducts its operations primarily in Eastern Caribbean dollars; however, some transactions are executed in various other currencies, mainly United States Dollars. Foreign currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The exchange rate of the Eastern Caribbean dollar (EC$) to the United States dollar (US$) has been formally pegged at EC$2.70 = US$1.00 since July 1976, hence management considers foreign currency risk not to be significant.

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Commission takes on exposure to the effects of fluctuations in the prevailing level of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event unexpected movements arise. The Commission's financial assets and liabilities are non-interest bearing with the exception of cash which earns interest based on market rates as disclosed in note 6.

Price risk

The Commission has no investments held or classified as available for sale or at fair value through profit or loss, and thus is not exposed to cash flow equity securities price risk. The Commission is not exposed to commodity price risk.

ii) Credit risk

Credit risk arises from the possibility that counterparties may default on their obligations to the Commission. The Commission's credit risk arises from cash at banks, as well as credit exposures to customers. Cash at banks are only held with well-known reputable banks and financial institutions. If no independent rating exists for customers, management assesses the credit quality of customers on an individual basis, taking into account their financial position, credit history and other factors. The utilization of credit limits is regularly monitored. Services rendered to customers are settled primarily in cash and cheques.

The Commission has made adequate provision for any potential credit losses and the amount of the Commission's maximum exposure to credit risk is indicated by the carrying amount of its financial assets.

(expressed in United States dollars)

5 Financial risk management *...continued*

a) Financial risk factors *...continued*

ii) Credit risk *...continued*

	2016 $	2015 $
Cash at banks	**4,547,792**	4,027,865
Accounts receivable	**15,554**	13,233
	4,563,346	4,041,098

All financial assets such as cash and accounts receivable are categorized as neither past due nor impaired in 2016 and 2015.

The following table provides the credit quality and age analysis of the Commission's financial assets according to the Commission's credit ratings of debtors as of December 31, 2016:

	High Grade $	Standard Grade $	Total $
December 31, 2016			
Cash at banks	4,547,792	–	4,547,792
Accounts receivable	–	15,554	15,554
	4,547,792	**15,554**	**4,563,346**
December 31, 2015			
Cash at banks	4,027,865	–	4,027,865
Accounts receivable	–	13,233	13,233
	4,027,865	**13,233**	**4,041,098**

The credit quality of financial assets was determined as follows:

- Cash at banks are only placed with well-known banks and financial institutions. The credit quality of these financial assets is considered to be of high grade.
- Accounts receivable are standard grade financial instruments with satisfactory financial capability and credit standing but with some elements of risks where a certain measure of control is necessary in order to mitigate risk of default.

(expressed in United States dollars)

5 Financial risk management *...continued*

a) Financial risk factors ...continued

iii) Liquidity risk

Liquidity risk is the risk that the Commission is unable to meet its payment obligations associated with its financial liabilities when they fall due. In order to manage liquidity risks, management seeks to maintain sufficient levels of cash and the availability of funding through an adequate amount of committed credit facilities, to meet its short-term obligations.

The following tables analyse the Commission's financial liabilities in relevant maturity grouping based on the remaining period at the statement of financial position date to the contractual maturity date.

	Within 1 Year $
At December 31, 2016	
Accounts payable and accrued expense	**129,637**
Statutory deposits	**2,044,260**
	2,173,897
Cash	**4,547,938**
Accounts receivable	**15,554**
Total assets held for liquidity purposes	**4,563,492**
Net liquidity gap	**2,389,595**

	Within 1 Year $
At December 31, 2015	
Accounts payable and accrued expenses	146,840
Statutory deposits	1,820,236
	1,967,076
Cash	4,027,917
Accounts receivable	13,233
Total assets held for liquidity purposes	4,041,150
Net liquidity gap	**2,074,074**

(expressed in United States dollars)

5 Financial risk management *...continued*

b) Fair value of financial assets and liabilities

Fair value is the arm's length consideration for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties, who are under no compulsion to act and is best evidenced by a quoted market price, if one exists.

The fair value of cash, accounts receivable, accounts payable and accrued expenses and statutory deposits are assumed to approximate the carrying value due to their short term nature.

The table below summarizes the carrying amounts and fair values of the Commission's financial assets and liabilities.

	Carrying value		Fair value	
	2016	**2015**	**2016**	**2015**
	$	**$**	**$**	**$**
Financial assets				
Cash	**4,547,938**	4,027,917	**4,547,938**	4,027,917
Accounts receivable	**15,554**	13,233	**15,554**	13,233
	4,563,492	4,041,150	**4,563,492**	4,041,150
Financial liabilities				
Accounts payable and accrued expenses	**129,637**	146,840	**129,637**	146,840
Statutory deposits	**2,044,260**	1,820,236	**2,044,260**	1,820,236
	2,173,897	1,967,076	**2,173,897**	1,967,076

c) Capital risk management

The Commission maintains a level of capital that is sufficient to meet several objectives, including its ability to continue as a going concern in order to maintain an acceptable total debt-to-capital ratio to provide access to adequate funding sources to support current operations and fulfilment of its strategic plan.

The Commission's capital is represented by its accumulated reserves. As at December 31, 2016, the Commission's accumulated reserves amounted to $2,381,361 (2015: $2,084,185).

The Commission manages its capital structure and makes adjustments in light of changes in activities, economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Commission may request contributions from and make distributions to the Government of Anguilla.

(expressed in United States dollars)

6 Cash

	2016 $	2015 $
Cash at banks other than statutory deposits	**2,503,532**	2,207,629
Cash on hand	**146**	52
	2,503,678	2,207,681
Statutory deposits	**2,044,260**	1,820,236
Total cash	**4,547,938**	4,027,917

Cash at banks is held with National Commercial Bank of Anguilla Limited, CIBC First Caribbean International Bank Limited and Scotia Bank Anguilla Limited and bears interest at rates ranging between nil to 2% per annum (2015: 1% to 3%).

The statutory deposits accounts are held with the CIBC First Caribbean International Bank Limited and earn interest at a rate of 0.05% per annum (2015: 0.05%).

7 Other assets

	2016 $	**2015 $**
Prepayments	**19,030**	15,237
Housing deposits	**6,075**	8,563
	25,105	23,800

(expressed in United States dollars)

8 Intangible asset

	$
Year ended December 31, 2015	
Opening net book amount	30,000
Amortisation charge	(15,000)
Closing book amount	**15,000**
At December 31, 2015	
Cost	75,000
Accumulated amortisation	(60,000)
Net book amount	**15,000**
Year ended December 31, 2016	
Opening net book amount	15,000
Amortisation charge	(15,000)
Closing book amount	–
At December 31, 2016	
Cost	75,000
Accumulated amortisation	(75,000)
Net book amount	–

(expressed in United States dollars)

9 Property and equipment

	Computers and equipment $	Furniture and fittings $	Leasehold equipment $	Motor vehicle $	Total $
Year ended December 31, 2015					
Opening net book amount	12,407	33,957	13,591	8,190	68,145
Additions	1,846	7,480	–	–	9,326
Depreciation charge	(4,328)	(5,928)	(6,797)	(910)	(17,963)
Closing book amount	**9,925**	**35,509**	**6,794**	**7,280**	**59,508**
At December 31, 2015					
Cost	36,888	68,146	34,032	9,100	148,166
Accumulated depreciation	(26,963)	(32,637)	(27,238)	(1,820)	(88,658)
Closing net book amount	**9,925**	**35,509**	**6,794**	**7,280**	**59,508**
Year ended December 31, 2016					
Opening net book amount	9,925	35,509	6,794	7,280	59,508
Additions	2,038	107	4,770	–	6,915
Depreciation charge	(2,867)	(5,951)	(7,434)	(910)	(17,162)
Closing book amount	**9,096**	**29,665**	**4,130**	**6,370**	**49,261**
As at December 31, 2016					
Cost	38,926	68,253	38,802	9,100	155,081
Accumulated depreciation	(29,830)	(38,588)	(34,672)	(2,730)	(105,820)
Closing net book amount	**9,096**	**29,665**	**4,130**	**6,370**	**49,261**

(expressed in United States dollars)

10 Accounts payable and accrued expenses

	2016 $	2015 $
Accrued expenses	**83,848**	89,760
Accounts payables	**26,637**	26,563
Accrued gratuities	**19,152**	30,517
	129,637	146,840

11 Statutory deposits

Section 8(1) of the Insurance Act, R.S.A. c. I16 requires that a licensee undertaking domestic insurance business shall maintain in a bank in Anguilla, funds in cash, short-term securities or other realisable investments approved by the Commission, the total value of which shall at least equal the total of its:

i) Unearned premium reserve;
ii) Outstanding claims reserve;
iii) Reserve for the claims incurred but not reported; and
iv) Unexpired risks reserve.

Section 8(2) of the Insurance Act states that: "The Commission may require an approved external insurer to place with the Commission an interest bearing deposit to meet existing and future liabilities for a period to be determined by the Commission. The amount of the deposit will not exceed 40% of its annual premium income net of re-insurance premiums with respect to each class of insurance undertaken."

At December 31, 2016 statutory deposits in the amount of $2,044,260 (2015: $1,820,236) were held by the Commission in connection with approved external insurers.

12 Deferred revenue

Deferred revenue consists of licence fees for the succeeding financial year ended December 31, 2016 received by the Commission in advance during the current financial year.

(expressed in United States dollars)

13 Related party balances and transactions

A related party relationship exists when one party has the ability to control directly or indirectly, through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between or among entities under common control, with the reporting enterprise and its key management personnel and Board of Members.

The remuneration of the Board of Members and key management personnel during the year was as follows:

	2016 $	2015 $
Salaries	**170,470**	179,418
Board members' allowances	**59,761**	54,900
Housing allowances	**38,000**	36,000
Gratuities	**24,250**	44,855
Chairman's travel and subsistence	**13,213**	17,320
Director bonus	–	5,820
	305,694	338,313

14 Payroll and related costs

	2016 $	2015 $
Salaries	**605,071**	600,838
Vacation	**65,130**	62,705
Housing allowances	**38,000**	36,000
Health insurance	**24,502**	23,508
Gratuities	**24,250**	44,855
Social security costs	**20,139**	19,492
Pension costs	**15,219**	14,548
Staff bonus	–	17,061
Compassionate leave	–	1,502
	792,311	820,509

(expressed in United States dollars)

15 Travel and subsistence

	2016 $	2015 $
Regulatory	**56,985**	55,313
Training	**14,988**	16,625
Chairman’s travel and subsistence	**13,213**	17,320
Staff recruitment	**6,565**	5,602
Travel	**670**	670
	92,421	95,530

PHOTOS

WEBSITE & CONTACT INFORMATION

The Anguilla Financial Services Commission website, www.fsc.org.ai, provides useful information on matters relevant to the Commission's regulation of Anguilla's financial services industry:

SECTOR INFORMATION	LEGISLATION
Financial Services Commission	Financial Services Commission Act / Financial Services Enactment Regulations / Administrative Penalties Regulations
Banking and Trusts	Trust Companies and Offshore Banking Act / Regulations Trusts Act
Insurance	Insurance Act / Regulations
Company Management	Company Management Act / Regulations Protected Cell Companies Act / Regulations Custody of Bearer Shares Regulations
Mutual Funds	Mutual Funds Act
Money Services Business	Money Services Business Act
Non-Profit Organisations	Non-Profit Organisations Regulations
Co-operatives	Co-operative Societies Act
Friendly Societies	Friendly Societies Act
ERSP/NRSP	Externally and Non-Regulated Service Providers Regulations
AML/CFT	Proceeds of Crime Act / Regulations

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