



Verification Commission

FIDE 2022 Financial Statements

VER Report to the 2023 General Assembly

The Verification Commission met via Zoom with the Ernst and Young auditors prior to the start of the audit. All members were present.

The Commission met in Lausanne Switzerland at FIDE headquarters 25-26 August 2023. All commission members were present in person- Chair Lakhdar Mazouz, Margaret Murphy, Rajai Alsusi, Panu Laine, and Secretary Allen Priest. (Referred to as VER) Present in person from FIDE was Alexander Volzhin and Zhu Chen (referred to as Fide Team). Also joining the meeting on 26 August via zoom to discuss the Development Commission were Dana Reizniece-Ozola and PDC chair Freyd Laurent.

1 - PRE-AUDIT ZOOM MEETING

The Commission met with the Ernst and Young auditors (referred to as EY) prior to the start of the audit via Zoom. The Commission members were able to ask the EY questions and emphasize areas of concern for EY. Areas of concern included any possible asset impairment related to issues with Russia and any problems with contract revenue recognition related to Russian sponsorships. We also asked them to verify any remaining issues related to FIDE subsidiaries. The Commission discussed the changes in the EY audit team. Only the partner in charge of the engagement remains the same. Once again, all other EY team members are different. The Commission strongly expressed the need to have the work completed far earlier than in prior years so the Commission would have time to finish its work before the General Assembly. The Partner-in-charge assured the VER that EY would complete their work and issue reports on time this year.

2 - INTERIM PERIOD

Before the Commission received the EY external audit report, we received from the FIDE the internal accounting records. These are spreadsheet-based reports from the FIDE accounting system listing the transactions by account. The Commission reviewed these reports and conducted a Zoom meeting to develop a list of comments and questions for the FIDE team in advance of our meeting in Switzerland. We received the final EY audit reports just before our meeting in Switzerland.

3 – AUGUST LUASANNE MEETING

To open our meeting the FIDE team reviewed the financial results for 2022. We reviewed the various reports from EY. These included the final report on the audited financial statements and the comprehensive report as required under Swiss law.

Our 2021 report detailed issues with the Special Purpose Vehicle created solely to manage the contracts and finances of the 2021/2022 tournament cycle planned for Russia. FIDE had full operational control over the SPV and is exposed to profits and losses of the SPV. As we noted last year, the end the SPV only ran the 2021 World Cup due to changes in the FIDE calendar. The SPV was necessary to obtain Russian financial support under Russian law. The financial results of the SPV were closed out in 2022 with the resolution of obligations and sponsorships for the 2022 Olympiad planned for Russia that was moved to India. The SPV financial results are not consolidated with the FIDE financial statements in accordance with Swiss statutory accounting rules, but the net result of the SPV operations is reflected in the FIDE accounting records. The 2022 financial statements do not close out the SPV. The final entries will be part of the 2023 financial statements.

The Commission noted there is still a receivable on the FIDE balance sheet from 2021 for a tax refund due from the Russian government. We asked about the collectability of that refund given the current situation. The FIDE team indicated the refund is from a 2020 sponsorship contract that required the payment of a value-added tax to Russia. It should be refundable but there is no timeline as to when the government might make the refund. The reverse of 50% has been set up based on a regular FIDE policy to account for the possibility the refund may not be received.

The Commission also asked about a project to collect a refund of taxes previously paid to Switzerland. These taxes were paid before FIDE received its tax-exempt status, but the accountants informed us last year the taxes should be refundable. The FIDE Team told us the project to request the refunds was completed and all refunds were received in 2023.

We noted FIDE has established a wholly owned subsidiary that is a for-profit entity. The subsidiary is a holding company formed to allow for joint ventures with other entities. These activities would not be allowed under the non-profit status of FIDE. The subsidiary will be subject to income tax and can remit the remaining income to FIDE. WE asked about the plans to audit this subsidiary. The activity of the subsidiary cannot be consolidated into the FIDE financial statements under Swiss law. The Commission believes the subsidiary should be subject to audit and separate financial statements should be prepared and submitted to the General Assembly in the interest of transparency.

The Commission asked about exposure to Russian banks. The FIDE team told us the SPV loan was repaid in rubles which are being retained in the FIDE Russian bank accounts to pay Russian expenses. Other FIDE banks will not transfer money into Russia due to international sanctions. According to the FIDE team, FIDE has enough rubles to satisfy expected Russian expenses through the second quarter of 2024. After than other arrangements will be needed to fund costs for FIDE's Russian team members. FIDE does not appear to have much other exposure to Russian banks and international payment restrictions.

The Commission asked about the royalty income footnote. The FIDE team explained the royalty income is related to a contract for a Non-Fungible Token (NFT) arrangement. The contract expires in early 2024. The original licensor defaulted on the arrangement and FIDE sued the Russian guarantor of the contract. Pursuant to the settlement of the lawsuit, the guarantor is making payments in rubles. This will provide some money to fund Russian operations. The FIDE team does not expect this contract to be renewed.

The Commission also asked about payment arrangements with World Chess/Agon. World Chess/Agon still holds a contract to pay FIDE for rights to the FIDE Arena online platform. Payments under that contract are being offset against the obligations FIDE has to World Chess/Agon for the return of the rights. In other words, rather than make payment to World Chess/Agon, FIDE is applying amounts owed to them against the amounts they owe FIDE for the Online Arena contract.

The Commission noted the significant new expenditure for the veterans' program and asked about the management and benefit limits of this program. The FIDE team responded the program is managed through the global strategy commission with oversight from Director General Sutovsky and President Dvorkovich. There are two application periods per year and the usual benefit is a one-time 2500 Euro payment.

The Commission noted the payment of employee bonuses. Last year the Commission recommended the establishment of a formal bonus plan with written goals and a budget for potential payments. The FIDE team indicated that proposal has been implemented. However, some 2022 bonus payments for tournament sponsorships were made before the new bonus structure was adopted. Under the new plan there are both discretionary and nondiscretionary bonuses. The nondiscretionary bonuses are mainly commissions related to marketing activities that generate sponsorships and other financial support for FIDE count. The FIDE team noted that in 2023 bonuses paid for generating funding for the world championship match were approved by the entire FIDE Council rather than being the decision of any single individual.

The Commission noted the allocation of support for various national federations. Chairman Mazouz expressed specific concerns about the allocation of National Federations and Continents. He noted there were similar amounts allocated to National Federations representing much more developed countries and territories with very high revenue per capita, as to those Federations from countries that are economically very weak. Also, he noted allocations to Continents do not appear to be influenced by the economic development level on those Continents. The FIDE team arranged a Zoom meeting with representatives of the Development Commission to discuss their grant guidelines. This is a topic of discussion for the Development Commission.

The Commission noted the auditor was still concerned about the provision of receipts before reimbursement and for the proper documentation of contract changes. There were some issues with contract changes for the India Olympiad that appear to be related to the short time frame for organizing the event. The FIDE team acknowledged the need to be more diligent in obtaining proper receipt in all cases.

The auditor mentioned ongoing issues with the access controls and audit trail in the current accounting systems. This is a problem the Commission has noted for several years, and the FIDE team is implementing the change in accounting systems during 2023. The move to QuickBooks was largely complete at the time of the Commission meeting, although there was still history in the old system which needed to be retained. The starting date in QuickBooks is the 31 December 2022 balance sheet. The 2023 financial reporting will all come from QuickBooks.

The Commission asked who has FIDE bank cards and the limits on each card. The FIDE team answered that question to our satisfaction.

The Commission noted internal legal costs have increased significantly. The FIDE team pointed out external legal costs have decreased as more of the work is being done with FIDE Staff.

We discussed with the FIDE team the changes in FIDE income. In 2022 general sponsorships declined sharply, from 2 750 000 in 2021 to just 144 676. However, since FIDE is now directly organizing events,

sponsorship income is mostly associated with specific events rather than general donations to FIDE. The FIDE team indicated they are opening a development office in China to explore sponsorship opportunities in that region of the world. That had no impact on the 2022 financial statements but is one reason for the increase in the budgeted sponsorship revenue for 2023.

4 – COMMISSION MEETING PRIOR TO THE GENERAL ASSEMBLY MEETING

The Commission met online on 12 December 2023. Commission members present were Chair Lakhdar Mazouz, Margaret Murphy, Panu Laine, and Secretary Allen Priest. Others registered to attend were FIDE Treasurer Zhu Chen, FIDE Financial advisor Alexander Volzhin, Ruben Pinto Baltazar, Vicente Diez Cabeza, Elena Polovina, Jamie Kenmure, Allan Herbert, Merquiades Quintana Mesoner, Ali Nihat Yazici, Kevin Bonham, Patrick Van Hoolandt, Ronald Zarza Pelissier, and Mohammad Alhallak. Mr. Mazouz opened the meeting with a general statement, then Secretary Priest reviewed the Commission report, the FIDE response to the 2021 VER recommendations, and the 2022 VER recommendations. There was some general discussion of various recommendations with some emphasis on 2023 recommendation 5. The discussion did not create any changes in the VER report.

5 - COMMISSION REVIEW OF AUDIT REPORT

The date of the auditor's opinion is 14 June 2023. The timing of the report was sufficient to allow the VER to complete its work on time. This is an improvement that was promised by the EY partner in charge during our pre-audit meeting and we were pleased to see them meet their own deadlines.

E&Y issued an unqualified opinion. That is often called a "clean opinion" and is what you want the auditors to find. It means they found no uncorrected material errors. This does not mean the financial statements are perfect, it just means there are no material errors. The opinion states the financial statements comply with Swiss law and the FIDE articles of association.

The financial statements received from EY did not match the first set of internal statements the VER received from the FIDE team. This was because the FIDE team provided a preliminary statement before all audit adjustments had been proposed and agreed to. Subsequently the FIDE Team provided the Commission with internal statements that did match the EY report. We were able to trace the changes to the adjustments provided to the Commission in the EY Comprehensive Report without exception.

As noted, the Commission also received the Comprehensive Report of the auditor. This is the Swiss equivalent to a management letter. That report noted there were no uncorrected misstatements in the 2022 financial statements. That means any material items noted by the auditor were adjusted before the financial statements were finalized. The report did list the adjustments that the auditor proposed for misstatements they noted. Most of these items related to reclassification of certain items between event and general expense accounts. These changes had no impact on the bottom line for the year. The items that did change the bottom line were primarily the deferral of sponsorship revenue from 2022 to later years based on either the postponement of the underlying event, or a different reading of the FIDE obligations to the event sponsor.

The comprehensive report also notes the Special Purpose Vehicle (SPV) mentioned above. The initial internal statements reflected all activity related to the SPV as being finalized in 2022. The auditors noted all transactions were not finalized until 2023, and proposed entries to move transactions FIDE had recorded in 2022 into 2023. This was the largest adjustment which reduced the 2022 bottom line.

The report again made special mention of issues with the FIDE accounting system. These are not new issues. The FIDE team indicated last year that they had decided the most cost-effective way to improve controls was to change systems, rather than spend money to try to improve the old custom programmed

system. The transition to the new system took time to plan and implement. As noted above the transition to QuickBooks occurred 31 December 2022. The controls built into QuickBooks should resolve many, though not all, of the auditors' concerns. There are user side controls that FIDE is adopting as part of the implementation of QuickBooks. The user side controls are critical to insuring proper internal control is maintained over the accounting system. FIDE will need to be sure the user controls are maintained.

The auditors noted again this year they selected a sample of credit card expenditures and several lacked formal expense approval and supporting invoices. This has been a recurring problem, and we mentioned this in our questions with FIDE documented above.

6 - PRIOR YEAR RECOMMENDATIONS AND RESPONSES

The VER reviewed our 2021 recommendations with FIDE staff. The specific recommendations from the VER report on the 2021 financial statements and the FIDE responses are listed below.

Recommendation 1. We continue to recommend the cash flow statement should be prepared on the direct method. While the direct method would take more time to prepare, it would provide more information to the financial statement users.

Response 1. FIDE continues to prepare a cash flow statement, but on the indirect method. The FIDE team indicates they do not believe the additional time and cost to prepare the cash flow statement on the direct method will add value to the readers of the financial statements.

Recommendation 2. The FIDE Charter states the business language of FIDE is English. Therefore, all FIDE accounting documents should be prepared either in English, or as a parallel dual language version. We noted travel documents booked in Russia were only provided in Russian, and we required a translation to be able to determine the purpose of the travel.

Response 2. This recommendation has been implemented.

Recommendation 3. FIDE needs to complete all required Swiss VAT returns and claim the appropriate refunds as soon as possible.

Response 3. This project was completed in 2023.

Recommendation 4. The Commission is still receiving information far later than we are comfortable with. We need information much earlier so that we have time to do our work. The auditor must still be pressed to complete the work in May, and internal documents should be provided to the Commission no later than the end of April.

Response 4. The audit was completed in mid-June.

Recommendation 5. All bonus policies should be publicly available.

Response 5. The new bonus policy was fully implemented for 2023. Some 2022 bonuses were made before the Commission made its recommendation, but 2022 bonuses done later in the year fell under the new policy.

Recommendation 6. Bonuses should be provided for in the FIDE budget. If management wishes to award bonuses more than the budgeted amount, the FIDE Council should approve the increased amount in total.

Response 6. This recommendation was made after the 2022 budget was prepared and approved. Bonuses were included in the 2023 budget.

Recommendation 7. The EY IT internal control study makes it clear that access controls over the accounting system are lacking. Further, the system does not support an audit trail of changes to transactions. As we recommended in prior years, we believe it is time to replace the custom Greek accounting program, which is based in Excel spreadsheets, with a standard program available in the marketplace. Examples of such programs are QuickBooks, Sage Intacct, or Oracle NetSuite. Such an accounting program should employ standard double entry accounting. The number of users who can post transactions to the accounts should be limited. An audit trail of changes to transactions should be inherent in the program. The system should support making financial information widely available both to FIDE management and to member federations and other interested parties. We recommend the implementation of a new system be made a priority with the goal of having a new system operating by the start of the new fiscal year on 1 January 2023.

Response 7. The transition to QuickBooks was made 31 December 2022.

Recommendation 8. With the normal scheduling of the Olympiad and World Championship cycles, FIDE has a two-year operating cycle. FIDE must generate extra income in one year to cover costs in the subsequent year. The planning for and creation of a two-year budget would better fit the operating cycle than the current system of single year budgets. We propose the adoption of a rolling two-year budget process.

Response 8. FIDE is implementing a two-year budget cycle.

7 - CURRENT RECOMMENDATIONS

Recommendation 1. We continue to recommend the cash flow statement should be prepared on the direct method. While the direct method would take more time to prepare, it would provide more information to the financial statement users.

Recommendation 2. The new for-profit FIDE subsidiary needs to be audited in addition to the regular FIDE financial statements. This will require a separate set of financial statements for that subsidiary, and additional time and cost for the auditors. But transparency into these arrangements is critical.

Recommendation 3. Though not permitted for statutory reporting under Swiss law, FIDE should prepare consolidated financial statements with the non-profit subsidiary to reflect the full scope of FIDE operations more accurately. These separate financial statements of each entity should be audited, while we recognize the consolidated statement might not be audited.

Recommendation 4. After the change in accounting systems, the Commission will still need the details of transaction information that we have been receiving. We will need to work with the FIDE team prior to the year end reporting to agree to the format of the data to be provided.

Recommendation 5. The Development Commission and the FIDE Council should consider ameliorating policies so that developing nations can more easily access support from FIDE grant programs. Also, policies for Continental grants should consider the economic development of the National Federations they represent. We recognize that many such nations have not applied for grants for which they are eligible, and we do not recommend that FIDE relax the reporting requirements for grants.

Recommendation 6. Contingency plans need to be developed to consider the need for funding of Russian operations considering international sanctions that limit the transfer of funds. While recognizing the need to pay FIDE team members in Russia, FIDE western banking relationships must be maintained.

Recommendation 7. For the second year the auditors have noted documentation of some expenses is missing. Each expenditure must be supported by proper receipts. These receipts should include the specific FIDE business purpose for which the expenditure is being made. Further, reimbursements for items that are booked through various booking services should include the actual receipt from the service provider, rather than just the receipt from the booking agency to prove that the service was provided. An example is booking.com receipts do not prove the hotel was used for FIDE business. The stay should be documented with the actual hotel receipts as well. FIDE should refuse to make reimbursements unless receipts are provided and should consider restricting the use of credit/debit cards for individuals who struggle with getting receipts submitted.

8 – TRENDS OF FIDE INCOME/EXPENSES

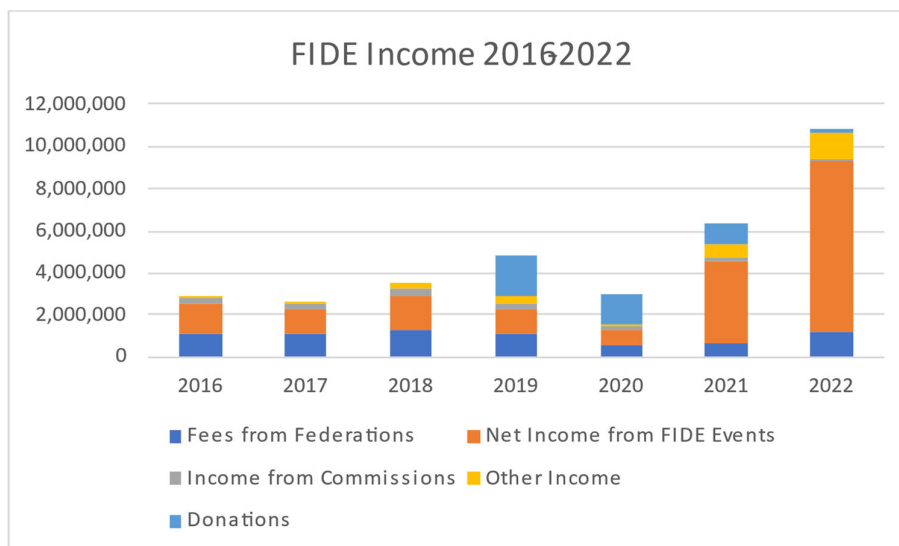
The VER has the following comments on the trend of income/expenses from 2016 to 2022. (All figures are expressed in Euro)

INCOME							
	2016	2017	2018	2019	2020	2021	2022
Fees from Federations	1,098,327	1,112,442	1,295,302	1,123,810	539,025	606,955	1,137,968
Net Income from FIDE Events	1,411,315	1,116,372	1,616,902	1,112,468	757,373	3,999,059	8,155,790
Income from Commissions	309,142	260,582	275,345	275,257	146,824	124,968	132,849
Other Income	92,110	126,345	286,582	340,633	69,946	602,954	1,249,250
Donations	0	0	0	1,981,656	1,469,083	981,545	144,676
	2,910,894	2,615,741	3,474,131	4,833,824	2,982,251	6,315,481	10,820,533
EXPENSES							
	2016	2017	2018	2019	2020	2021	2022
Official's expenses	176,911	247,558	629,186	366,639	73,731	258,068	765,437
Secretariat / Lausanne, Athens	438,706	412,590	469,053	730,781	734,051	1,072,505	1,562,674
Secretariat / Elista, Moscow	233,175	201,220	207,468	270,796	276,127	257,078	115,384
General expenses	565,568	784,270	1,127,392	958,142	845,426	822,508	1,152,137
Commissions & Committees	618,885	422,741	675,971	443,657	277,847	308,245	371,285
Event Expenses	60,046	83,662	376,167	483,256	149,913	256,461	6,921,217
FIDE Development Fund		0	0	1,893,213	818,725	1,240,527	1,839,046
	2,093,291	2,152,041	3,485,237	5,146,484	3,175,820	4,215,392	12,727,180
Balance	817,603	463,700	-11,106	-312,660	-193,569	2,100,089	-1,906,647

- Development funds also existed in the years before. They consisted of funds provided for the Development Commission and Activity rebate. (See financial statements for the years 2016, 2017 and 2018). They amounted respectively to 220 570, 183 393, and 300 040.

- For 2022 development funds increased 48% over the 2021 level. This increase brought the total to about the 2019 level reflecting the post-COVID increase in chess activity in Federations and Zones

8.1 - INCOME



Income consists of:

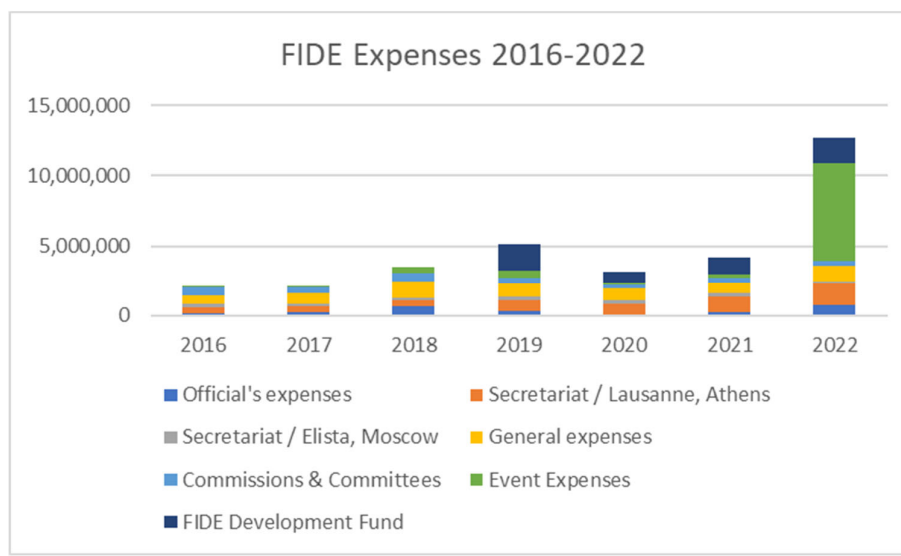
1. **Fees from Federations** - mostly membership fees, entry fees, registered tournaments, change of federation's fees, title fees.
2. **Net Income from FIDE Events** - income from events like World Championship Matches, Candidates, Online events, World Cup etc.
3. **Income from Commissions** - Various seminar and license fees, up to Event Bidding Fees
4. **Other Income** - Various income, e.g., International Olympic Committee, rental of boards, interest from bank, royalties, etc.
5. **Donations** - Donations and sponsorship. Event sponsorships are included in event income.

Over the years the makeup of FIDE income has changed. In 2016, income from Federations, chess events and commissions represented 96.8% of the total. However, in 2021 these items increased more than 3 times over the 2020 totals. These represented 77% of 2021 total income due to the post pandemic increase in chess events and competitions. Chess events grew even larger in 2022 due to the return of the rights to run major events from World Chess/Agon.

Income from donations in 2021 decreased 33% from the 2020 total and decreased again in 2022. This is misleading since these are general contributions and more money was obtained for event sponsorships rather than general contributions.

As we noted last year with the return of the events rights to FIDE, the sponsorship money is likely to continue to be more focused on event sponsorship rather than general donations. But attention should be made toward generating sponsorships for various FIDE programs in addition to events. As we stated in 2020, FIDE should continue to look for new resources to realize its ambitions for sustained worldwide chess activities. No effort should be spared towards this goal.

8.2 - EXPENSES



FIDE expenses consist of:

1. **Official's expenses** - Mostly Official's travel costs, Treasurer expenses, President advisers, council, and congress meetings.
2. **Secretariat costs** - Mainly of secretariat expenses in Lausanne/Athens and Moscow/Elista – (staff salaries & costs), office rent & costs.
3. **General expenses** - Mainly costs related to accountancy, audits, professional services, bank charges, currency conversion, depreciations, press/PR/marketing, taxes.
4. **Commissions & Committees** - Costs of various Commissions and Committees (20 Commissions in total in 2020) mostly for meetings and travel.
5. **Event expenses** - Varies a lot year by year. Includes World Championship matches, Olympiad, World Cup, various team events, electronic boards.
6. **FIDE Development Fund** - Development Fund for the 4 Continental Associations, for National Chess Federations and Social Projects and Reserves.

All item expenses, except Secretariat and general expenses which are basically fixed costs, were affected by the COVID pandemic. In 2020 fewer chess activities meant reduced revenue but also fewer expenses. In 2021 the reverse occurred, and more chess activities meant increased revenue but also increased expenses. As the pandemic eased, expenses increased. Salaries that had been cut in 2020 due to concerns over revenue in the pandemic were restored in 2021.

Compared to 2019, expenses were cut by 38.3 % in 2020. Costs increased in 2021 but did not return to pre-pandemic levels. Costs were pre-pandemic levels or greater in 2022.

The Development Fund has been the most affected expense item. In 2020 Development Fund expenditures decreased from 1 893 213 to 818 725, a decline of 56.7 % as national federations, zones and continents were forced to reduce activities. In 2021 the Development Fund expenditures increased to 1 240 527. This was a 50% increase over 2020, but still about 2/3 of the 2019 total. In 2022 the Development Fund expenditures were 1 839 046 which is about the pre-pandemic level.

Expenses devoted to development represented 36.7% of total expenses in 2019, 25.7% of 2020 expenses, and 29.4% of 2021 expenses. The 2022 percentage is much lower due to the event costs. Excluding event costs development represents as much of the FIDE budget as it did pre-pandemic.

However, note that in 2016, 2017 and 2018, development expenses represented respectively only 10.5%, 8.5% and 8.6% of total costs. This means FIDE has increased efforts for chess development around the world.

The major change for 2022 is the large increase in event expenses since the right to organize major events returned to FIDE. The net event revenue after expenses was 1 234 573.

Note also on 31 December 2022 FIDE had a total of 57 employees and consultants.

Definitions:

Restricted grants – funds provided by an organization to FIDE that stipulates exactly how it will be spent. Unless the funds are spent as stipulated, they must be returned to the grantor.

Sponsorships – funds provided to support a specific FIDE event or program in exchange for publicity before, during and after the event or program.

Donations – funds provided to support FIDE not connected to any specific event with little or no expectation of much publicity or restrictions on the use of the funds.