



Guidance Note – Graduated Manager Licensing Process Class 3 – Services to Collective Investment Schemes January 2017

Graduated Manager Licensing Process

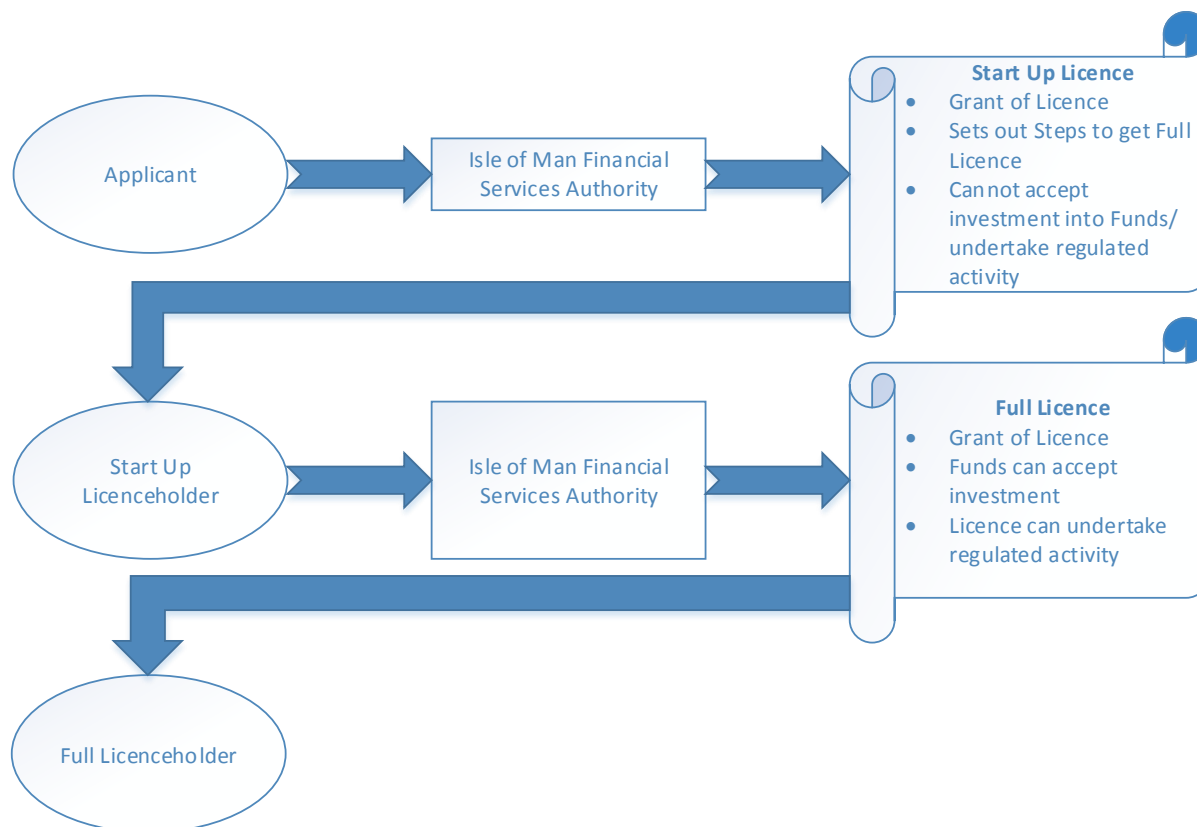
When establishing a new regulated business as an asset manager, fund manager or fund administrator there is typically a lengthy process of business development before funds are opened to investment and regulated activities commence. However, as part of the business development process the funds business will need to demonstrate its regulatory pedigree.

It is recognised that establishing full operations and implementing full regulatory systems and controls can be costly and may add little benefit to the business during the pure business development phase. The Graduated Manager licensing policy addresses the issue by introducing a 2 stage licensing process which consists of a Start-Up Licence which can be held during the business development phase followed by a Full Licence which must be in place before regulated activities commence.

The Graduated Manager licensing process can apply to asset manager's class 3(6), investment advisers class 3(7), fund managers class 3(1) and fund administrators class 3(2).

- Stage 1 – A Start-Up Licence which will apply to the manager until they commence regulated activities and the funds are ready to accept investments. The Start-Up Licence will set out what must be in place before a Full Licence can be granted.
- Stage 2 - The Full Licence must be in place before the funds accept investments and regulated activities commence.

The Graduated Manager Licensing Process



The Graduated Manager Licensing Process

Stage 1 Licence Assessment

When considering an application for the start-up phase of a Graduated Manager class of licence, the Isle of Man Financial Services Authority (“the Authority”) will need to be satisfied about the following:

- Whether the entity and its controllers are fit and proper
- Real presence – a key nominated IOM person who is fit and proper
- Track record of the key individuals and any associated companies
- The structure of the applicant – including whether it is a branch or subsidiary
- Financials/solvency – there is no expenditure based requirement at outset (the applicant must provide a solvency statement and demonstrate sufficient working capital to cover the developmental phase). The applicant needs to demonstrate how the full financial resources and solvency requirements will be met and in place by Stage 2

Note: Systems, controls, procedures and resources etc – The Authority will not require a Start-Up Licence applicant to have full systems, controls, procedures and resources in place at Stage 1, but will need to be satisfied that there is a credible plan identifying systems, controls,

procedures and resources that will be required at Stage 2 and setting out how these will be established and implemented.

The Start-Up Licence

- The Start-Up Licence will be granted for 12 months. The Licence can be renewed with the agreement of the Authority.
- The Start-Up Licence will set out what must be demonstrated before a Full Licence can be granted. This will include putting in place the required financial resources and solvency arrangements and implementing the plan to provide appropriate systems, controls, procedures and resources.
- The grant a Full Licence is not an automatic process.
- Where the application for a Full Licence is complete and includes all required information and Vetting Forms, the Authority will complete the consideration process as quickly as possible.
- The Start-Up licenceholder must provide quarterly updates to the Authority on its progress and in particular its preparations to meet Full Licence requirements
- The Authority will seek to revoke a Start-Up Licence where if the applicant no longer meets the fit and proper criteria or if there are serious concerns about progress towards a Full Licence.

Stage 2 – Full Licence

This stage includes the assessment of all remaining matters (including systems, controls, procedures and resources etc)

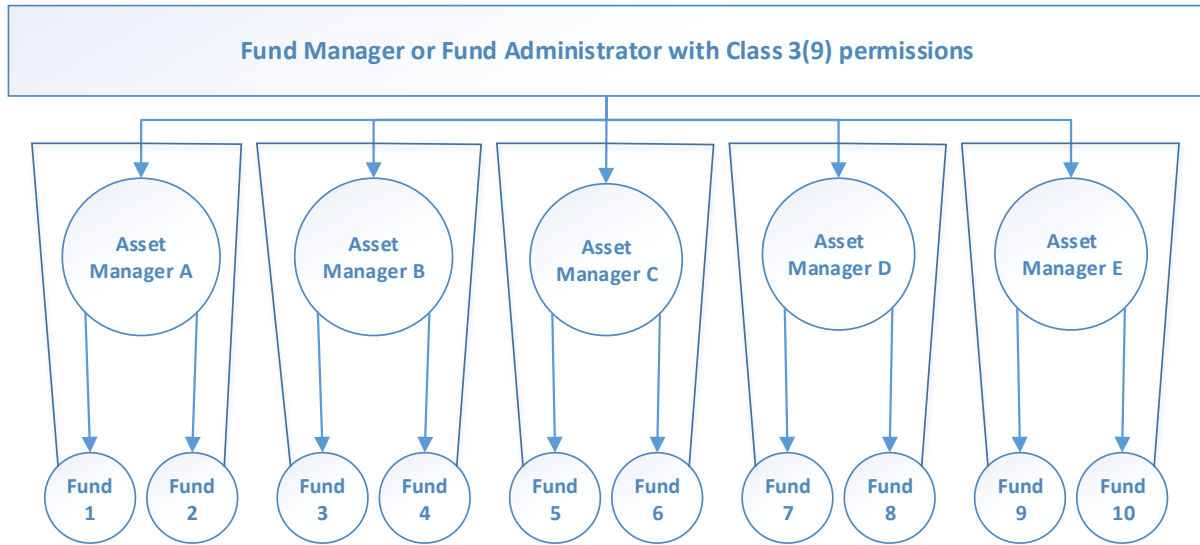
If a Full Licence is granted Funds may open to investment and be listed on the appropriate register of funds. The standard regulatory regime will apply to the licenceholder.

Graduated Manager Licensing Process and Existing Licensing Policy for Functionaries of Schemes

The Graduated Manager licensing process can be teamed with the existing tailored licensing policies for scheme functionaries (see the Supplemental Licensing Policy for class 3 licenceholders and the Authority's General Licensing Policy in the "Becoming a Regulated Entity" section of the Authority's website - <http://www.iomfsa.im>).

Managed Managers and the Graduated Manager licensing process

- An existing manager or administrator with class 3(9) permissions (and requisite expertise) agrees to provide services to allow new asset managers or managers to start up in a managed environment (reducing start-up and administration costs).
- The new venture would apply for a licence under the graduated manager process as a managed entity.
- The new venture will provide investment management and/or management functions to the fund.
- At stage 2 – Full Licence - the existing licenceholder provides services to new ventures as managed entities and to funds as appointed administrator/ manager.
- The existing fund management VAT exemption for Isle of Man funds would continue to apply to this arrangement.



Asset Managers of Specialist Funds and funds of a similar nature

The Authority has existing arrangements which can exclude asset managers of specialist funds and “specialist type funds” from some standard regulatory requirements. These policies apply to:-

- “Associated Asset Managers” – asset managers which are part of an existing group or under common control with a regulated entity; and
- “Specialist Asset Managers” - asset managers which are not part of a group or under common control with a regulated entity.

Status of Guidance: The Isle of Man Financial Services Authority issues guidance for various purposes, including to illustrate best practice, to assist licenceholders to comply with legislation and to provide examples or illustrations. Guidance is, by its nature, not law, however it is persuasive. Where a person follows guidance this would tend to indicate compliance with the legislative provisions, and vice versa.