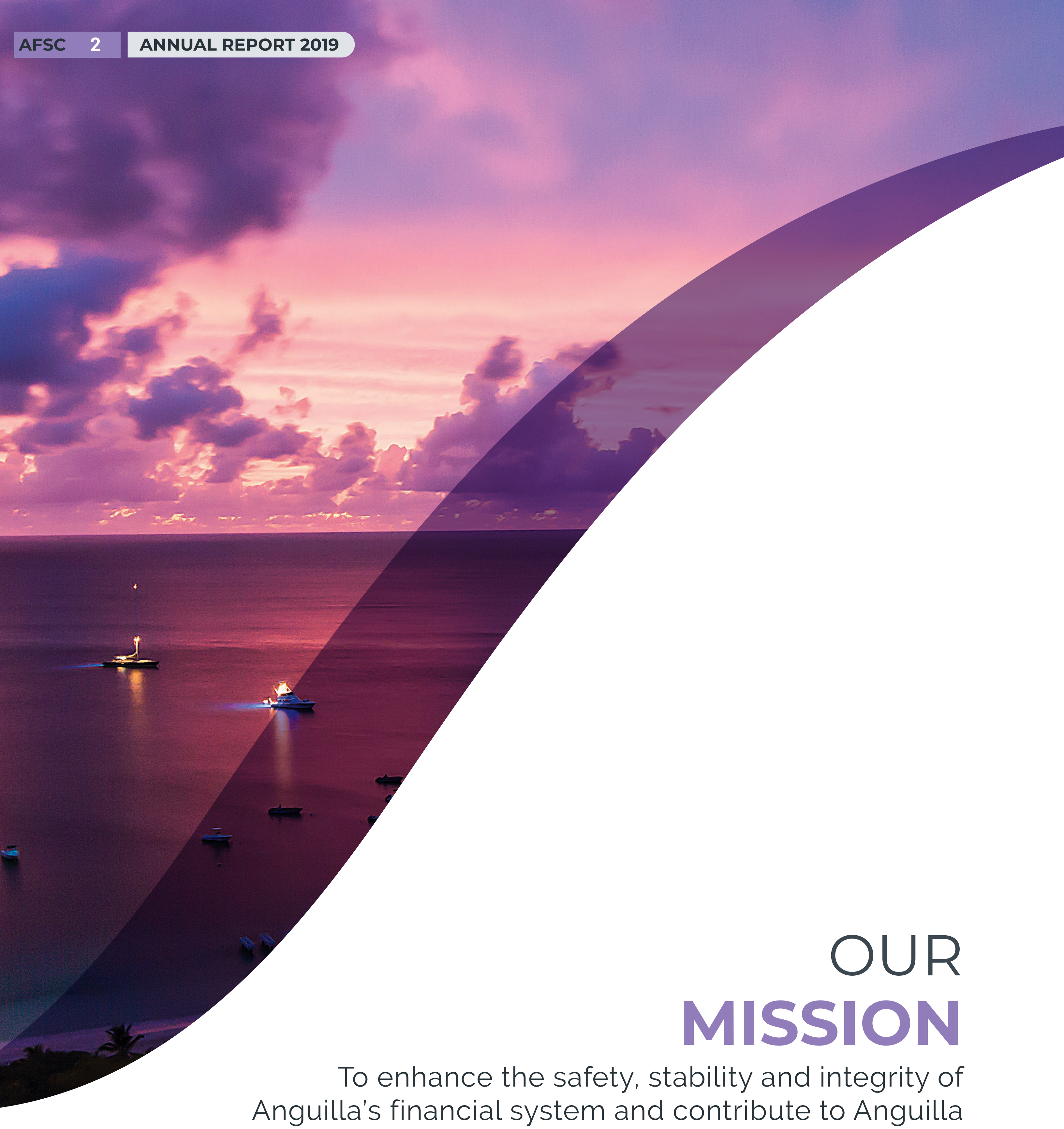
ANGUILLA FINANCIAL SERVICES COMMISSION

Annual Report 2019



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.

FINANCIAL REPORT

Anguilla Financial Services Commission

Financial Statements for the period ended 31 December 2019

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 2019.

As recorded in their Auditors’ Report, GT have audited the statement of financial position of the Financial Services Commission as of 31 December 2019, 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 involved 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 2019 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.

Anthony Barrett
Chief Auditor
25 September 2020

Grant Thornton
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Independence Square
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West Indies

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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, 2019, 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, 2019, 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
September 17, 2020
Basseterre, St. Kitts

Anguilla Financial Services Commission
Statement of Financial Position
As at December 31, 2019

(expressed in United States dollars)

	2019	2018
	$	$
Assets		
Current assets		
Cash (note 6)	**5,738,770**	5,401,902
Accounts receivable (note 7)	**15,177**	25,800
Other assets (note 8)	**31,307**	39,350
Total current assets	**5,785,254**	5,467,052
Non-current assets		
Property and equipment (note 9)	**36,174**	32,566
Intangible asset (note 10)	**71,632**	–
Total non-current assets	**107,806**	32,566
Total assets	**5,893,060**	5,499,618
Liabilities		
Current liabilities		
Accounts payable and accrued expenses (note 11)	**82,869**	112,194
Statutory deposits (note 12)	**2,754,557**	2,366,423
Deferred revenue (note 13)	**34,939**	74,900
Total liabilities	**2,872,365**	2,553,517
Reserves		
Accumulated reserves	**3,020,695**	2,946,101
Total liabilities and reserves	**5,893,060**	5,499,618

The notes on pages 33 to 53 are an integral part of these financial statements.

Approved for issue by the Board of Members on September 17, 2020.

Member

Member

Anguilla Financial Services Commission

Statement of Comprehensive Income

For the year ended December 31, 2019

(expressed in United States dollars)

	2019 $	2018 $
Income		
Licence fees	**963,518**	1,026,200
Administrative fees and penalties	**121,712**	167,479
Other income	**26,646**	2,247
Total income	**1,111,876**	1,195,926
Operating expenses		
Impairment loss on accounts receivable	–	(9,997)
Payroll and related costs (note 15)	**(651,533)**	(750,402)
Travel and subsistence (note 16)	**(67,460)**	(47,544)
Office rent	**(57,639)**	(57,424)
Training and conference costs	**(55,537)**	(21,829)
Professional service fees	**(49,479)**	(25,419)
Insurance	**(42,973)**	(38,260)
Board members' allowance	**(35,300)**	(30,000)
Utilities	**(22,435)**	(17,729)
Subscriptions	**(17,769)**	(18,497)
Office supplies	**(13,637)**	(11,898)
Depreciation (note 9)	**(12,439)**	(10,495)
Audit fees	**(8,000)**	(8,000)
Communications	**(6,550)**	(7,915)
Cleaning	**(6,436)**	(5,035)
Others	**(5,554)**	(3,038)
Entertainment	**(3,724)**	(2,037)
Bank charges	**(1,118)**	(1,283)
Total operating expenses	**(1,057,583)**	(1,066,802)
Operating profit	**54,293**	129,124
Finance income		
Interest income	**20,301**	27,533
Net profit and total comprehensive income for the year	**74,594**	156,657

The notes on pages 33 to 53 are an integral part of these financial statements.

Anguilla Financial Services Commission

Statement of Changes in Accumulated Reserves

For the year ended December 31, 2019

(expressed in United States dollars)

	$
Balance at December 31, 2017	**2,789,444**
Total comprehensive income for the year	156,657
Balance at December 31, 2018	**2,946,101**
Adjustment from the adoption of IFRS 16	–
Adjusted balance at January 1, 2019	**2,946,101**
Total comprehensive income for the year	74,594
Balance at December 31, 2019	**3,020,695**

The notes on pages 33 to 53 are an integral part of these financial statements.

Anguilla Financial Services Commission
Statement of Cash Flows
For the year ended December 31, 2019

(expressed in United States dollars)

	2019 $	2018 $
Cash flows from operating activities		
Net profit for the year	**74,594**	156,657
Items not involving the movement of cash:		
Depreciation (note 9)	**12,439**	10,495
Impairment loss on accounts receivable	**–**	9,997
Interest income	**(20,301)**	(27,533)
Cash flows from operations before changes in operating assets and liabilities	**66,732**	149,616
Changes in operating assets and liabilities:		
Decrease in accounts receivable	**10,623**	40,681
Decrease/(increase) in other assets	**8,043**	(18,920)
Decrease in accounts payable and accrued expenses	**(29,325)**	(25,537)
(Decrease)/increase in deferred revenue	**(39,961)**	38,500
Increase in statutory deposits	**388,134**	136,838
Cash generated from operations	**404,246**	321,178
Interest received	**20,301**	27,533
Net cash from operating activities	**424,547**	348,711
Cash flows from investing activity		
Purchase of property and equipment	**(16,047)**	(1,852)
Purchase of intangible assets	**(71,632)**	–
Cash used in investing activity	**(87,679)**	(1,852)
Net increase in cash	**336,868**	346,859
Cash at beginning of the year	**5,401,902**	5,055,043
Cash at end of the year (note 6)	**5,738,770**	5,401,902

The notes on pages 33 to 53 are an integral part of these financial statements.

Anguilla Financial Services Commission
Notes to Financial Statements
December 31, 2019

(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, 2019

The Commission has applied the following new standards and amendments to existing standards that have been published and became effective during the current financial year.

IFRS 16, *Leases*

IFRS 16, *Leases*, replaces International Accounting Standard (IAS) 17, *Leases* along with three Interpretations (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 adoption of this new standard has resulted in the Commission recognising a right-of-use asset and related lease liability in connection with all former operating leases except for those identified having a remaining lease term of less than twelve (12) months from the date of initial application.

Anguilla Financial Services Commission
Notes to Financial Statements
December 31, 2019

(expressed in United States dollars)

3 Changes in accounting policies...*continued*

The new standard has been applied using the modified retrospective approach. Prior periods have not been restated. There were no adjustments required to the opening balance of retained earnings for the current period as a result of adopting IFRS 16.

New standards and amendments to standards effective for the financial year beginning January 1, 2019… continued

For contracts in place at the date of initial application, if any, the Commission has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as a lease under IAS 17 and IFRIC 4.

The Commission has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being January 1, 2019.

As at January 1, 2019, the Commission has elected not to recognise the right-of-use asset and the related lease liability at the date of initial application for a lease previously classified as an operating lease applying IAS 17 as the remaining term of the lease was less than twelve months. Accordingly, the adoption of this new standard did not result in an adjustment on the opening retained earnings as at January 1, 2019.

Other amendments to standards

Other standards and amendments that are effective for the first time in 2019 are as follows:

- IFRS 9, Prepayment features with Negative Compensation (Amendments to IFRS 1);
- IAS 28, Long-term interests in Associates and Joint Ventures (Amendments to IAS 28);
- IFRIC 28, Uncertainty over income Tax Treatments;
- Annual improvements to IFRS 2015-2017 cycle (IAS 12, IAS 23, IFRS 3 and IFRS 11); and
- IAS 19, Plan Amendment, Curtailment or Settlement (Amendments to IAS 19).

These amendments do not have significant impact on these financial statements and therefore the disclosures have not been made.

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, several new, but not yet effective standards, amendments to existing standards, and interpretations have been published by the IASB. None of these standards, amendments or interpretations have been adopted early by the Commission.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New standards, amendments and interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Commission's financial statements.

Anguilla Financial Services Commission

Notes to Financial Statements

December 31, 2019

(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 and derecognition

Financial assets and financial liabilities are recognised when the Commission becomes a party to the contractual provisions of the financial instrument.

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 expires.

(ii) Classification and initial measurement of financial assets

Except for accounts receivables under financial assets at amortised cost that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction cost, when applicable.

Financial assets are classified into the following categories:

- amortised cost;
- fair value through profit or loss (FVTPL); and
- fair value through other comprehensive income (FVOCI).

In the periods presented, the Commission does not have any financial assets categorised as FVTPL or FVOCI.

All of the financial assets of the Commission are measured at amortised cost. This is determined if financial assets are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVTPL. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 3 b) iv). Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

The business model reflects how the Commission manages the assets in order to generate cash flows. That is, whether the Commission's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Commission in determining the business model for a group of assets include past experience on

Anguilla Financial Services Commission
Notes to Financial Statements
December 31, 2019

(expressed in United States dollars)

4 Summary of accounting policies...*continued*

b) Financial instruments...*continued*

(ii) Classification and initial measurement of financial assets...*continued*

how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Commission assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Commission considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

The classification is determined by both the Commission's business model for managing the financial asset and the contractual cash flow characteristics of the financial asset.

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 loss allowance of trade receivable which is presented within administrative and general expenses.

(iii) Subsequent measurement of financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Commission's cash, accounts receivables and housing deposits as included in other assets are classified at amortised cost into this category of financial instruments.

(iv) Impairment of financial assets

The Commission uses the IFRS 9's impairment requirement which is to use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model' on its financial assets carried at amortised cost. This replaces IAS 39's 'incurred loss model'. Instruments within the scope of the new requirements included loans and other debt-type financial assets measured

Anguilla Financial Services Commission

Notes to Financial Statements

December 31, 2019

(expressed in United States dollars)

4 Summary of accounting policies*...continued*

b) Financial instruments*...continued*

(iv) Impairment of financial assets

at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss. With respect to the Commission, this is applicable to its accounts receivable balance.

Recognition of credit losses is no longer dependent on the Commission first identifying a credit loss event. Instead, the Commission considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1'); and

- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').

'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

The Commission makes use of a simplified approach in accounting for accounts receivable and other financial assets at amortised cost and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Commission uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Commission assesses loss allowance of accounts receivable and other financial assets at amortised cost on collective basis as they possess shared credit risk characteristics based on the days past due. For the Commission, the loss allowance as a result of the application of IFRS 9 is not material and therefore no disclosures have been made.

Anguilla Financial Services Commission
Notes to Financial Statements
December 31, 2019

(expressed in United States dollars)

4 Summary of accounting policies *...continued*

b) Financial instruments ...*continued*

(v) Classification and measurement of financial liabilities

The Commission's financial liabilities include accounts payable and accrued expenses and deferred revenue.

Financial liabilities are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method.

All interest-related charges are included within finance costs or finance income.

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 value, over the estimated useful life as follows:

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

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 (5) years.

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

Anguilla Financial Services Commission
Notes to Financial Statements
December 31, 2019

(expressed in United States dollars)

4 Summary of accounting policies ...*continued*

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

Revenue arises mainly from the collection of licence fees from regulated entities as well as administrative fees and penalties. To determine whether to recognise revenue, the Commission follows a 5-step process:

1. Identifying the contract with a customer;
2. Identifying the performance obligations;
3. Determining the transaction price;
4. Allocating the transaction price to the performance obligations; and
5. Recognising revenue when/as performance obligation(s) are satisfied.

The Commission derives revenue from rendering of services is either at point in time or over time, when (or as) the Commission satisfies performance obligations by rendering the promised services to its customers.

The Commission recognises contract liabilities, if any, for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position. Similarly, if the Commission satisfies a performance obligation before it receives the consideration, the Commission recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

(i) Licence fees
Licence fees comprise amounts collected from companies licensed by the Commission. Revenue is recognised when the services are transferred over time. 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) Administrative fees and penalties
Administrative fees and penalties comprise amounts collected from companies for licence applications, applications for audit extensions/waivers, regulatory fees and late penalties. Revenue is recognised when the services are transferred at a point in time.

Anguilla Financial Services Commission
Notes to Financial Statements
December 31, 2019

(expressed in United States dollars)

4 Summary of accounting policies ...*continued*

h) Revenue recognition*...continued*

(iii) 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.

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

All of the Commission's revenues are generated in Anguilla.

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.

Anguilla Financial Services Commission
Notes to Financial Statements
December 31, 2019

(expressed in United States dollars)

4 Summary of accounting policies ...continued

k) Provisions...*continued*

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.

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) Leased assets

As described in Note 3, the Commission has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under IAS 7 and IFRIC 4.

Accounting policy applicable from January 1, 2019

For any new contracts entered into on or after January 1, 2019, the Commission considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Commission assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Commission;
- the Commission has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
- the Commission has the right to direct the use of the identified asset throughout the period of use. The Commission assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

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(expressed in United States dollars)

4 Summary of accounting policies...*continued*

m) Leased assets...*continued*

Accounting policy applicable from January 1, 2019...continued

Measurement and recognition of leases as a lessee
At lease commencement date, the Commission recognises a right-of-use asset and a lease liability on the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Commission, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Commission depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Commission also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Commission measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Commission's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Commission has elected to account for short-term leases and leases of low-value assets, if any, using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property and equipment and lease liability is shown as a lease liability.

Accounting policy applicable before January 1, 2019

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.

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4 Summary of accounting policies...*continued*

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.

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.

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5 Financial risk management...*continued*

a) Financial risk factors*...continued*

i) Market risk...*continued*

Interest rate risk

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 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.

	2019 **$**	**2018** **$**
Cash at banks	**5,738,770**	5,401,656
Accounts receivable	**15,177**	25,800
Other assets	**5,250**	6,100
	5,759,197	5,433,556

All financial assets such as cash and accounts receivable are categorized as performing (2019: performing).

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. While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

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5 Financial risk management...*continued*

a) Financial risk factors*...continued*

ii) Credit risk*...continued*

- 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. The Commission applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

The Commission continuously monitors the credit quality of its counterparties based on a credit rating scorecard. The Commission's policy is to deal only with creditworthy counterparties. The ongoing credit risk of these counterparties is managed through regular review of the aging analysis.

Counterparties settle license fees upfront thus mitigating the credit risk exposure. License fees represents the most significant source of operating income for the Commission; in 2019 this accounted for 86.7% of operating income (2018: 85.8%).

Accounts receivable consist of solely customers in Anguilla. The Commission does not hold any security on these balances.

In measuring the expected credit losses, the accounts receivable have been assessed on a collective basis as they possess shared credit characteristics. They have been grouped based on the days past due.

The expected loss rates are based on the historical collection and default rates over the past seven (7) years. The historical rates are adjusted to reflect current and forward looking macroeconomic factors affecting the counterparty's ability to settle the amount outstanding. While Gross Domestic Product and growth in the financial services sector are most relevant, given the short period over which the Commission is exposed to credit risk, the impact of these macroeconomic factors has not been considered significant within the financial year.

The expected credit losses for the year ended December 31, 2019 are immaterial and therefore no additional disclosures have been made.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery, include, amongst others, the failure of a customer to engage in a repayment plan with the Commission, and a failure to make contractual payments for a period of greater than 360 days past due or discontinuation of the business of the counterparties.

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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, 2019	
Accounts payable and accrued expenses	**82,869**
Statutory deposits	**2,754,557**
	2,837,426
Cash	**5,738,770**
Accounts receivable	**15,177**
Other assets	**31,307**
Total assets held to manage liquidity risk	**5,785,254**
Net liquidity gap	**2,947,828**

	Within 1 Year $
At December 31, 2018	
Accounts payable and accrued expenses	112,194
Statutory deposits	2,366,423
	2,478,617
Cash	5,401,902
Accounts receivable	25,800
Other assets	6,100
Total assets held to manage liquidity risk	5,433,802
Net liquidity gap	2,955,185

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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	
	2019	**2018**	**2019**	**2018**
	$	**$**	**$**	**$**
Financial assets				
Cash	**5,738,770**	5,401,902	**5,738,770**	5,401,902
Accounts receivable	**15,177**	25,800	**15,177**	25,800
Other assets	**5,250**	6,100	**5,250**	6,100
	5,759,197	5,433,802	**5,759,197**	5,433,802
Financial liabilities				
Accounts payable and accrued expenses	**82,869**	112,194	**82,869**	112,194
Statutory deposits	**2,754,557**	2,366,423	**2,754,557**	2,366,423
	2,837,426	2,478,617	**2,837,426**	2,478,617

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, 2019, the Commission's accumulated reserves amounted to $3,020,695 (2018: $2,946,101).

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.

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6 Cash

	2019 $	2018 $
Cash at banks other than statutory deposits	**3,207,452**	3,035,233
Cash on hand	–	246
	3,207,452	3,035,479
Statutory deposits	**2,531,318**	2,366,423
Total cash	**5,738,770**	5,401,902

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 0.50% per annum (2018: nil to 0.50%).

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 (2018: 0.05%).

Included in cash at banks other than statutory deposits is an advance deposit received on behalf of a regulated insurer in the amount of $223,268 which is to be used for the establishment of a term deposit to be held as a statutory deposit at CIBC First Caribbean International Bank Limited.

7 Accounts receivable

	2019 $	2018 $
Accounts receivable from:		
Mutual fund managers/administration	**6,000**	20,666
On-site Nagico Insurance	**5,488**	–
Company managers	**2,189**	4,164
Captives	**1,500**	–
Others	–	920
Insurance managers	–	50
	15,177	25,800

The Commission's accounts receivables are amounts due from regulated entities for services rendered in the ordinary course of business. They are generally due for settlement upon initiation or renewal of the service and therefore are all classified as current. Accounts receivable are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Commission holds the accounts receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method. Details about the Commission's impairment policies are disclosed in Note 4. In 2019, there will be no accounts receivable which were previously not provided with loss allowance that were written off (2018: $9,997).

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7 Accounts receivable*...continued*

Due to the short-term nature of the Commission's accounts receivable, their carrying amount is considered to be the same as their fair value.

8 Other assets

	2019 $	2018 $
Prepayments	**26,057**	33,250
Housing deposits	**5,250**	6,100
	31,307	39,350

Anguilla Financial Services Commission

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(expressed in United States dollars)

9 Property and equipment

	Computers and equipment $	Furniture and fittings $	Leasehold equipment $	Motor vehicle $	Total $
At December 31, 2017					
Cost	40,049	70,447	38,802	9,100	158,398
Accumulated depreciation	(33,438)	(44,484)	(35,627)	(3,640)	(117,189)
Closing net book amount	**6,611**	**25,963**	**3,175**	**5,460**	**41,209**
Year ended December 31, 2018					
Opening net book amount	**6,611**	**25,963**	3,175	**5,460**	**41,209**
Additions	844	1,008	–	–	1,852
Depreciation charge	(2,933)	(5,698)	(954)	(910)	(10,495)
Closing book amount	**4,522**	**21,273**	**2,221**	**4,550**	**32,566**
As at December 31, 2018					
Cost	40,893	71,455	38,802	9,100	160,250
Accumulated depreciation	(36,371)	(50,182)	(36,581)	(4,550)	(127,684)
Closing net book amount	**4,522**	**21,273**	**2,221**	**4,550**	**32,566**
Year ended December 31, 2019					
Opening net book amount	**4,522**	**21,273**	**2,221**	**4,550**	**32,566**
Additions	11,234	–	4,813	–	16,047
Depreciation charge	(3,353)	(7,222)	(954)	(910)	(12,439)
Closing book amount	**12,403**	**14,051**	**6,080**	**3,640**	**36,174**
As at December 31, 2019					
Cost	52,127	71,455	43,615	9,100	176,297
Accumulated depreciation	(39,724)	(57,404)	(37,535)	(5,460)	(140,123)
Closing net book amount	**12,403**	**14,051**	**6,080**	**3,640**	**36,174**

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10 Intangible assets

	Software $	WIP – Telecommunication Project $	Total $
Year ended December 31, 2018			
Opening and closing net book value	–	–	–
As at December 31, 2018			
Cost	7,500	–	7,500
Accumulated amortisation	(7,500)	–	(7,500)
Net book value	–	–	–
Year ended December 31, 2019			
Opening net book value	–	–	–
Additions	–	71,632	71,632
Closing net book value	–	**71,632**	**71,632**
As at December 31, 2019			
Cost	75,000	71,632	146,632
Accumulated amortisation	(75,000)	–	(75,000)
	–	**71,632**	**71,632**

As at December 31, 2019, the Commission entered into a contract for a regulatory database which is expected to be completed during the financial year ending December 31, 2020. With respect to this project, the Commission has committed a total of $95,000 to its overall completion.

11 Accounts payable and accrued expenses

	2019 $	2018 $
Accrued expenses	**42,510**	67,349
Accrued gratuities	**27,054**	15,604
Accounts payables	**13,305**	29,241
	82,869	112,194

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12 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."

All statutory deposits are maintained in short-term fixed deposits (i.e. three-month maturity periods or less) or other demand accounts.

At December 31, 2019 statutory deposits in the amount of $2,754,557 (2018: $2,366,423) were held by the Commission in connection with approved external insurers.

13 Deferred revenue

Deferred revenue consists of licence fees for the succeeding financial year ending December 31, 2020 received by the Commission in advance during the current financial year.

14 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 other key management personnel during the year was as follows:

	2019	**2018**
	$	**$**
Salaries	**127,933**	179,522
Gratuities	**15,400**	40,250
Housing allowances	**17,827**	30,000
Board members' allowances	**35,300**	30,000
	196,460	279,772

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15 Payroll and related costs

	2019 $	2018 $
Salaries	**516,945**	560,069
Vacation	**44,448**	60,134
Health insurance	**26,456**	26,860
Social security costs	**18,525**	19,639
Gratuities	**17,827**	40,250
Housing allowances	**15,400**	30,000
Pension costs	**11,932**	13,450
	651,533	750,402

16 Travel and subsistence

	2019 $	2018 $
Regulatory	**47,757**	22,575
Staff recruitment	**10,136**	921
Travel	**8,022**	8,956
Training	**1,545**	15,092
	67,460	47,544

17 Contingencies

The Commission has a pending legal claim no. AXAHCV 2017/0056 filed by Stafford Corporate Services Ltd in relation to penalties levied by the Commission to the claimant. A decision in this matter was delivered on December 18, 2019. The matter was resolved in favor of the Commission. To date, no appeal has been held in the matter. The Commission however does not believe that such litigation will have a material effect on its financial statements.