

REPORT OF THE VERIFICATION COMMISSION

JUNE 2017

ATHENS, GREECE

The Verification Commission met for three days during 12-14 July 2017 at the office of FIDE's Secretariat. Present were Chairman Graham Boxall, Secretary Margaret Murphy and Member Tshepo Sitale. The Commission had access to the FIDE Treasurer and staff throughout the time of its presence in Athens.

Audit Report

As required by FIDE's statutes, we reviewed the external audit report of Ernest & Young Limited dated 16 June 2017 and were pleased to note its conclusion that, in its opinion, the financial statements for the calendar year 2016 comply with Swiss Law and the provisions of FIDE's own Financial Regulations. With that in mind we proceeded to carry out our own verification exercise as required by the FIDE statutes and in this report we set out for the members the matters we believe to be particularly worthy of mention following that exercise.

General

The good news is that in the year 2016 FIDE's assets increased by 817,602 Euros from the parlous sum of 332,343 Euros to a more reassuring 1,149,945 Euros. The moderating news is that those figures were achieved in a year when FIDE held both Olympiad and World Championship events. The not-so-good news is that the results were achieved at some cost to the goodwill of certain FIDE Commissions who may have found the imposition of austerity measures difficult to manage. Our overall view is that the predicament in which FIDE found itself by the end of 2015 made the taking of swift and radical measures essential and we have no hesitation in commending the Treasurer for taking the difficult and, obviously, unpopular remedial steps to deal with it. The objectives he will now have in mind are, eventually, to restore the position where FIDE has a sufficient sum in assets and reserves to cope with the substantial, and not always foreseeable, variations in expenses in running its operations, to reduce to more routine levels the time and cost expended on his own duties as Treasurer, and to reinstate the resources available to Commissions for the invaluable work they do for FIDE's benefit, mainly as volunteers. But we have a little while to go before that can happen.

Agon

On 20 February 2012 FIDE signed an agreement with Agon Limited assigning to Agon the right to promote and organise high profile competitions including the World Chess Championship, the World Cup, World Chess Challenger Competitions and six Grand Prix competitions. FIDE is entitled to receive, among other things, twenty per cent of the prize money for such events and, now, an annual minimum sum of 500,000 Euros by way of 'royalties'. By the end of our year of account Agon had, for one reason or another, failed to comply with some of its obligations in those respects. It had done so in relation to the 500,000 Euros due for 2016*. This default, notwithstanding that it is not brought into account in the financial statements examined by us, is of concern. Had it not occurred, the Treasurer's task, and the difficulties of some Commissions, might have been greatly alleviated. In addition it had failed to pay FIDE a sum of 145,266.27 Euros due from the World Chess Championship held in New York during the year. And we heard evidence of late payment on some occasions by Agon to prize-winners. Difficulties like that cause unrest among the players and adverse reputational repercussions for FIDE. We therefore recommend that unless all financial obligations under the agreement have been complied with by Agon, and cleared funds received by FIDE, by 31 December 2017, FIDE should actively explore all possible alternative options with a view to securing the reliable and timely exploitation of the valuable rights dealt with in it. Agon should be given urgent notice to that effect.

* We understand that the Presidential Board has since agreed that this sum should be paid in annual instalments of 100,000 Euros over each of the ensuing five years.

Debtor Federations

The figure (55,007 Euros) for bad debts under this heading slightly increased during the year. It involves a few stubborn member Federations in particular. We were somewhat at a loss to understand why FIDE appears to be reluctant to implement the powers it has under clauses 6.1 and 6.2 of its Financial Regulations to successively a) withhold services and b) suspend membership, depending on the length of default.

Other Debtors

The two largest debtors under this heading were of course Agon, whom we have mentioned above, and the President, whose debt amounted to 240,463.09 Euros*. We have touched on

the latter in previous reports, and have not changed our view of the importance of getting the money in for the smooth running of FIDE's finances and cash flow. There are two other much smaller but nevertheless sizeable debts of 12,000 Euros and 15,830.22 Euros respectively. These sums are due for repayment by the African Chess Federation because they were money paid out by FIDE for a purpose which it transpired was not needed. The presence of those debts persuades us to recommend that no FIDE funds due to a Federation should be paid to an individual's account. And if a Federation does not have a bank account, then FIDE should make use of the services of the relevant country's representative sporting body.

* We understand that this debt was subsequently paid on 31 March 2017.

Income

The 880,190 Euros increase in income from 2,030,703 Euros in 2015 to 2,910,893 Euros in 2016 was of course very welcome news. It is true that the Treasurer in any event had budgeted for a substantial 700,000 Euros increase (due to the Olympiad and World Championship Matches) but nevertheless the surplus, due principally to the excellent financial results of the Women's Grand Prix and the Women's World Championship, was a bonus.

Write-Offs

We were disappointed this year to see that it had been necessary to write off a debt due by the African Continental President. On this matter we would merely say that, even though the debt has to be written off for accounting purposes, writing it off in the accounts should not prevent FIDE from pursuing recovery if and when the opportunity presents itself.

Legal Costs

Legal costs are well down, from 187,883 Euros to 73,533 Euros. But given the potential for differences of opinion and consequent disputes which is inherent in the enormous variety of FIDE's activities, we are not confident that there is much scope for further reduction in that figure. Perhaps therefore the Treasurer might consider a modest increase in the amount budgeted in future, notwithstanding his laudable optimism.

Presidential Advisers

We touched on the subject of Presidential Advisers in last year's report in the context of the need for FIDE to ensure that it gets value for the money needed for its core services. It was drawn to our attention that on 6 December 2015 the President's official functions were fully transferred to the Deputy President with effect from that date. We therefore had occasion to query again the value to FIDE of money expended on Presidential Advisers in the period of the President's temporary, we hope, cessation of duty from that date until reinstatement.

Guidelines

During our examination of costs and items of expenditure we were keen to hear from the Treasurer on the approach he takes to standardising, if possible, items both of routine and of repeating one-off (forgive the oxymoron) expenditure. It seemed to us to be important to be able to reduce as far as possible cases where the Treasurer is left in a position to exercise discretion in unclear circumstances. This might apply to, for example, flight expenses, accommodation, daily subsistence, rates payable for servicing events such as the Olympiad, and so on. The Treasurer indicated to us that he would welcome the establishment of guidelines to be followed by FIDE on such matters. He indicated that it might also profitably include guidance on the scope of his own authority regarding the control of expenditure by Commissions. Expenditure by Commissions is the area where, when necessary, savings are able to be made but where there is also an argument for applying as little interference as possible in the valuable work they do. We recommend that this matter be examined and explored further. We believe it is a task that could well be undertaken by the Central Board Commission, whose purview extends to most if not all those persons and entities who might be interested in or affected by the matter, in consultation with the Treasurer himself.

We offer our sincere thanks to the Secretariat staff for all their help. They should feel free to blame us for our disturbance of office routine and the substantial increase in printing costs resulting from provision of all the material made available to us.



Chairman, July 2017