

MEMORANDUM

To: Darren K. Indyke
Cecile deJongh
Jeanne Brennan

From: Erika A. Kellerhals

Re: IBE Reporting

Date: October 7, 2015

Re: International Banking Entity Record Keeping and Reporting Requirements

To comply with the Rules and Regulations of the International Banking Center Regulatory Act (the "Rules and Regulations"), all International Banking Entities ("IBEs") in the U.S. Virgin Islands must submit quarterly and annual reports to the Director of Banking and Insurance of the Office of the Lieutenant Governor of the U.S. Virgin Islands (the "Director"). To assist you with this process, we have prepared guidelines for the proper record keeping and reporting practices according to the Rules and Regulations as set forth in the V.I. Code (the "Code") and included a chart of deadlines that you need to comply with.

A. Keeping Records

- **Books & Records Requirements**

The Rules and Regulations require that each IBE keep accounts and records of **all** transactions that it completes in its normal course of operations. The original accounting books and records should be kept in the IBE's place of business in the U.S. Virgin Islands, and should include a balance sheet, income statement, statement of cash flow, and statement of changes in capital. All entries must be written in ink, typewritten, electronically typed then printed, or printed in some other legible form. The IBE's accounting books and records must be the IBE's alone, separate from those of any other person, **including** the person of which the IBE is a unit or subsidiary.

- **Investor Accounts**

Records of investor accounts must include at minimum the account number and the name, physical address, mailing address, and occupation of any investors. Records of lending transactions and other extensions of credit must include this same information for the debtor as well as:

1. All original documents (e.g. any note, security agreement, or guaranty);
2. Photocopies or electronic copies of all documents;
3. A statement of the proposed use of the loaned funds;
4. The terms and conditions of the loan; and
5. Any credit analysis upon which the IBE relied when making the loan.

It is important to keep track of these records as the Director may inspect and examine the operations of the IBE at any time. All records, in addition to the working documents of external auditors, must be available for examination for **at least five (5) years** after the end of the fiscal year in which the records were made.

B. Reporting Requirements

- **Quarterly Reports**

Within thirty (30) days after the close of each quarter, each IBE must submit to the Director a report of its conditions and results of operations (including its balance sheet, income statement, statement of cash flow, and statement of changes in capital) as of the last day of the quarter in question. The report must be executed by the chief financial officer of the IBE.

- **Annual Submission of Financials**

Within ninety (90) days after the end of the IBE's fiscal year, each IBE must submit to the Director its annual financial statements along with a report of condition, which must include a list of activities in which the IBE is engaged (to ensure that the IBE's activities are all permissible) and contact information for each resident employee (to ensure that the IBE is meeting employment requirements). A statement executed by the CEO of the IBE should be included stating that the IBE is in compliance with the Rules and Regulations. From time to time based on the Director's discretion, a Form may be circulated by means of a Circular Letter for the purpose of confirming that each IBE is complying with the Rules and Regulations; this Form should also be submitted along with these documents.

- **Annual Compliance Report**

Additionally, Beneficiaries must file an Annual Compliance Report each year with the Director on the annual compliance date¹, consisting of the following:

1. Copies of all Employer's Quarterly Wage and Contribution Reports for the calendar year;
2. The International Banking Entity Affidavit of Residency Form, with employee listing attached;
3. An Annual Report (details below);
4. Copies of the Annual Franchise Tax Report, the Report on Stockholders of Tax Exempt Companies, and any supporting financial documents (as filed with the Office of the Lieutenant Governor); and
5. A copy of a Certificate of Good Standing or Certificate of Existence from the Office of the Lieutenant Governor (may be submitted after the annual filing but before July 30th of the next year).

The Annual Report must be accompanied by a copy of the Beneficiary's Financial Statement or Income Tax Return, be signed and sworn before a registered and validly commissioned Notary Public, and achieve the following:

1. State the "Covered Year" (the fiscal/calendar year covered by the Report).

¹ We have requested confirmation from Glendina Matthews, Esq., Assistant Director & Legal Counsel for the Division of Banking & Insurance as to Southern Country International's compliance date.

2. Certify that the person signing the Report is the duly authorized agent of the Beneficiary and has personal knowledge of the matters set forth within the Report.
3. Certify that the Report is binding on the Beneficiary.
4. Certify that the IBE has:
 - a. established policies, procedures, and internal controls to prevent money laundering, a.k.a. an Anti-Money Laundering (AML) Plan;
 - b. provided a mechanism for independent testing of the Plan (list dates of testing);
 - c. designated an AML compliance officer/company (enclose name of officer/company and an affidavit from the officer/company asserting their responsibilities);
 - d. provided ongoing training to necessary personnel regarding the AML Plan (list the personnel and training dates, and enclose copies of any training material); and
 - e. implemented a source of funds due diligence procedure for investor funds.
5. List all employees who worked for the IBE during the Covered Year (excluding persons directly or indirectly owning 5% or more of the IBE's ownership interests), making sure to include:
 - a. each employee's dates of service;
 - b. whether each employee is/was a full-time (32 or more hours per week) or part-time employee;
 - c. whether the employee also worked in any capacity for an affiliated company; and
 - d. whether the employee currently is, and was on his/her date of hire, a resident of the U.S. Virgin Islands.
6. Provide a schedule listing the IBE's total payroll-cost of all employees (excluding persons directly or indirectly owning 5% or more of the IBE's ownership interests) for each calendar month during the Covered Year and the number of employees employed for that month included within such total payroll amount.
7. List a projection of the IBE's employment needs for the twelve (12) months following the Covered Year, including:
 - a. the number and types of jobs expected to become available;
 - b. the related skill requirements for those jobs.
8. Certify that the IBE advertised all employee vacancies during the Covered Year with the V.I. Department of Labor.
9. Certify that, during the Covered Year, no Approved Owner had (except for in connection with minor traffic infractions):
 - a. been arrested or charged with any crime or offense in any jurisdiction;
 - b. been indicted, pled guilty, or pled no contest in any criminal proceeding;
 - c. been the subject of an investigation conducted by any governmental agency/organization, court, commission, committee, grand jury, or investigatory body (to the best of the Approved Owner's knowledge); or
 - d. committed, conspired to commit, aided in the commission of, or compounded any crime.
 - e. If an Approved Owner has been arrested, charged, indicted, or subject to any of the above, describe and attach details of such in a schedule to the report.

Prior to the deadline for submission of reports, the Beneficiary may submit a petition to the Director or his designee for an extension of time; extensions will be granted on a case-by-case basis. Failure to submit the

Annual Compliance Report by the compliance deadline (or by the extended deadline if an extension is granted) will result in a fine of \$5,000.

Finally, the following must be reported in writing immediately:

1. Any significant change regarding the solvency of the IBE;
2. Any change in ownership, direct or indirect, of more than ten percent (10%) of the voting stock of the corporation;
3. Any change in ownership, direct or indirect, of voting stock of the corporation that results in change of control; and
4. Any forms or reports requested by the Director.

Report	Due Date
Quarterly Report	4/30, 7/30, 10/30, 01/30
Annual Financials	3/30
Annual Compliance Report	TBD*