



Verification Commission

FIDE 2023 Financial Statements

VER Report to the 2024 General Assembly

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

The Commission met in Casablanca Morocco 16-17 May 2024. Commission members present in person were Chair Lakhdar Mazouz, Margaret Murphy, Panu Laine, and Allen Priest. Present in person from FIDE was Financial Advisor Alexander Volzhin. Also joining the meeting on 16 May via Zoom was Treasurer Zhu Chen. Commission member Rajai Alsusi was unable to attend.

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 continued concern from 2022 included any possible asset impairment related to issues with Russia and any problems with contract revenue recognition related to Russian sponsorships. We recognized that most of the Russian sponsorships had been completed. We made sure EY was aware of the new FIDE subsidiary and asked them to verify any issues related to FIDE subsidiaries. The Commission discussed the changes in the EY audit team. The partner in charge of the engagement remains the same as did several team members of the audit. This was in contrast to the last several years when all the audit team changed from one year to the next. 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. We were assured they would complete their work and issue reports on time. They stated this was possible because they had done some preliminary work even before the year ended and already had the field work scheduled.

2 - INTERIM PERIOD

Before the Commission received the EY external audit report, we received from the FIDE the internal accounting records. The change to the QuickBooks accounting program meant the spreadsheet-based reports we received from the former FIDE accounting system listing the transactions by account were no longer being used. We did receive a similar report from the QuickBooks general ledger listing all the

transactions posted to various accounts. The Commission received these reports by email about a month before our in-person meeting. That gave us time to review the data and ask questions of Financial Advisor Volzhin before the meeting. We received the final EY audit reports just before our meeting in Morocco. This was more than three months earlier than last year. That allowed the Commission much more time to consider the information we received, and we were not rushed to complete our work before the General Assembly.

3 – MAY CASABLANCA MEETING

To open our meeting the FIDE team reviewed the financial results for 2023. 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.

Last year we noted the Special Purpose Vehicle created solely to manage the contracts and finances of the 2021/2022 tournament cycle planned for Russia had not been fully closed out in the 2022 financial statements. We expected that all of the open issues related to this entity and the related events it was to help fund would be fully closed in 2023. They were. As we noted last year 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 last year there was a receivable on the FIDE balance sheet from 2021 for a tax refund due from the Russian government. That remained uncollected at the end of 2023. We again asked about the collectability of that refund given the current situation. As they told us last year, the FIDE team indicated the refund from a value-added tax paid to Russia on a 2020 sponsorship contract. The FIDE claims this still should be refundable but there is still no timeline as to when the government might make the refund. There remains a 50% reserve to account for the possibility the refund may not be received.

The Commission also noted that as we were promised last year, FIDE collected a refund of taxes previously paid to Switzerland. These taxes were paid before FIDE received its tax-exempt status, so amended returns were filed to claim the refund.

We had asked the auditor to clarify the status of the wholly owned subsidiary that is a for-profit entity. As we have previously reported 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 first venture for this subsidiary is a partnership with the Tech Mahindra Global Chess League. The investment is described in Note 7 to the 2023 financial statements. As of the end of 2023 FIDE had not realized a profit from this subsidiary. Although the activity of the subsidiary cannot be consolidated into the FIDE financial statements under Swiss law, we suggested last year 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. This was not done for 2023 because there was little activity to report. The footnote to the financial statements was deemed by management to be adequate. The subsidiary was not audited by EY. The Commission did not disagree with management on this. But does believe if and when the subsidiary has more economic activity our prior recommendation to extend the audit and prepare a consolidated statement, even if not in compliance with Swiss law, should be done.

The Commission continued to ask about exposure to Russian banks. Our concern is twofold. One concern is the ability of FIDE to repatriate funds from Russia given the current political situation. The FIDE team told us last year the SPV loan was repaid in rubles in 2022 and the plan was to retain those funds in the FIDE Russian bank accounts to pay Russian expenses. That is what FIDE has done. Our second concern is the ability of FIDE to transfer funds into Russia so FIDE can continue to pay its Russian

employees and contractors. Other FIDE banks will not transfer money directly into Russia due to international sanctions. According to the FIDE team, at the end of 2022 FIDE had enough rubles to satisfy expected Russian expenses through the second quarter of 2024. The FIDE team told us they had found a solution to convert currency in a third country to generate rubles for Russian expenses for the time being. The auditor verified the FIDE team's assertion that FIDE does not have much other exposure to Russian banks and international payment restrictions.

We again discussed the royalty income footnote. The royalty income is still from the same contract for a Non-Fungible Token (NFT) arrangement. 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 confirmed this contract expired in early 2024 and was not renewed.

The FIDE team told the Commission the FIDE obligation to World Chess/Agon for the return of rights as been satisfied. World Chess/Agon offset payments due to FIDE for rights to the FIDE Arena online platform against the obligations FIDE had to World Chess/Agon for the return of the rights. World Chess/Agon will now be required to make payments to FIDE for the online Arena rights until the end of that contract.

The Commission followed up on its prior year concerns about the veterans' program. The FIDE team responded that the Global Strategy Commission has established and published award criteria and is making public the names of those who have received these payments.

The Commission continues to be concerned about the employee bonus program. We discovered there are different types of bonus plans for different FIDE employees. Some of these arrangements are basically commissions for fund raising either through donations or event sponsorships. Those bonus plans are written into the individual employee's employment contract and have very specific criteria to determine how much bonus is to be paid. In 2022 the Commission recommended the establishment of a formal bonus plan with written goals and a budget for potential payments. The FIDE team indicated in 2023 that proposal had been implemented. However, it appears the criteria for bonuses for management team members is not as well defined as the Commission had hoped. Much is left to the discretion of the President without clear benchmarks set out to determine bonus eligibility. Also, bonuses have been paid before FIDE's financial situation for the year had been finalized. 2022 bonus payments caused the existing loss from operations to be even bigger. While 2023 reported a net gain, 2023 was not an Olympiad year. The organization needed to show a 2023 gain because 2024 is likely to be less than budgeted and 2025 is expected to be a loss. The Commission is concerned that 2024 bonuses may cause FIDE to incur a loss and 2025 bonuses could increase the loss to unsustainable levels. A great concern for the Commission is the payment of bonuses before the financial results for the year are known. This increases the risk that bonuses would make a loss larger. The Commission is also concerned that bonuses might be paid while funds for the Development Commission might be reduced. We reported last year that 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 reviewed the list of debtor nations. While some have responded to FIDE requests to make full payment or set up a payment plan, some have made no response or have not followed through on the payment plan they set up. The Commission has the responsibility under the FIDE Charter to make a recommendation to the Council to suspend the membership of debtor federations. The Commission decided to review the debtor list after the FIDE team makes another effort to collect these debts.

The Commission inquired about the status of the change in FIDE accounting systems. The FIDE team said the change was completed at the beginning of 2023 although there were some issues came up during the

year that required some additional work to resolve. Otherwise, the change went well. The auditor noted the improvement in the system access controls and satisfaction with the audit trail that is provided in QuickBooks to document any changes in the accounting for transactions.

The Commission noted that in 2022 general sponsorships declined sharply, from 2 750 000 in 2021 to just 144 676. The FIDE team response was that since FIDE is now directly organizing events it seems sponsorship income is mostly associated with specific events rather than general donations to FIDE. They also said 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. It does not appear that office was opened and that the 2023 projection of sponsor money was optimistic. The Commission is very concerned that the 2024 and 2025 budgets rely heavily on sponsorship income that does not yet appear to have a firm source. FIDE cannot spend money it does not receive. The Commission is concerned that the revenue projection is too optimistic and that spending plans are being based on this perhaps unrealistic projection.

The Commission noted FIDE staff head count, compensation, social insurance and tax costs have all increased significantly over the last four years. Some of this increase is related to bringing the management of FIDE events back from contractors. The Commission has not seen evidence there is any clear criteria to determine when to hire additional staff and how salaries are determined. IT is not clear who the decision maker is and who is responsible for making sure the cost of the staff growth and be sustained in the long term.

This did not create financial problems when the income from contributions was increasing. Over the last two years contribution income has dropped dramatically. Some of this income has shifted to the sponsorship of events. But the increase in events income has not offset the reduction in general contribution income. The increase in staff costs is hard to reverse as the costs are set by contract. Applicable local law can require substantial payments to make any staff reductions. If income falters, it appears likely the shortfall can only be made up through reductions in the Development Fund. The main source of discretionary spending is the Development Fund. The Commission is concerned that the Development Fund is likely to be significantly reduced because FIDE is setting its non-discretionary spending at a level that is too high because the revenue projection is too optimistic. The Commission believes this would be a mistake.

4 - COMISSION REVIEW OF AUDIT REPORT

The date of the auditor's opinion is 3 April 2024. This is the earliest the report has been received since the present Commission was elected.

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, just there are no material errors. The opinion states the financial statements comply with Swiss law and the FIDE articles of association.

As noted, the Commission also received the Comprehensive Report of the auditor which was also dated 3 April 2024. This is the Swiss equivalent to a management letter. That report noted there were no uncorrected misstatements in the 2023 financial statements. That means any material items noted by the auditor were adjusted before the financial statements were finalized. The report listed adjustments that the auditor proposed for misstatements they noted. These changes reduced the 2023 net income by 196,304. There were four adjustments. 1. Increasing the doubtful account provision on balances due

from national federations. 2. Accrual of the 2023 audit fee. 3. Accruing a liability for vacation obligations. 4. Recording income from the Tech Mahindra contract.

The comprehensive report notes the significant increase in Federation debtors' balances. The auditor notes these balances have increased by 227% over the last two years. This is why the Commission must consider the recommendation to suspend the membership of some federations. The auditors said: *"The debtors Federation balance as of 31 December 2023 is composed of a gross balance of EUR 1'338'717 less a provision for doubtful debtors of EUR 660'375. The 10 largest outstanding balances ... represent 42% of the total outstanding gross balance and half of them have had a significant outstanding balance over the past 3-4 years."*

The report expressed concern that FIDE needs to be careful to conform its employment practices to the country of residence of the various employees. Social insurance program obligations were the primary concern of the auditor. The auditor also shared concerns about the inconsistent reporting of compensation costs as some salary is reported net of withholdings while others are reported at gross amounts. The auditors' comment that all should be reported at gross amounts. This does not change the bottom line but reallocates costs between compensation and tax accounts.

Significantly, the auditors did NOT note any issues with the documentation of expenditures. According to the FIDE team, every item in the auditors' sample test had the proper documentation. This is a substantial improvement in compliance with FIDE internal accounting procedures.

5 – MEETING AND RECOMMENDATION ON DEBTORS FEDERATIONS

The new FIDE Charter gives the Verification Commission the responsibility to review the status of member federations that are two years or more in arrears in making required payments of membership and other fees. The Commission reviewed the list of debtor federations during the meeting in Morocco. The FIDE team asked for more time for their collection efforts to work with the 21 federations on the initial list. The Commission met by Zoom conference on 11 July 2024 with financial consultant Volzhin to review the list again. Mr. Volzhin reported that many of the federations on the initial list had made complete or partial payments and had submitted a plan for payment of remaining balances. There were six federations remaining on the list. The Commission reviewed the collection efforts and responses for those six. The Commission concluded that two of those federations were making good faith efforts to attempt to make payments even though no payments had yet been received. The Commission made a draft recommendation for presentation to the FIDE Council for the suspension of the IFDE membership of the remaining four federations.

Subsequently, Mr. Volzhin reported two of those federations made payment arrangements. As a result the Commission revised its recommendation to the Council. The Commission made the following recommendation:

Pursuant to Article 13.2 of FIDE Charter, the Verification Commission recommends to FIDE Council that the following federations be suspended from FIDE membership for failure to comply with the financial requirements of the FIDE Charter. Each of these federations have been in arrears over two years, have made no payment nor have set up any payment plan. We also note that these federations have had little or no chess activity over many years, with their debts entirely comprised of the annual membership fee.

1. Burkina Faso – unpaid debt since 2017

2. Rwanda – unpaid debt since 2018

6 - PRIOR YEAR RECOMMENDATIONS AND RESPONSES

The VER reviewed our 2022 recommendations with FIDE staff. The specific recommendations from the VER report on the 2022 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 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.

Response 2. The subsidiary had one contract in 2023 and FIDE had not yet received any financial reports from the joint venture partner. There was nothing to audit in 2023 and nothing to add to a separate financial statement.

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.

Response 3. As noted in the response to recommendation 2, the for-profit subsidiary had limited activity in 2023 and no information was available to create a meaningful financial statement for the subsidiary.

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.

Response 4. The Commission received the required information in an acceptable format on a timely basis.

Recommendation 5. The Development Commission and the FIDE Council should consider changing 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.

Response 5. The Development Commission website contains all the forms and lists of procedures necessary for national federations to make grant requests. The Development Commission has held a series of training meetings to help federations understand and comply with these procedures. The reporting requirements for grants have not been relaxed. Some national federations still need to complete the reports for prior grants before they are eligible for any new grants.

Recommendation 6. Contingency plans need to be developed to consider the need for funding of Russian operations in light of 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.

Response 6. FIDE has implemented plans to fund its obligations to its Russian employees and contractors.

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.

Response 7. The FIDE team made special efforts to make sure all expenditures were properly documented. The auditor did not note any documentation problems in their 2023 audit.

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. When the new for-profit FIDE subsidiary begins to generate auditable financial information, it 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. The FIDE budget should not include sponsorship income that does not have an identified source and a high likelihood of receipt within the budget period. FIDE should not budget to spend speculative sponsorship money on hard-programmed costs that are very difficult to cut if the projected income is not realized. Our concern is the Development Fund may be cut significantly because there are few contractual commitments to break with this Fund so cutting it is easier, even though harmful to the FIDE mission.

Recommendation 5. The FIDE Council should take more aggressive steps to collect past due obligations from debtor federations, including the suspension of membership as called for in the FIDE charter.

Recommendation 6. FIDE needs to consider the development of alternative revenue sources. The current Online Arena revenue is 400,000 EUR (but offset by payments FIDE has owed to World Chess), and it appears there may be other opportunities to generate revenue from technology based online platforms. General contributions have declined. Many of those were made by Russian entities and it does not appear likely that such will be restored anytime soon. This decline has not been offset by net

event revenue. FIDE will need additional revenue to fund the current staff levels and to continue to maximize amounts available for the worldwide development of chess through the Development Fund.

Recommendation 7. As we have recommended in prior years, goals and terms for bonus payments need to be established before the year starts. Those terms should include waiting until the end of the fiscal year to determine if FIDE has adequate funds to make any bonus payments.

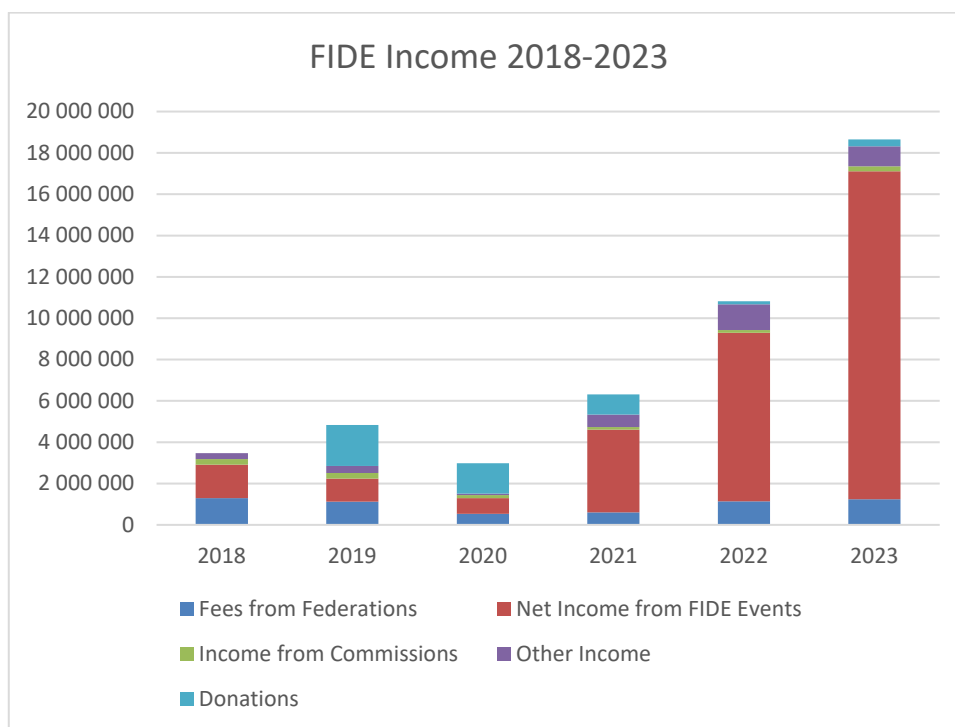
8 – TRENDS OF FIDE INCOME/EXPENSES

The VER has the following comments on the trend of income/expenses from 2018 to 2023. (All figures are expressed in Euro)

INCOME						
	2018	2019	2020	2021	2022	2023
Fees from Federations	1,295,302	1,123,810	539,025	606,955	1,137,968	1,238,499
Net Income from FIDE Events	1,616,902	1,112,468	757,373	3,999,059	8,155,790	15,872,513
Income from Commissions	275,345	275,257	146,824	124,968	132,849	239,753
Other Income	286,582	340,633	69,946	602,954	1,249,250	970,220
Donations	0	1,981,656	1,469,083	981,545	144,676	326,817
	3,474,131	4,833,824	2,982,251	6,315,481	10,820,533	18,647,802
EXPENSES						
	2018	2019	2020	2021	2022	2023
Official's expenses	629,186	366,639	73,731	258,068	765,437	374,775
Secretariat / Lausanne, Athens	469,053	730,781	734,051	1,072,505	1,562,674	2,174,861
Secretariat / Elista, Moscow	207,468	270,796	276,127	257,078	115,384	51,761
General expenses	1,127,392	958,142	845,426	822,508	1,152,137	1,267,608
Commissions & Committees	675,971	443,657	277,847	308,245	371,285	618,413
Event Expenses	376,167	483,256	149,913	256,461	6,921,217	11,728,880
FIDE Development Fund	0	1,893,213	818,725	1,240,527	1,839,046	1,386,912
	3,485,237	5,146,484	3,175,820	4,215,392	12,727,180	17,603,210

- 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.

7.1 - INCOME



Income consists of:

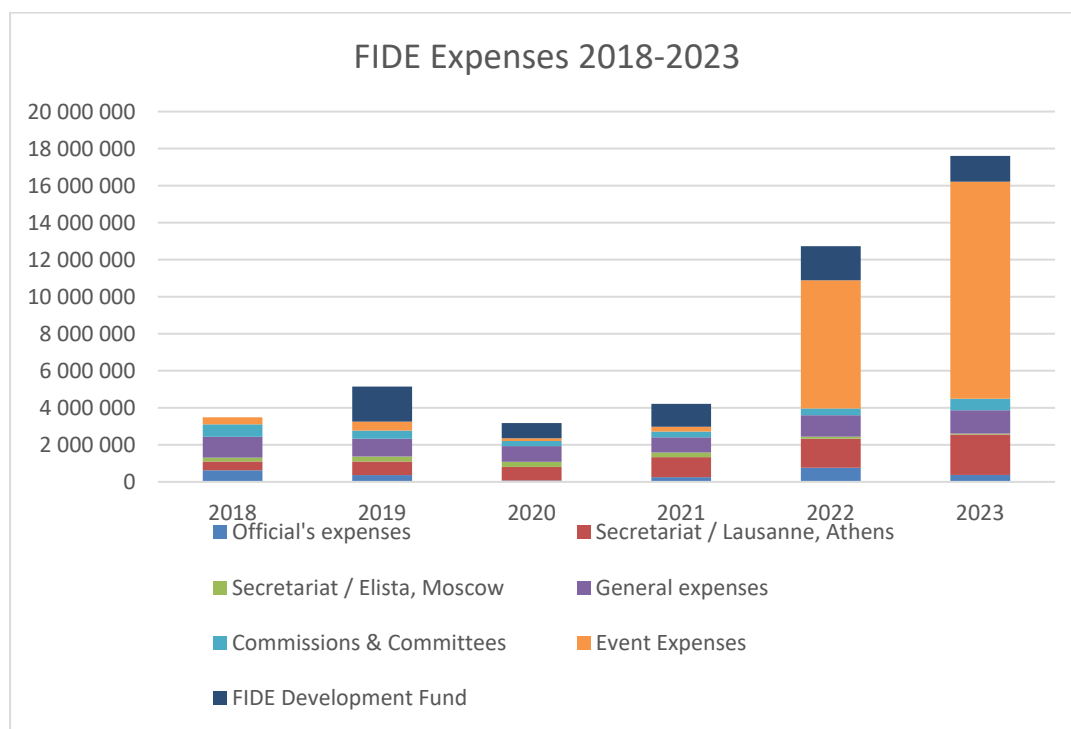
1. **Fees from Federations** - mostly membership fees, entry fees, registered tournaments, change of federation's fees, title fees.
2. **Net Income from FIDE Events** - income from events like World Championship Matches, Candidates, Online events, World Cup etc.
3. **Income from Commissions** - Various 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.

FIDE income depends almost entirely on revenue derived from events, they represent 85% of the total income in 2023. They grew even larger due to the return, in 2021, of the rights to run major events from World Chess/ Agon. On the contrary, donations which made 40% of the total income in 2019, declined sharply, they represent around just 2% of total income in 2023.

As seen in the graphics, FIDE revenue is increasing sharply since 2021. It almost tripled in 2023, compared to 2021 and increased by 72% since last year, due to the chess activities that are taking place around the world.

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 2022, 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.

7.2 - 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.

FIDE expenses grew at the same pace as the income. Event expenses represent 54% of total expenses and seem to match the level of chess activities undertaken by FIDE.

Staff expenses went up by 29.9% in 2023 compared to 2022, due to new hired employees, bonuses, vacation payments. They represented 12.3% of total expenses. The number of employees and consultants is 57.

FIDE development fund decreased by 24.6 % in 2023 in comparison with 2022 which meant less chess activities in less developed continents and federations.

In 2023, the revenues exceeded expenses by about 6%, compared to a loss (expenses exceeded revenues) of around 15% in 2022.

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.