

REPORT OF THE VERIFICATION COMMISSION --- JULY 2018

ATHENS, GREECE

The Verification Commission met during 18-20 July 2018 at the Royal Olympic Hotel in Athens. Present were Chairman Graham Boxall, Secretary Margaret Murphy, and Member Tshepo Sitale. In attendance during the meetings were David Jarrett (standing in for the Executive Director) and, from time to time, Eva Perissiou from the Secretariat's accounting staff.

AUDIT REPORT

We received the external audit report of Ernst & Young Limited dated 28 June 2018 and noted that, in its opinion, FIDE's financial statements for the year ended 31 December 2017 complied with Swiss Law and FIDE Handbook Financial Regulations. Our own Verification role was performed in the context of that external audit report.

THE RESULTS

Members will be pleased to see that the trend for recovery from FIDE's difficult financial predicament at the end of 2015 has continued. During 2017, the year of our review, FIDE's income exceeded its expenditure by the sum of 463,697 euros so that its reserves at the end of the year increased from 1,149,945 euros to 1,613,642 euros. That last figure is not quite enough to satisfy the Treasurer's requirement for a safety-cushion of reserves, (so we would understand his wishing to continue with his policy of applying a measure of austerity to FIDE's expenditure for the time being), but at least the year's positive results can be said to give him a little more room for manoeuvre. In support of this somewhat cautionary note, we should point out that much of the improvement is attributable to the success of a single event namely the World Rapid and Blitz Championship held in Saudi Arabia which netted a surplus of 281,073 euros more than budgeted. But we can also point to the very substantial contribution made by the various Commissions of FIDE whose overall expenditure was down by almost 200,000 euros from the previous year.

AGON

Once again, expectations of contribution of value by Agon Limited, via its operating arm of World Chess Events Limited, have been dashed. The accounts show that while FIDE anticipated receiving 525,000 euros from Agon in 2017 it actually only received 39,000 euros. As you may imagine, we were keen to learn and understand why this should be. During our meeting, we examined an agreement document dated 12 October 2017 made between World Chess Events Limited and FIDE the substance and effect of which was to reschedule and defer nearly all of the sums payable during our year of review. The result is that, instead of being paid in 2017, the sums expected become receivable (subject to permitted

withholdings) in instalments during the ensuing five years. By way of explanation for this disappointing turn of events, the document referred to difficulties encountered by Agon Limited because of the financial sanctions imposed on FIDE's President which apparently deprived World Chess Events Limited of sponsorship opportunities. So the saga of 'jam tomorrow' continues. But if and when the Agon contract is regularly performed, FIDE's financial position will be transformed.

DEBTOR FEDERATIONS

The figure relating to Federations owing FIDE money (839,211 euros) looks more alarming than it is in reality, because much of what is due is normally collected in the first three months of the following year. Nevertheless there has been a small but steady increase in the number and amount of stubborn entries under this heading. In number they consist mainly of Federations classed in levels 4 and 5 of the Development Commission's Development List, but in amount they consist largely of a few level 1 and 2 Federations. For the level 4 and 5 Federations, in the absence of other and better solutions, we would recommend exploring the possibility of provision of assistance out of the funds allocated for Development. In the case of the defaulting level 1 and 2 Federations we recommend that the next incoming Verification Commission enquire and seek to understand more clearly the reasons why such Federations are experiencing difficulty in meeting their obligations. In any event we recommend that FIDE's new administration should look again at, and bring up-to-date, the matter of membership fees since that exercise has not taken place since 2004.

OTHER DEBTORS

We were very pleased to see that there had been a reduction in outstanding debts from a figure of 431,334 at the end of 2016 to 91,581 by the end of 2017.

PRESIDENTIAL ADVISERS

Without needing or wishing to keep going on about this topic, perhaps we may be permitted briefly to add to the comments we have made in previous reports: we recommend that all persons receiving regular payments from FIDE should be prepared to sign something by way of a written memorandum recording and describing the nature of their responsibilities and the activity they are expected to undertake.

LEGAL COSTS

The money spent on lawyers during the year was again disappointingly high. In addition to several routine matters, the figure was inflated by the costs of the decennial renewal of FIDE's logo and trademarks around the world and by the costs of the dispute with the President on the subject, among other things, of the purported revocation by him of the delegation of his powers. That is not to say that, having resolved that dispute, there will be a reduction in legal costs in the future. That is because one-off and exceptional legal issues seem to arise on a continuing basis. For that reason, we anticipate that

the Treasurer may wish to propose a further increase in the amount budgeted for legal costs in subsequent years.

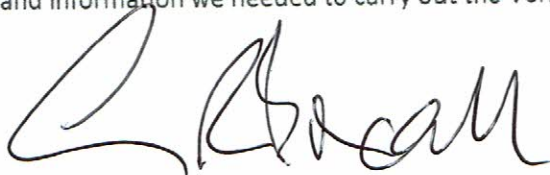
SWISS TAX

The figure of 64,694 euros representing FIDE's liability to tax during the year may come as something of a surprise. Although FIDE is aware that it may be subject to some tax in Switzerland, it was not certain that, as a not-for-profit organization, it would be liable to pay a profits tax to the extent suggested by the auditors. Moreover the Treasurer did not anticipate that FIDE would be in receipt of the higher sums generated by the World Cup and World Rapid and Blitz Championship events during the year. Hence the variance between the budgeted figure and the amount provided for in the 'actual' column in the accounts. However the question relating to FIDE's liability to taxation remains somewhat uncertain, and further clarification is expected in due course.

GUIDELINES

In our last report we recommended the provision to the Treasurer of guidelines to assist him in standardising items of routine expenditure by persons incurring out-of-pocket expenses in working on matters on FIDE's behalf. As at the date of this report no progress appears to have been made on that. We continue to believe it is a matter of some importance.

Our thanks go to the staff in the Secretariat for all their work and assistance in supplying the materials and information we needed to carry out the Verification exercise.

A handwritten signature in black ink, appearing to read 'Graham Boxall', written in a cursive style.

Graham Boxall, Chairman, July 2018