

REPORT OF THE VERIFICATION COMMISSION - JUNE 2012

The Verification Commission met in Athens from June 22-24 2012. Present were Chairman Graham Boxall, Joran (JJ) Aulin-Jansson and Ruth Haring.

Audit Report

This year's audit report approved the 2011 financial statements and Messrs. Ernst & Young confirmed that they complied with Swiss law and FIDE's own Financial Regulations.

Income and Expenditure

The Commission reviewed FIDE's recording of its income and expenditure and found that it continues to operate satisfactorily. In conducting its review the Commission received complete cooperation and detailed explanations when requested from the staff in the Secretariat in Athens.

Miscellaneous

1. Zaragoza – The Commission was pleased to note the receipt of 160,247 euros which are the proceeds of the sale of a one fifth share of Spanish real estate bequeathed to FIDE. The Commission further noted that the auditors considered it appropriate to record the item as an income receipt in the accounts.
2. Securities – FIDE has a holding of securities in the custody of UBS. The Commission recommends that the income (currently around 20,000 euros) receivable from those securities should appear as a separate income item in the accounts.
3. Chess in Schools expenditure – The Commission noted an entry of a sum appearing as a debt due by the President of FIDE. The sum represents the aggregate paid by FIDE during the year of sums for which the President assumed responsibility pending arrangements to fund expenditure in excess of that agreed by the Presidential Board for the Chess in the Schools project. Because of the potential interest that such an item might raise in the minds of FIDE members the Commission recommends that a note explaining the background to the item should be provided in the FIDE accounts.¹

Moscow Office

It was agreed during the year that FIDE would enter into an agreement of lease for its accommodation in Moscow. The Commission noted that the final consequences of that commitment do not however appear in the accounts. The Commission has been told that the reason is that responsibility for the lease has been assumed by a third party. The only item in the accounts which can be associated with that transaction is a sum of 17,210 euros shown as being owed by FIDE to Chess Lane. The Commission understands that the item has been

¹ The sum has been repaid in the year following that covered by this report.

discussed with the auditors. The Commission recommends that, notwithstanding the fact that the Auditors are content with the current presentation, arrangements should be made in the future so that FIDE members have the benefit of being able to see and understand the arrangement.

Contracts

The Commission's attention was drawn to a slight increase in legal fees incurred by FIDE in consulting its legal advisers prior to entering commitments incurred during the year. The Commission saw that development as a positive one given the continuing increase in the volume and complexity of FIDE activities, many of which have cross-border ramifications.

In the Committee's judgment, uncertainty continues to surround the liabilities of Chess Network Company (CNC) under the contract dated June 2010 between Chess Lane and FIDE and the related Project Business Plan signed on 8 July 2010, as to whether any of such liabilities are discharged by, or indeed in any way related to, payments made for the Moscow office. That is because a separate Donation Agreement between Chess Lane and FIDE dated 1 April 2011, whereby Chess Lane agreed to pay FIDE 300,000 USD, appears to relate only to FIDE's use of the Moscow office and says nothing about discharging Chess Lane's commitment to make payments totalling 1,000,000 USD under the above-mentioned Project Business Plan.

Olympiad

Rules 15.2 and 16.1 of Section A3 of the FIDE Handbook are specific about payments or guarantees that an organizing federation has to provide. Last year the Commission drew attention to a deficiency in that respect regarding the Istanbul Olympiad. The reasons for the deficiency at that time were thought to be partly beyond the organizer's control. We are surprised however to see that even by the end of 2011 a formal Olympiad contract between FIDE and the Turkish Chess Federation had not been signed.² Moreover, of the total of the 1,010,000 euros due to be paid either by guarantee or deposit by the end of 2011, only the 410,000 had in fact been paid, giving rise, technically, to draconian forfeiture provisions under rule 16.3. But it is of course by no means the first time that the regulatory provisions have not been strictly complied with and it appears that FIDE has worked closely with the organizer to overcome difficulties and to ensure a successful outcome. We recommend that consideration be given to whether, and if so how, bank guarantee and deposit liabilities such as these should be reflected in FIDE's accounts.

The Commission points out that member Joran Aulin-Jansson took no part in the consideration of this particular matter.

Other High-profile Events

² The contract was signed in April 2012.

The Commission noted that issues of failure to honour financial commitments also apply in relation both to the Rostov Women's Grand Prix (60,000 euros) and to the Tirana Women's World Championship (120,000 euros). The Commission recommends that FIDE apply a more rigorous "credit-control" policy to the collection of moneys due in respect of the award of events and urgently review the use of sanctions available to it in the case of those who default.

Legal Costs

The Commission noted that further substantial costs in the total sum of 409,341 euros have been incurred and paid in relation to contentious legal proceedings during 2011. The budget for all legal costs, both routine and otherwise, was 120,000 for the year in question. And so for the second year running substantial sums have been diverted away from FIDE's core activities. The Commission has examined the relevant invoices and is satisfied that they are properly payable in the sums claimed. But it is also clear that any time and resources spent on avoiding, or at least mitigating, the possibility of such enormous costs continuing or recurring would deserve support. We strongly recommend that all possible steps be explored and taken before committing FIDE to hostile litigation.

Treasurer/Executive Director

The Commission wishes to record that during the year the then Executive Director retired but, at the request of FIDE, continues in a role devoted to special projects on FIDE's behalf. His position as Executive Director was taken by the incumbent Treasurer. Legal advice was taken on the matter of the combination of the roles of Treasurer and Executive Director in the same person and the advice concluded that no conflict of interest arose in consequence.

Travel Expenses

For the first time, the travel and accommodation costs of the President are charged as an expense in the accounts. The figure for his and his assistant's travel in the year amounted to 247,634.94 euros. That sum is approximately one seventh of the year's total income and the expense will have to be carefully factored into FIDE's plans going forward.

General

The income and expenditure deficit for the year in the sum of 512,579 euros is of course something upon which the Treasurer will comment for the benefit of the General Assembly in due course.