

Licenceholder News

Welcome to the 12th edition of the Financial Supervision Commission's (FSC's) news bulletin, which gives a brief overview of recent initiatives and events that may be of interest to licenceholders.

General Supervision Update

FSC and IPA to Merge

On 10 November 2014, Treasury Minister Eddie Teare MHK announced that the FSC and **Insurance and Pensions Authority** are working towards a merger in 2015. The announcement can be viewed [here](#).

Chief Executive to Leave FSC

The Chief Executive announced on 22 September 2014 that he will be leaving the FSC upon completion of his employment contract in summer 2015. The announcement can be viewed [here](#).

Risk of Unregulated 'Investment Opportunities'

The FSC issued a **warning** on 2 October 2014 aimed at consumers to explain that not all 'investment opportunities' made available to the public are investments subject to FSC regulation.

Filtered Rule Book?

Do you use the **Class-filtered Rule Book** on the FSC website? Please let us know using the links below so we can determine whether to update and maintain this feature:

Crown Dependency Liaison

The Boards of the financial services regulators in the Isle of Man, Guernsey and Jersey met on 5 November 2014 for their annual meeting to discuss common issues affecting the Crown Dependencies and to share regulatory knowledge and experience. Further information can be found [here](#).

Professional Indemnity Insurance (PII) Renewals

In accordance with rule 8.54 of the **Financial Services Rule Book 2013 (Rule Book)**, relevant licenceholders are required to submit a **PII Confirmation Form** within 5 business days of each PII renewal which takes place on or after 1 January 2015.

An email reminder was sent to all licenceholders on 16 December 2014 with the specific requirements. Please contact your Relationship Manager for further details.

Appointment of Manager Order

The **Financial Services (Appointment of Manager) Order 2014** came into operation on 1 January 2015, thereby replacing the 2008 Order. Details of the consultation held in 2014 on changes to the Order can be found [here](#).

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Current Consultations

- [Regulatory fees](#)
- [Civil penalties](#)
- [Draft AML/CFT Code](#)

See page 5 for further details.



Banking Update

Domestic Systemically Important Banks (D-SIBs) and Recovery and Resolution

As reported in [Issue 11 \(Sep 2014\)](#), it is expected that a formal consultation will be issued to the industry in 2015 covering proposals for the identification and assessment of banks as D-SIBs. It is also noted that the industry supports the need for work to commence on the framework for the recovery and resolution of banks. The FSC will commence work on this subject during the year.

Packaged Bank Accounts

A questionnaire was issued to the industry in September 2014 to obtain more information on how banks design and promote packaged bank accounts to retail customers, with a particular focus on the insurance element of the product. Responses were provided by 31 October 2014 to the FSC from 7 banking groups, of which only 4 offer or have offered packaged bank accounts to retail customers. The FSC will provide an update to the industry on the outcome of the responses and proposed further work in the first quarter of 2015.

Banking Statistics

[Deposit base figures](#) and [quarterly banking statistics](#) covering the period to 30 September 2014 were published on 12 December 2014.

Lending Data

A draft reporting form aimed at capturing better information on banks' lending portfolios was due to be issued in 2014. Its issuance has been delayed but is expected to be provided for comment by the end of March 2015. The FSC will then work with the sector on finalising a form and to agree a timeframe for the first reporting date.

Basel III (Capital including Leverage)

The FSC provided feedback to the banking sector on 12 December 2014 in response to comments received to the discussion paper issued jointly with the Guernsey (GFSC) and Jersey (JFSC) regulators on proposals for introducing a leverage ratio measure for capital adequacy in Isle of Man incorporated banks.

The FSC expects to issue a formal consultation 2015 on proposals to implement changes, covering the matters addressed in the discussion papers on capital and leverage, and any other sundry matters relevant to this part of Basel III (such as changes made under Basel 2.5 that are relevant to the Isle of Man but have not yet been implemented).

Basel III (Liquidity)

Work continues with the GFSC and JFSC on preparing a discussion paper on proposals for revisions to the liquidity framework. An issue date has not yet been set.

Depositors' Compensation Scheme (DCS) Update

DCS 1991 re BCCI S.A.

The [Depositors' Compensation Schemes \(Miscellaneous Provisions\) Regulations 2014](#) (2014 Regulations) were drafted in order to permit the scheme created for the compensation of depositors re BCCI S.A. to be terminated. The 2014 Regulations came into operation on 1 November 2014 (note that some parts of the 2014 Regulations are effective from 1 April 2015).

In summary the 2014 Regulations provide for the following:

- Unclaimed compensation sums due to former depositors of BCCI S.A., which are unclaimed for 10 years from the date of determination of such payment, become forfeit and cease to remain payable to the depositor. These funds will be paid into the general revenue of the Island.
- The Scheme Manager may determine to terminate the fund, at any time after which all payments of compensation to depositors and other compensation costs have been made out of the fund. This determination may be made even if there is compensation that remains unclaimed but has not been forfeit.

Depositors' Compensation Scheme (DCS) Update (contd.)

Upon termination the Scheme Manager will apply the balance held in the fund as follows:

- Compensation sums not claimed (but which have not been forfeit) will be paid to Treasury for the general revenue of the Island (the depositors are still entitled to claim the funds from Treasury upon proof of entitlement being provided as long as the funds have not been forfeit); and
- The balance will be paid to original contributing banks in proportion to their contributions.

The FSC (as Scheme Manager) has not yet met to determine when to terminate the fund and is working on finalising some operational arrangements that will apply.

DCS 2008 re Kaupthing Singer & Friedlander (Isle of Man) Limited (KSFIOM)

The joint liquidators of KSFIOM declared a further dividend of 2p in the £ at the end of November which brought the total recovery to 100p in the £. The FSC (as Scheme Manager of the fund established re KSFIOM) has processed surplus payments due to former depositors of KSFIOM. Repayments of part of the funding provided to the Scheme (for the compensation of depositors and the costs of the Scheme) by participating banks and Treasury was made in December. The liquidation has not been completed and therefore a further dividend is likely to be paid by the liquidator, the timing of which is not currently known.

Fiduciary Services Update

ACSP Feedback: Numerical Risk Models

Numerical risk models are virtually essential in larger firms because they help to reduce the inconsistencies which can arise from different people carrying out the assessments. However, in presentations to the ACSP in September, FSC staff expressed a note of caution about the use of numerical models by small firms.

Totalling or averaging of scores (rather than using numbers per se) brings a potential pitfall. In numerical models which use a total or an average score, an indicator of a serious problem in one field of the model can be diluted by low scores in the other fields. In many such cases the licenceholder subsequently applies an override, in order to reach a common-sense decision despite, rather than because of, its model. Models which take the highest single score as being the overall rating are not vulnerable to this problem of dilution.

In addition, numerical models have to be well-designed and carefully implemented. In smaller firms the fixed costs of design and implementation are spread across fewer entities and can be harder to recoup. Again, a model which takes the highest single score as being the overall rating can be simpler to implement.

Group of International Finance Centre Supervisors (GIFCS) TCSP Standard

GIFCS published its **Standard on the Regulation of TCSPs (Standard)** in October 2014. The document is wide-ranging, addressing the legal framework, the work of the regulator and standards which should be met by regulated TCSPs.

The Standard can also be accessed through the FSC's press release, [here](#).

The Isle of Man has a high degree of compliance with the Standard. However, the Standard is by no means a lowest common denominator. It set out to establish a high and credible standard and there are aspects of its recommendations that are not in place in the Island today.

GIFCS members have committed to undertake a self-assessment against the Standard. The FSC will carry out such a self-assessment. Where this recommends changes to the legislative or regulatory framework, the FSC will consult in the normal way.

Public Statements, Warnings and Sanctions

Public Statements

10 Dec: [Nat Deutsche Group](#)

1 Oct: [Douglas Trustees Limited](#)

Warnings

2 Oct: [Risks of unregulated 'investment opportunities'](#)

Sanctions Updates

11 Dec: [Democratic Republic of Congo / Terrorism and Terrorist Financing](#)

5 Dec: [Central African Republic](#)

19 Nov: [Ukraine \(Sovereignty / Terr. Integrity\)](#)

13 Nov: [Iran \(Nuclear Proliferation\)](#)

30 Oct: [Federal Republic of Yugoslavia and Serbia](#)

30 Oct: [Libya](#)

27 Oct: [Somalia](#)

23 Oct: [Syria, North Korea, Afghanistan](#)

20 Oct: [Al Qaida](#)

1 Oct: [Russia and Ukraine](#)

19 Sep: [Crimea and Sevastopol](#)

Anti-Money Laundering and Countering the Financing of Terrorism Update

Changes to the AML/CFT Handbook

Some [changes](#) were made to the Handbook on 18 November to improve clarity in certain areas. Appendix G(a) and G(b) were amended to reflect the FATF Statement issued on 24 October 2014 and the FATF's statement entitled '[Improving Global AML/CFT Compliance: update on-going process](#)' issued on the same day. The amended AML/CFT Handbook can be found [here](#).

Funds and Investment Services Update

Review of Collective Investment Schemes

The FSC is currently considering the Island's fund structures in the light of developing international standards and a desire to ensure the Island's structures are clear and appropriate. The FSC issued an initial high-level consultation on these and other proposals which closed on 31 October 2014. A [summary of responses and anticipated next steps](#) was issued on 2 December 2014 and a more detailed consultation will follow shortly.

Financial Advice – Statements of Professional Standing

From 1 January 2015, all financial advisers providing advice to retail investors are required to hold a statement of professional standing from a relevant professional body. To obtain a statement of professional standing advisers must be in good standing with their professional body, hold a relevant qualification and undertake at least 35 hours relevant CPD each year.

Fund Reporting Portal

The fund reporting portal, which was previously available to persons providing management or administration services to Authorised, Regulated, Qualifying, Specialist and equivalent funds in June 2014, was rolled out to firms servicing Exempt Schemes, Closed-Ended Investment Companies and Inward Outsourcing Arrangements in November 2014. This means that the portal should be used for the submission of quarterly statistics and other standard fund information.

Rule Book Implementation Visits

The FSC is currently visiting all financial advisers to discuss the steps that they have taken to meet the new conduct of business requirements set out in the [Rule Book](#), which came into force on 1 February 2014.

Fund Statistics

The [quarterly fund statistics](#) covering the period to 30 September 2014 were published on 12 December 2014.

Consultations

Government Consultations

The Government's central consultations register may be accessed [here](#). Current and future Government consultations that may be of interest to licenceholders are listed in the table below.

Closed Consultations and Summaries

Information on closed FSC consultations, including summaries of responses, may be accessed [here](#).

Department	Status	Consultation Topic	Link / Contact
FSC	12 Dec 2014 to 30 Jan 2015	Changes to Regulatory Fees from 2015	Mrs Shirley E Corlett shirley.corlett@fsc.gov.im
FSC	19 Dec 2014 to 30 Jan 2015	Implementation of Discretionary Civil Penalties	Mr Andrew Kniveton andrew.kniveton@fsc.gov.im
DHA	5–29 Jan 2015	Draft Anti-Money Laundering and Countering the Financing of Terrorism Code 2015	Mr Tom Bateman dhaconsultation@gov.im

Have feedback?

The FSC is keen to receive feedback on the form and content of the Licenceholder News bulletin. Please click the link below to email us with any comments you might have.

[Email Feedback](#)

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