BRITISH VIRGIN ISLANDS

FINANCIAL SERVICES COMMISSION

Audited Consolidated Financial Statements

For the Year Ended December 31, 2019

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

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BOARD OF COMMISSIONERS

Mr. Robin Gaul	Chairman
Mr. Jonathan Fiechter	Deputy Chairman
Ms. Denise Reovan	Commissioner
Mr. Ian Smith	Commissioner
Ms. Carlene Romney	Commissioner
Mr. Andrew Bickerton	Commissioner
Mr. Carl Hiralal	Commissioner
Mr. Robert Mathavious	Managing Director/CEO, ex officio Commissioner

REGISTERED OFFICE

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SECRETARY TO THE BOARD

Ms. Annet Mactavious

INDEPENDENT AUDITORS

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Independent Auditor's Report

To the Board of Commissioners
British Virgin Islands Financial Services Commission
Tortola, British Virgin Islands

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of the British Virgin Islands Financial Services Commission and its subsidiaries (the "Group"), which comprise of the consolidated statement of financial position as at December 31, 2019, and the consolidated statements of comprehensive income, changes in contributed capital and reserves and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

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 Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with 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 Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

Independent Auditor's Report (Continued)

Report on the Audit of the Financial Statements (Continued)

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.

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

We communicate with the directors 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.

BDO Limited

Tortola, British Virgin Islands
September 24, 2020

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Consolidated Statement of Financial Position
As at December 31, 2019
Expressed in United States Dollars

	Notes	2019 $	2018 $
ASSETS			
Non-current assets			
Property and equipment	4	6,456,068	5,748,276
Projects under development	5	-	334,161
Right-of-use asset, leasehold premises	6	7,523,674	-
Total non-current assets		13,979,742	6,082,437
Current assets			
Regulatory deposits	8	8,642,017	8,691,499
Cash	9	20,734,009	17,898,877
Time deposits	10	10,356,264	10,238,720
Other receivables and deposits	11	803,408	722,367
Total current assets		40,535,698	37,551,463
TOTAL ASSETS		**54,515,440**	**43,633,900**
CONTRIBUTED CAPITAL, RESERVES AND LIABILITIES			
Contributed capital and capital reserves			
Contributed capital	12	3,993,900	3,993,900
Property and equipment reserve	12	6,456,068	6,082,437
Future capital expansion reserve	12	7,500,000	7,500,000
Total contributed capital and capital reserves		17,949,968	17,576,337
Surplus and revenue reserves			
Training reserve	12	400,000	400,000
Loan revolving reserve	12	165,000	165,000
Refunds and drawback reserve	12	50,000	50,000
Enforcement reserve	12	2,000,000	2,000,000
Contingency reserve	12	2,610,857	2,766,834
Administrative penalties fund reserve	12	2,720,985	2,409,816
Total surplus and revenue reserves		7,946,842	7,791,650
Total contributed capital and reserves		25,896,810	25,367,987
Non-current liabilities			
Lease liabilities	6	6,639,402	-
Total non-current liabilities		6,639,402	-
Current liabilities			
Lease liabilities	6	1,013,352	-
Trade and other payables	13	2,114,393	2,430,456
Deposits on account and other deposits	14	6,209,466	6,143,958
Distribution payable to Government	15	4,000,000	1,000,000
Regulatory deposits from licensed entities	8	8,642,017	8,691,499
Total liabilities		21,979,228	18,265,913
TOTAL CONTRIBUTED CAPITAL, RESERVES AND LIABILITIES		**54,515,440**	**43,633,900**

Signed on behalf of the Commission on September 24, 2020

Chairman

Managing Director (Ag.)

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

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Consolidated Statement of Comprehensive Income
For the Year Ended December 31, 2019
Expressed in United States Dollars

	Notes	2019 $	2018 $
INCOME			
Fees collected on behalf of the Government	9,16	234,230,674	262,536,471
Less: Fees due to the Government	7	(204,997,880)	(231,972,987)
Fees retained by the Commission		29,232,794	30,563,484
Other income	17	382,357	179,476
TOTAL INCOME		29,615,151	30,742,960
EXPENSES			
Staff costs	20	14,882,189	13,733,538
International Arbitration Centre funding	23	1,940,938	1,811,600
Professional services		1,355,707	1,689,153
Maintenance and hire		1,184,817	798,561
Lease amortisation	4,6	1,164,965	-
Depreciation	4	1,088,397	1,528,946
Financial Investigations Agency funding	23	750,000	750,000
Travel and subsistence		583,825	458,386
Telephone and communications		541,502	717,858
Financial Services Institute funding	23	450,000	450,000
Utilities		247,186	234,854
Office expenses		200,715	218,306
Insurance		147,825	120,303
Licenses and fees		139,415	124,043
Literature and reference		111,301	93,735
Insurance Tribunal	23	98,274	102,335
Public relations		96,106	140,822
Memberships and subscriptions		81,808	126,362
Rent and lease		71,441	1,289,538
Conferences and seminars		68,910	34,108
Impairment loss	4,5	57,500	1,236,460
Miscellaneous		31,832	21,521
BVI House Asia funding		7,463	394,649
TOTAL EXPENSES		25,302,116	26,075,078
FINANCE COST			
Interest expense related to lease liability	6	(408,130)	-
Interest income	18	257,173	156,849
NET FINANCE COST		(150,957)	156,849
SURPLUS BEFORE GOVERNMENT DISTRIBUTION AND ENFORCEMENT PROCEEDS		4,162,078	4,824,731
Distribution to Government	15	(4,000,000)	(5,000,000)
SURPLUS (DEFICIT) BEFORE ENFORCEMENT PROCEEDS		162,078	(175,269)
Enforcement proceeds	19	366,745	316,910
SURPLUS FOR THE YEAR		**528,823**	**141,641**

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

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Consolidated Statement of Changes in Contributed Capital and Reserves
For the Year Ended December 31, 2019
Expressed in United States Dollars

	Opening balance $	Surplus for the year $	Transfers $	Utilisation of reserves $	Closing balance $
2019:					
Surplus	-	528,823	(528,823)	-	-
Contributed capital	3,993,900	-	-	-	3,993,900
Property and equipment reserve	6,082,437	-	373,631	-	6,456,068
Training reserve	400,000	-	-	-	400,000
Loan revolving reserve	165,000	-	-	-	165,000
Future capital expansion reserve	7,500,000	-	-	-	7,500,000
Refunds and drawbacks reserve	50,000	-	-	-	50,000
Enforcement reserve	2,000,000	-	-	-	2,000,000
Contingency reserve	2,766,834	-	-	(155,977)	2,610,857
Administrative penalties fund reserve	2,409,816	-	366,745	(55,576)	2,720,985
	25,367,987	**528,823**	**211,553**	**(211,553)**	**25,896,810**
2018:					
Surplus	-	141,641	(141,641)	-	-
Contributed capital	3,993,900	-	-	-	3,993,900
Property and equipment reserve	7,352,936	-	(1,270,499)	-	6,082,437
Training reserve	400,000	-	-	-	400,000
Loan revolving reserve	165,000	-	-	-	165,000
Future capital expansion reserve	7,500,000	-	-	-	7,500,000
Refunds and drawbacks reserve	50,000	-	-	-	50,000
Enforcement reserve	2,000,000	-	-	-	2,000,000
Contingency reserve	1,671,604	-	1,095,230	-	2,766,834
Administrative penalties fund reserve	2,092,906	-	316,910	-	2,409,816
	25,226,346	**141,641**	**-**	**-**	**25,367,987**

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

BRITISH VIRGIN ISLANDS FINANCIAL SERVICES COMMISSION

Consolidated Statement of Cash Flows
For the Year Ended December 31, 2019
Expressed in United States Dollars

	2019 $	2018 $
CASH FLOW FROM OPERATING ACTIVITIES		
Surplus for the year	528,823	141,641
Adjustment to reconcile net surplus to net cash from operating activities before working capital changes:		
Depreciation	1,088,397	1,528,946
Amortisation of right-of-use leasehold premises	1,164,965	-
Impairment loss	57,500	1,236,460
Interest expense on leases	408,130	-
Interest income	(257,173)	(156,849)
Operating surplus before working capital changes	2,990,642	2,750,198
Increase in other receivables and deposits	22,350	(156,901)
(Decrease) increase in trade and other payables	(316,064)	764,185
Increase in deposits on account and other deposits	65,508	2,161,183
Increase in distribution payable to Government	3,000,000	-
Net cash flows from operating activities	5,762,436	5,518,665
CASH FLOW FROM INVESTING ACTIVITIES		
Increase in time deposits - net	(117,544)	(5,056,903)
Acquisition of property and equipment	(1,519,528)	(735,786)
Costs for projects under development	-	(759,121)
Interest received	153,783	156,849
Net cash used in investing activities	(1,483,289)	(6,394,961)
CASH FLOW FROM FINANCING ACTIVITIES		
Interest payments on leases	(408,130)	-
Principal payments on leases	(1,035,885)	-
Net cash used in financing activities	(1,444,015)	-
NET INCREASE (DECREASE) IN CASH	**2,835,132**	**(876,296)**
CASH		
At beginning of year	17,898,877	18,775,173
At end of year	**20,734,009**	**17,898,877**

Cash is comprised of:

	2019 $	2018 $
Restricted cash (see Note 9)	12,253,642	13,699,081
Unrestricted cash	8,480,367	4,199,796
Total	20,734,009	17,898,877

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

1. ORGANISATION AND OBJECTIVES

The British Virgin Islands Financial Services Commission (the “Commission” or the “Parent”) was established under the Financial Services Commission Act, 2001 (the “Act”) on December 31, 2001 as a statutory corporation. The Act established the Commission including its subsidiaries (collectively referred to as the “Group”) as an autonomous regulatory authority responsible for the regulation, supervision and inspection of all financial services in and from within the British Virgin Islands (“BVI”). Such services include insurance, banking, insolvency, fiduciary business, company management, mutual funds business as well as the registration of companies, limited partnerships and intellectual property. The registered office of the Commission is at Pasea Estate, Road Town, Tortola, BVI.

The Commission is governed by a Board of Commissioners which includes a Chairman, six independent commissioners and the Managing Director/CEO (“the Board”). The Government of the British Virgin Islands (the “Government”) is the sole interest holder in the Commission and appoints the Board.

2. BASIS OF PREPARATION

2.1 Presentation of financial statements

(i) International Financial Reporting Standards

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (“IASB”).The policies have been consistently applied to all the years presented unless otherwise stated.

(ii) Accounting convention

The consolidated financial statements are prepared under the historical cost convention.

(iii) Presentation and functional currency

The consolidated financial statements are presented in United States Dollars (“$”), which is the Group's functional and presentation currency.

(iv) Significant accounting estimates and judgement

The preparation of the consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. Management is also required to exercise its judgement in the process of applying the Group’s accounting policies. Estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Significant judgements, estimates and assumptions made by management in the preparation of these consolidated financial statements are disclosed in Note 3.

2.2 Adoption of New Standards, Amendments and Interpretations

(i) Standards, amendments and interpretations to existing standards effective and relevant to the Group

The Group applied IFRS 16 Leases for the first time. The nature and effects of the changes as a result of adoption of this new accounting standard are in note 26.

(ii) Standards, amendments and interpretations to existing standards in issue but not yet effective and relevant to the Group

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2019 and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect of the consolidated financial statements of the Group.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2, the Board is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or inthe period of the revision and future periods if the revision affects both current and future periods.

(a) Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimates, that the Group have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Going concern

A key assumption in the preparation of consolidated financial statements is that the entity will continue as a going concern. The going concern assumption assumes that the Group will continue in operation for the foreseeable future and will be able to realise its assets and discharge its liabilities in the normal course of operations.

Determining the lease term of contracts with renewal and termination options - Group as lessee

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

The Group included the renewal period as part of the lease term for leases of all office buildings. These renewal options range from 3 years to 10 years. The Group typically exercises its option to renew for these leases because there will be a significant negative effect on operations to relocate and the Group has incurred significant leasehold improvements on the premises.

(b) Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Useful lives of property and equipment

The Group estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of property and equipment are analysed in Note 4. Based on management's assessment as at December 31, 2019, there is no change in estimated useful lives of property and equipment during the year. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

Borrowing rate used for leases

The Group estimates the incremental borrowing rate used in the calculation of its lease liabilities in relation to its adoption of the IFRS 16. IFRS 16 requires that lease payments shall be discounted using the interest rate implicit in the lease if that rate can be readily determined. If that rate cannot be readily determined, the incremental borrowing rate shall be used. The borrowing rate was determined to be 5.5%.

Expressed in United States Dollars

4. PROPERTY AND EQUIPMENT

The movements of the carrying amounts of the Group's property and equipment are as follows:

	Freehold land $	Leasehold land $	Motor vehicles $	Furniture and equipment $	Computer and software $	Leasehold improvements $	Total $
Cost							
Balance at December 31, 2018	4,500,000	130,000	264,797	3,100,107	16,786,593	2,432,103	27,213,600
Additions	-	-	-	272,414	839,313	407,801	1,519,528
Transfer from project under development	-	-	-	92,313	18,728	223,120	334,161
Balance at December 31, 2019	4,500,000	130,000	264,797	3,464,834	17,644,634	3,063,023	29,067,289
Accumulated depreciation							
Balance at December 31, 2018	-	28,890	228,179	2,786,792	14,795,623	2,389,380	20,228,864
Depreciation	-	2,064	36,618	201,821	704,148	143,746	1,088,397
Balance at December 31, 2019	-	30,954	264,797	2,988,613	15,499,771	2,533,126	21,317,261
Accumulated impairment							
Balance at December 31, 2018	-	-	-	-	1,236,460	-	1,236,460
Impairment	-	-	-	-	57,500	-	57,500
Balance at December 31, 2019	-	-	-	-	1,293,960	-	1,293,960
Carrying amount							
At December 31, 2019	4,500,000	99,046	-	476,221	850,903	529,897	6,456,068
Cost							
Balance at December 31, 2017	4,500,000	130,000	264,797	2,940,447	14,598,506	2,421,203	24,854,953
Additions	-	-	-	159,660	565,226	10,900	735,786
Transfer from project under development	-	-	-	-	1,622,861	-	1,622,861
Balance at December 31, 2018	4,500,000	130,000	264,797	3,100,107	16,786,593	2,432,103	27,213,600
Accumulated depreciation							
Balance at December 31, 2017	-	26,827	181,860	2,647,859	13,482,511	2,360,861	18,699,918
Depreciation	-	2,063	46,319	138,933	1,313,112	28,519	1,528,946
Balance at December 31, 2018	-	28,890	228,179	2,786,792	14,795,623	2,389,380	20,228,864
Accumulated impairment							
Impairment	-	-	-	-	1,236,460	-	1,236,460
Balance at December 31, 2018	-		-		1,236,460	-	1,236,460
Carrying amount							
At December 31, 2018	4,500,000	101,110	36,618	313,315	754,510	42,723	5,748,276

Expressed in United States Dollars

5. PROJECTS UNDER DEVELOPMENT

The movements of the cost of the Group's projects under development are as follows:

	VIRRGIN $	MBC $	RC $	Total $
Balance at December 31, 2017	386,401	811,500	-	1,197,901
Additions		424,960	334,161	759,121
Transfer to property and equipment	(386,401)	(1,236,460)	-	(1,622,861)
Balance at December 31, 2018	-	-	334,161	334,161
Additions	-	-	-	-
Transfer to property and equipment	-	-	(334,161)	(334,161)
Balance at December 31, 2019	**-**	**-**	**-**	**-**

(i) Virtual Integrated Registry and Regulatory General Information Network ("VIRRGIN")

At December 31, 2018, the Group had an existing contract with a vendor relating to the development of an internet-based information system featuring electronic filing of documents called VIRRGIN.

VIRRGIN was completed in three phases of development, each of which was released separately. The VIRRGIN project costs that were capitalised included (a) registry engine licence; (b) implementation and development costs for Phases I, II and III; other additional consultancy and software implementation charges; airfare, accommodation and other travel expenses incurred during the implementation of the project. During the year ended December 31, 2018, the Group completed Phase III of VIRRGIN. Costs relating to Phases I, II and III of VIRRGIN are capitalised as computer and software under Property and Equipment (see Note 27).

(ii) Micro Business Companies ("MBC")

In March 2017, the Group engaged a vendor to develop an application system to administer and manage Micro Business Companies ('. During the year ended December 31, 2018, the Commission completed the MBC project and incurred development costs totaling $1,236,460 that were transferred to property and equipment. As at December 31, 2018, the Group impaired the total cost of MBC project as a result of no revenues being generated.

During the year ended December 31, 2019, the MBC project incurred additional costs totaling $57,500. Those costs were recorded as part of Property and Equipment additions and were subsequently impaired during the year (see Note 27).

(iii) Resource Center ("RC")

In July 2018, the Group engaged a third party to construct a resource center facility to be utilised for staff trainings and meetings. During the year ended December 31, 2018, the Group incurred $334,161 on the project. During the year ended December 31, 2019, the facility was completed and the costs were transferred to Property and Equipment.

6. LEASES

The Group has lease contracts for its various office buildings both in the British Virgin Islands and in Hong Kong.

(a) Right-of-use assets leasehold premises

The following tables detail the Group's right-of-use assets as at December 31, 2019.

	2019 Buildings $	2018 Buildings $
At January 1	8,688,639	-
Amortisation for the year	(1,164,965)	-
At December 31	7,523,674	-

Expressed in United States Dollars

6. LEASES (Continued)

(b) Lease liabilities

	2019 $	2018 $
At January 1	8,688,639	-
Lease payments for the year	(1,444,015)	-
Interest expense	408,130	-
At December 31	7,652,754	-
Less: Current portion	(1,013,352)	-
Non-current portion	6,639,402	-

The maturity analysis of the lease liabilities is disclosed below:

	2019 $	2018 $
Up to 3 months	226,607	-
Between 3 and 12 months	786,745	-
Between 1 and 2 years	1,123,646	-
Between 2 and 5 years	3,266,976	-
Over 5 years	2,248,780	-
	7,652,754	-

7. SUBSIDIARIES

Composition

The Parent has three wholly-owned subsidiaries as at December 31, 2019, two of which are domiciled in the BVI and one in Hong Kong. These subsidiaries provide disaster recovery and Hong Kong liaison services to the Parent.

Financial support

The Parent provides financial support to all three subsidiaries which currently do not derive revenue on their own and therefore are dependent on the Parent for their operational financing.

8. REGULATORY DEPOSITS

By statute, certain entities licensed to operate in the financial services sector within the British Virgin Islands are required to place a deposit with the Commission. The Group has undertaken to hold these amounts in the following designated interest-bearing instruments:

	2019 $	2018 $
Cash in bank	430,937	614,829
Treasury bills	8,211,080	8,076,670
	8,642,017	8,691,499

Interest earned on these instruments is distributed to the licensees on a semi-annual basis.

The investments in treasury bills have maturities within twelve months from the acquisition date.

The deposits are refundable upon surrender of the licence. For the year ended December 31, 2019, the deposits earned an average rate of interest of 1.27% (2018: 0.62%). Total interest income earned for these deposits amounted to $107,334 (2018: $53,981). These regulatory deposits are restricted and not available for general use.

Expressed in United States Dollars

9. CASH

	2019 $	2018 $
Cash held in Government Trust Account	8,981,018	15,468,342
Payable to Government	(5,713,403)	(10,313,974)
Net cash held in Government Trust Account	3,267,615	5,154,368
Cash in operating accounts	16,683,259	11,972,913
Cash in insolvency account	783,135	771,596
Total cash	20,734,009	17,898,877

Fees collected on behalf of the Government are paid into a trust account maintained jointly in the name of the Commission and the Government. Prior to the commencement of the Group's financial year, the Cabinet of Government ("Cabinet") determines the percentage of fees collected on its behalf that is to be remitted to the Government, with the Group retaining the balance. For the year ended December 31, 2019, the Group retained 11.5% (2018: 11.5%) of revenue up to the projected revenue stream and thereafter, the Group retained 7.5% (2018: 7.5%) of any revenue in excess of the projected revenue stream. This resulted in cash of $5,713,403 (2018: $10,313,974) being held on behalf of the Government as at December 31, 2019.

Restricted cash

The cash held in Government Trust Account above are restricted and not available for general use by the Group.

The cash disclosed above and in the consolidated statement of cash flows include $2,776,561 (2018: $2,400,755) which are held in a separate bank account. These deposits relate to funds received for administrative penalties and are not available for general use by the Group (see Note 12 for restrictions on the administrative penalties fund reserve).

In addition, the Group's cash balance includes restricted funds for deposits on account, insolvency surplus reserve and deferred revenue transactions totalling $6,209,466 (2018: $6,143,958), see note 14.

10. TIME DEPOSITS

Time deposits represent short term placements with local depository banks whose maturity dates are between 92 and 353 days from the reporting date (2018: between 206 and 358 days), and are more than three months from the placement date with an average interest rate of 1.88% (2018: 1.45%). As at December 31, 2019, the total time deposits amounted to $10,356,264 (2018: $10,238,720). For the year ended December 31, 2019, total interest earned from time deposits amounted to $184,202 (2018: $79,423).

11. OTHER RECEIVABLES AND DEPOSITS

	2019 $	2018 $
Prepaid expenses	351,464	344,362
Due from BVI House Asia	245,210	245,200
Travel advances	38,312	50,916
Loan to employees	50,602	44,156
Interest receivable	103,391	36,733
Other receivables	14,429	1,000
	803,408	722,367

BVI House Asia is a related party by virtue of common control by the BVI Government. This balance is unsecured and no fixed re-payment terms.

Expressed in United States Dollars

12. CONTRIBUTED CAPITAL AND RESERVES

Contributed Capital

The Commission was established as a statutory corporation and no share capital was assigned to it. The Commission was funded by the Government through a contributed capital amount which at that time represented approximately 3 months of operating expenses.

Surplus and reserves

In accordance with Section 26 of the Act, the surplus for the year is allocated to reserve accounts at the discretion of the Commission unless otherwise agreed upon by the Cabinet of the Government. The capital and revenue reserves established include:

Capital reserves

(i) Property and equipment reserve reflects the investment into property & equipment to date, less amortisation.

(ii) Future capital expansion reserve to partly finance the acquisition of property, construction and equipment of the Group's own building in the BVI at a future date;

Revenue reserves

(i) Training reserve for long term training / study leave of staff;

(ii) Loan revolving reserve to facilitate staff loans (personal, medical, etc.);

(iii) Refunds and drawback reserve to provide cash for making refunds when necessary;

(iv) Enforcement reserve to establish a fund to address enforcement expenses as they arise; and

(v) Contingency reserve to establish a fund in the event of unforeseen circumstances.

(vi) Administrative penalties fund reserve is funded by administrative penalties' proceeds imposed and received by the Group and is restricted for administration of public awareness and education in salient areas identified by the Group.

13. TRADE AND OTHER PAYABLES

	2019 $	2018 $
Accounts payable and accrued expenses	997,471	1,336,357
Employee deductions and benefits payable	1,116,922	1,094,099
	2,114,393	2,430,456

Employee deductions and benefits payable

Employee deductions and benefits payable includes accrued unpaid vacation benefits totalling $1,116,922 (2018: $1,090,247) to the Group employees.

14. DEPOSITS ON ACCOUNT AND OTHER DEPOSITS

	2019 $	2018 $
Deposits on VIRRGIN accounts	4,900,266	4,843,577
Insolvency surplus reserve	760,698	751,882
Fees from Official Receiver	548,502	548,499
	6,209,466	6,143,958

Deposits on VIRRGIN accounts

In 2006, the Group implemented VIRRGIN that allows licensees to administer transactions online. As a result of this development, licensees are required to deposit funds with the Group in advance of effecting an online transaction.

The bank account associated with Deposits on VIRRGIN Accounts is a separate bank account which is not available for general use.

Expressed in United States Dollars

14. DEPOSITS ON ACCOUNT AND OTHER DEPOSITS (Continued)

Insolvency surplus reserve

Pursuant to the Insolvency Rules, 2005, the Insolvency surplus reserve pertains to monies representing unclaimed assets received from liquidators or bankruptcy trustees after the completion of a liquidation or bankruptcy proceeding. The bank account associated with the insolvency surplus reserve is a separate bank account which is not available for general use.

Amounts are paid out of the reserve to any person that the Group is satisfied to make payment with respect to an insolvency proceeding for which the monies were paid into the reserve.

Fees from Official Receiver

Under the Insolvency Act, the Commission can appoint an Official Receiver. Fees collected by the Official Receiver are held by the Group for safekeeping, pending agreement with the Government and the Group including which entity is entitled to the benefit of the fees collected.

15. DISTRIBUTION PAYABLE TO GOVERNMENT

On October 23, 2018, the Board approved a distribution to Government of $1,000,000 from the surplus earned by the Group during the year ended December 31, 2017 and was paid during the year ended December 31, 2018. This amount was accrued and recorded as distribution payable to Government as at December 31, 2017.

During the year ended December 31, 2018, the Board approved and paid a distribution to Government amounting to $4,000,000 from the surplus earned during the year ended December 31, 2018.

On August 27, 2019, the Board of Commissioners approved an additional distribution to Government of $1,000,000. This amount was accrued and recorded as a distribution payable to Government as at December 31, 2018.

On July 28, 2020, the Board approved a distribution to the Government of $4,000,000 from the Surplus earned during the year ended December 31, 2019.

16. FEES COLLECTED ON BEHALF OF GOVERNMENT

	2019 $	2018 $
Fees from the Registry of Corporate Affairs	227,097,079	256,656,296
Regulatory fees	7,133,595	5,880,175
	234,230,674	262,536,471

17. OTHER INCOME

	2019 $	2018 $
Receipts of court ordered legal costs	121,000	145,000
Rental income	156,132	-
Receipts of miscellaneous income	105,225	34,476
	382,357	179,476

Rental income pertains to rent charges earned by the Group from BVI House Asia that shares office space in Hong Kong.

18. INTEREST INCOME

	2019 $	2018 $
Interest income from time deposits	184,202	79,423
Interest income from cash	72,971	77,426
	257,173	156,849

Expressed in United States Dollars

19. ENFORCEMENT PROCEEDS

Enforcement proceeds relates to fees imposed and received for enforcement actions against licensees. These fees are classified as other comprehensive income and are not available for general use by the Group. Refer to Notes 9 and 12.

20. STAFF COSTS

	2019 $	2018 $
Wages and salaries	11,241,635	10,257,001
Allowances and benefits	2,198,612	2,224,202
Payroll taxes	575,945	513,176
National health insurance	333,640	314,260
Social Security benefits	269,517	259,014
Employment costs	262,840	165,885
	14,882,189	13,733,538

The average number of full-time employees in 2019 was 181 (2018: 181).

During the year ended December 31, 2019, the Group paid $1,401,968 (2018: $1,275,711) for current service costs toward a defined contribution plan (see Note 21), which has been included in allowances and benefits.

21. DEFINED CONTRIBUTION PENSION PLAN

The Group established a defined contribution plan (the "Plan") to provide retirement benefits for all established employees which is administered by trustees appointed by the Group. Under the Plan, the Group has an obligation limited to 15% of the participants' basic annual salary, with the participants contributing a minimum of 5%. A participant's interest in the Group's contributions commences to vest after 7 years employment and is fully vested after 10 years.

22. RELATED PARTY BALANCES

The Financial Secretary of the Government and Accountant General along with the Chairman of the Board and the Managing Director /CEO are signatories to a joint bank account maintained in the names of the Government and the Commission referred to as the Government Trust Account as per Section 19 (1) and (7) of the Act (see Note 9).

Key Management Personnel and Board of Commissioners Remuneration

During the year ended December 31, 2019, the salaries and allowances paid to the Group's key management personnel and board of commissioners amounted to $891,397 (2018: $823,910).

23. COMMITMENTS AND CONTINGENCIES

Commitments

The Group contracted Equinix Hong Kong Limited to provide the Group with data center services. The contract commenced in 2014 with a monthly cost of $3,886. In 2017, the Group's commitment with Equinix Hong Kong Limited expired and the contract is now on an automatic renewal term of two years that can be terminated by either party.

The Group is committed to provide funding to BVI House Asia, Financial Investigation Agency, Financial Services Institute, International Arbitration Centre and Insurance Tribunal as support to their operations. The Board of Commissioners and the Government determine necessary funding requirements of these entities on an annual basis as part of the Commission's budget discussion. The total funding recorded during the year amounted to $3,246,675 (2018: $3,508,584). All commitments were fully paid as at reporting date. These are recorded as part of the expenses in the consolidated statement of comprehensive income of the Group.

Contingencies

In the ordinary course of business, the Group is subject to legal proceedings, claims, disputes and litigation as a result of its role as the regulator of the British Virgin Islands financial services industry. While it is not practicable to forecast or determine the final results of all pending or threatened legal proceedings, the Group does not believe that such proceedings (including litigation) will have a material effect on its results and financial position.

24. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Group's activities expose it to a variety of financial risks; market risk (foreign exchange risk, interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by management under policies approved by the Board. Management identifies, evaluates and hedges financial risks in close co-operation with the Board. The Board provides guidance for overall risk management such as foreign exchange risk, interest rate risk, and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Financial assets of the Group include cash, time deposits, regulatory deposits, other receivables and deposits. Financial liabilities include trade and other payables, licence fees and other receipts, distribution payable to Government, and regulatory deposits from licensed entities.

24.1 Market risk

Market risk arises from the Group's use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (foreign currency risk) or other market factors (other price risk).

(i) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. In the normal course of business, the Group may enter into transactions denominated in foreign currencies. As a result, the Group is subject to transaction and translation exposure from fluctuations in foreign exchange rates.

As at December 31, 2019, the Group did not have any significant foreign currency denominated assets or liabilities.

(ii) Interest rate risk

Interest rate risk is the risk that the value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Floating rate instruments expose the Group to cash flow interest rate risk whereas fixed rate instruments expose the Group to fair value interest rate risk.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash and cash equivalents and time deposits. As at December 31, 2019 approximately 47% (2018: 49%) of the Group's assets were held in bank accounts, with floating interest rates.

With all other variables held constant, given a 25 basis point increase in the market interest rate, the Group's surplus would increase by $63,699 (2018: $52,993). A decrease of 25 basis points in the market interest rate, with all other variables held constant, would decrease the Group's surplus by an equal amount.

24.2 Credit risk

Credit risk arises from regulatory deposits, cash, time deposits, other receivables and deposits. Other receivables include travel expense advances and unsecured loans extended to various employees of the Group. The extent of the Group's exposure to credit risk in respect of these financial assets approximate the carrying values as recorded in the Group's consolidated statement of financial position.

The Group's management addresses credit risk through placement of cash on short term money market placements, interest bearing deposits and U.S Treasury Bills at a variety of regulated BVI financial institutions and effective and efficient collection policies.

Expressed in United States Dollars

24. FINANCIAL RISK MANAGEMENT (Continued)

24.2 Credit risk (continued)

The Group's cash (excluding petty cash), time deposits, other receivables and deposits (excluding prepayments) are held by financial institutions with the following rating per Moody's Investors Services.

Moody's	2019 $	2018 $
Aa2	2,782,726	5,377,887
A2	53,664	9,907
Ba1	17,293,535	
Ba2	-	16,580,874
Ba3	3,140,106	1,030,052
Total rated	23,270,031	22,998,720
Non-rated	8,344,179	6,274,623
Total	31,614,210	29,273,343

24.3 Liquidity risk

Liquidity risk is the risk that the Group may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Group is exposed to liquidity risk from its financial liabilities which include trade and other payables, licence fees and other deposits, distribution payable to Government and regulatory deposits from licensed entities. Prudent liquidity risk management implies maintaining sufficient cash to meet its current operating requirements. The Commission is not exposed to significant liquidity risk as it maintains sufficient cash and cash equivalents to meet its current and foreseeable future obligations.

The table below analyses the Commission's financial liabilities into relevant maturity groupings based on the remaining period at the date of the financial statements to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. The following table shows the Group's aging of its contractual repayment period to its creditors as of December 31, 2019:

	On demand $	Within one year $	Total $
Trade and other payables	2,114,392	-	2,114,392
Deposits on account and other deposits	6,209,466	-	6,209,466
Regulatory deposits from licensed entities	8,642,017	-	8,642,017
Distribution payable to Government	4,000,000	-	4,000,000
Total	20,965,875	-	20,965,875

Expressed in United States Dollars

24. FINANCIAL RISK MANAGEMENT (Continued)

24.3 Liquidity risk (Continued)

The following table shows the Group's aging of its contractual repayment period to its creditors as of December 31, 2018:

	On demand $	Within one year $	Total $
Trade and other payables	2,430,456	-	2,430,456
Deposits on account and other deposits	6,143,958	-	6,143,958
Regulatory deposits from licensed entities	8,691,499	-	8,691,499
Distribution payable to Government	1,000,000	-	1,000,000
Total	18,265,913	-	18,265,913

25. SUBSEQUENT EVENTS

No events have occurred subsequent to December 31, 2019 and before the date of the report that would have a significant effect on these financial statements other than those already disclosed in the notes and the below.

COVID-19

On March 11, 2020, the World Health Organization declared the outbreak of a respiratory disease caused by a new coronavirus as a "pandemic". First identified in late 2019 and known now as COVID-19, the outbreak has impacted thousands of individuals worldwide. In response, many countries have implemented measures to combat the outbreak which have impacted global business operations. As of the date of issuance of the financial statements, the Group's operations have not been significantly impacted, however, the Group continues to monitor the situation. No impairments were recorded as of the balance sheet date as no triggering events or changes in circumstances had occurred as of year-end; however, due to significant uncertainty surrounding the situation, management's judgement regarding this could change in the future. In addition, while the Group's results of operations, cash flows and financial condition could be negatively impacted, the extent of the impact cannot be reasonably estimated at this time.

26. EFFECTS OF CHANGE IN ACCOUNTING POLICIES

The Group adopted IFRS 16 with a transition date of January 1, 2019. The nature and effects of the changes as a result of adoption of this new accounting standards are described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

- **IFRS 16 Leases**

  IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.* The standards set out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the Consolidated Statement of Financial Position.

  Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 does not have an impact for leases where the Group is the lessor.

Expressed in United States Dollars

26. EFFECTS OF CHANGE IN ACCOUNTING POLICIES (Continued)

- **IFRS 16 Leases (continued)**

The Group adopted IFRS 16 using the modified retrospective approach, with recognition of transitional adjustments on the date of initial application (January 1, 2019), without restatement of comparative figures. The Group elected to apply the practical expedient to not reassess whether a contract is, or contains a lease at the date of initial application. Contracts entered into before the transition date that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. The definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

IFRS 16 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The Group applied the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

(a) Apply a single discount rate to a portfolio of leases with reasonably similar characteristics; and

(b) Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term remaining as of the date of initial application.

As a lessee, the Group previously classified leases as operating, or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases. However, the Group has elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ("short-term leases") and as such right-of-use assets and lease liabilities are not recognised in these instances.

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet. On adoption of IFRS 16, the Group recognised right-of-use assets and lease liabilities as follows:

Operating lease

- Liabilities are measured at the present value of the remaining payments, discounted at the Group's incremental borrowing rate as at January 1, 2019. The Group's incremental borrowing rate is the rate at which a similar borrowing could be obtained from an independent creditor under comparable terms and conditions. The rate applied was 5.5%.
- Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.
- Measured based on the carrying values for the lease assets and liabilities immediately before the date of initial application (i.e. carrying values brought forward, unadjusted).

The following table presents the impact of adoption of IFRS 16 on the consolidated statement of financial position as at January 1, 2019:

	December 31, 2018 As originally presented $	IFRS 16 $	January 1, 2019 $
Assets			
Right-of-use assets	-	8,688,639	8,688,639
Liabilities			
Lease liabilities	-	8,688,639	8,688,639

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets of $8,688,639 and lease liabilities of $8,688,639.

27. SIGNIFICANT ACCOUNTING POLICIES

27.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Commission and its subsidiaries. Control is achieved when the Group:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

The financial statements of subsidiaries are prepared for the same reporting period as the Parent. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

27.2 Financial assets

(i) Recognition and measurement

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through Profit or loss ("FVTPL"), transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income ("FVOCI"), it needs to give rise to cash flows that are "solely payments of principal and interest" ("SPPI") on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date i.e., the date that the Group commits to purchase or sell the asset.

27. SIGNIFICANT ACCOUNTING POLICIES (Continued)

27.2 Financial assets (Continued)

(i) Recognition and measurement (Continued)

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments); and
- Financial assets at FVTPL.

(ii) Financial assets at amortised cost

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and

The contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments on the principal amount outstanding. Financial assets at amortised cost are subsequently measured using the effective interest ("EIR") method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost include cash and cash equivalents, time deposits and other receivables.

(iii) Impairment of financial assets

The Group recognises allowances for expected credit losses ("ECLs") on financial assets measured at amortised cost. At each reporting date, the Group shall measure the loss allowance at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Group shall measure the loss allowance at an amount equal to 12-month expected credit losses. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance

Financial assets are derecognised and removed from the consolidated statement of financial position when the rights to cash flows from financial assets expire, or the financial assets have been transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. Any interests created or retained on the transferred financial assets are recognised separately as assets or liabilities.

On derecognition of financial assets, the difference between carrying amounts and the total of considerations received and cumulative gains or losses that had been recognised in other comprehensive income are recognised in profit or loss.

When the Group retains substantially all of the risks and rewards of ownership for transferred financial assets, the financial assets continue to be recognised and the consideration received is recognised as a financial liability.

When financial assets are transferred and the Group neither transfers nor retains substantially all of the risks and rewards of ownership of the financial assets, nor transferred control of the assets, the financial assets continue to be recognised to the extent of the continuing involvement in the financial assets.

When continuing involvement takes the form of guaranteeing the transferred assets, the continued involvement is measured at the lower of the carrying amount of the financial assets and the maximum amount of consideration received that the Group could be required to repay.

27. SIGNIFICANT ACCOUNTING POLICIES (Continued)

27.2 Financial assets (Continued)

(iii) Impairment of financial assets (Continued)

When continuing involvement takes the form of a written and/or purchased option, including cash-settled options, on the transferred assets, the continued involvement is measured as the amount of the transferred assets that the Group may repurchase, except in the case of a written put option on financial assets measured at fair value, where the continued involvement is measured at the lower of the fair value of the transferred assets and the option exercise price.

(iv) Derecognition of financial assets

Financial assets are derecognised and removed from the consolidated statement of financial position when the rights to cash flows from financial assets expire, or the financial assets have been transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. Any interests created or retained on the transferred financial assets are recognised separately as assets or liabilities.

When derecognition of financial assets, the difference between carrying amounts and the total of considerations received and cumulative gains or losses that had been recognised in other comprehensive income are recognised in profit or loss the Group retains substantially all of the risks and rewards of ownership for transferred financial assets, the financial assets continue to be recognised and the consideration received is recognised as a financial liability.

When financial assets are transferred and the Group neither transfers nor retains substantially all of the risks and rewards of ownership of the financial assets, nor transferred control of the assets, the financial assets continue to be recognised to the extent of the continuing involvement in the financial assets.

When continuing involvement takes the form of guaranteeing the transferred assets, the continued involvement is measured at the lower of the carrying amount of the financial assets and the maximum amount of consideration received that the Group could be required to repay.

When continuing involvement takes the form of a written and/or purchased option, including cash-settled options, on the transferred assets, the continued involvement is measured as the amount of the transferred assets that the Group may repurchase, except in the case of a written put option on financial assets measured at fair value, where the continued involvement is measured at the lower of the fair value of the transferred assets and the option exercise price.

27.3 Financial liabilities

(i) Recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, distribution to government payable and regulatory deposits from licensed entities.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Trade and other payables, distribution payable to Government and regulatory deposits from licensed entities are measure at amortised cost using the effective interest rate method.

(ii) Derecognition of financial liabilities

Financial liabilities are derecognised and removed from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled, or expires. The difference between the carrying amount of the financial liabilities derecognised and the consideration paid, is recognised in profit or loss.

Where financial liabilities are replaced with the same lender or the terms are substantially modified, the original financial liabilities are derecognised and new financial liabilities have been recorded.

Expressed in United States Dollars

27.3 Financial liabilities (Continued)

(iii) Offsetting of financial liabilities

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

27.4 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment. Depreciation is calculated on the straight-line method to write off the cost of each asset over their estimated useful life as follows:

Leasehold land	63 years
Motor vehicles	5 years
Furniture and equipment	3 years
Computer and software	3 years
Leasehold improvements	5 years

At the end of each reporting period, the Group is required to assess whether there is any indication that an asset may be impaired. If there is an indication that an asset may be impaired, then the asset's recoverable amount must be calculated. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gain and losses on disposals are determined by comparing the proceeds with the carrying amounts of the assets and are recorded in the consolidated statement of comprehensive income.

27.5 Projects under development

Costs incurred on the VIRRGIN and MBC projects are recognised as intangible assets to the extent that such expenditure is expected to generate future economic benefits. Development costs for each phase, including licensing costs that have been capitalised, are transferred to fixed assets when each phase of project is completed. Amortisation will be charged on the costs of each phase as each phase is brought into use. Maintenance and support costs relating to the VIRRGIN and MBC projects are expensed in the period to which they relate.

The costs incurred on the RC project are accumulated and capitalised as part of projects under development. Once completed, the costs of the RC project are transferred to property and equipment and depreciation is recorded from the date it is available for use.

27.6 Leases

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

For these leases, the Group recognises the lease payments as an operating expense on a straight line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

IFRS 16 was adopted on January 1, 2019 without restatement of comparative figures. For an explanation of the transitional requirements that were applied as at January 1, 2019, see Note 26. The following policies apply subsequent to the date of initial application, January 1, 2019.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

The lease liability is presented as a separate line in the consolidated statement of financial position.

27. SIGNIFICANT ACCOUNTING POLICIES (Continued)

27.6 Leases (Continued)

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise of any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised;
- right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:
    - lease payments made at or before commencement of the lease;
    - initial direct costs incurred; and
    - the amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term as follows:

Leasehold premises	3-8 years

The right-of-use assets are also subject to impairment. Refer to the accounting policies in Note 27.3.

The right-of-use assets are presented as a separate line item in the consolidated statement of financial position.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using a revised discount rate. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, except the discount rate remains unchanged. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

The Group did not make any such adjustments during the periods presented.

When the Group renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy
- in all other cases where the renegotiation increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount
- if the renegotiation results in a decrease in the scope of the lease, both the carrying amount of the lease liability and right-of-use asset are reduced by the same proportion to reflect the partial or full termination of the lease with any difference recognised in profit or loss. The lease liability is then further adjusted to ensure its carrying amount reflects the amount of the renegotiated payments over the renegotiated term, with the modified lease payments discounted at the rate applicable on the modification date. The right-of-use asset is adjusted by the same amount.

The Group did not make any such renegotiations during the periods presented.

For contracts that both convey a right to the Group to use an identified asset and require services to be provided to the group by the lessor, the Group has elected to account for the entire contract as a lease, i.e. it does not allocate any amount of the contractual payments to, and account separately for, any services provided by the supplier as part of the contract.

27. SIGNIFICANT ACCOUNTING POLICIES (Continued)

27.6 Leases (Continued)

Nature of leasing activities (in the capacity as lessee)

The Group leases office spaces in the jurisdictions from which it operates. In the BVI, it is customary for the periodic rent to be fixed over the lease term.

27.7 Revenue recognition

Revenue Streams, Performance Obligations and Revenue Recognition Policies

The Group derives revenue from the collection of fees and charges payable under the Act and financial services legislation in the following area:

- Registry of Corporate Affairs;
- Banking and Fiduciary Services;
- Investment Business;
- Insurance; and
- Insolvency Services.

Revenue from providing services is recognised in the accounting period in which the services are rendered. Revenue is recognised at the point in time as the services are provided. Revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously. This is determined based on the time.

In addition, the Group collects revenue from the imposition of penalties and enforcement fees which are recognised on an accrual basis at the time the penalties and enforcement fees are imposed.

The Group also generates revenue through interest income from its investments and deposits with banks. Interest income is recognised as interest accrued on a time basis by reference to the principal outstanding and to the effective interest rate applicable.

27.8 Expense recognition

All expenses are recognised in the consolidated statement of comprehensive income on the accrual basis.

27.9 Taxation

In accordance with Section 28 of the Act, the Commission is exempt from the payment of all taxes, levies and license fees on its income and operations and from the payment of all taxes, duties and rates on its property and documents. Taxes payable by the Commission pertain to payroll taxes. Certain investment income may be subject to withholding taxes at its source from the country of origin.

27.10 Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs in those foreign currency borrowings;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which
- are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

27. SIGNIFICANT ACCOUNTING POLICIES (Continued)

27.10 Foreign currencies (Continued)

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into US Dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in the statement of comprehensive income.

27.11 Pension plan

Payments to defined contribution plans are recognised as an expense when employees have rendered service entitling them to the contributions.

A liability for a termination benefit is recognised at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognises any related restructuring costs.

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

28. COMPARATIVE FIGURES

Certain comparative figures in the financial statements have been reclassified to conform with the current year's presentation.