



Isle of Man Financial Supervision Commission

Annual Report 2014/15



Regulatory Objectives

The Commission's regulatory objectives are to:

- secure an appropriate degree of protection for the customers of persons carrying on a regulated activity,
- reduce financial crime, and
- support the Island's economy and its development as an international financial centre.

The Commissioners



Geoff Karran MBE (Chairman)



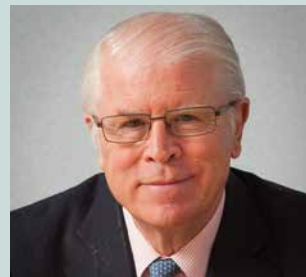
John Aspden (Chief Executive)



Bryan Stott (Deputy Chairman)



Roger Butler



Tim Cullen MBE



Sir David Lewis



Alan Smith



Paul Wright

Contents

Chief Executive's Report	4	Assistance with investigations and insider dealing	59
Economic Setting	8	Enforcement action	61
The Commission:		Progression of escalating regulatory action	61
Organisation and Corporate Governance		Disciplinary Unit	62
Organisation of the Commission	11	Enforcement	63
Corporate governance and risk management	13	Company law measures	63
Merger of the Commission and the IPA	15	Policy Development	
External communication	15	International matters	67
Charity involvement	17	Legislation and guidance	69
Complaints against the Commission	17	Innovation	69
Corporate Plan		Other activities	70
Corporate plan 2014/15	19	Operations	
Corporate plan 2015/16	22	Finance and administration	73
Regulatory and Supervisory Approach		Human resources	74
Consumer focus	25	Investors In People (IIP)	74
Authorisations	26	Learning and development	75
Supervision	30	Information technology	75
Supervisory approach	31	Appendices	
Risk and compliance	33	Appendix A	
Banking and money transmission services	34	Financial Supervision Commission and its Functions	78
Banking business	35	Appendix B	
International developments and the Isle of Man banking sector	36	Membership of the Financial Supervision Commission	80
Looking ahead 2015/16	40	Appendix C	
Money transmission services	41	Organisation chart	82
Fiduciary services	42	Appendix D	
Investment and funds services	44	How the Commission operates	84
Investment businesses	45	Appendix E	
Services to collective investment schemes	46	Industry statistics	87
Depositors' and Investors' Compensation Schemes	47	Appendix F	
Complaints about licenceholders	48	Statement of Responsibilities in respect of the Chief Executive's Report and the accounts	97
International relations	49	Report of the Independent Auditors	98
Prevention of Money Laundering and Countering the Financing of Terrorism, and Enforcement Action		Appendix G	
National risk assessment	53	Legislation coming into force between 1 April 2014 and 31 March 2015	104
MONEYVAL	57	Appendix H	
AML/CML Unit	57	Consultative documents issued between 1 April 2014 and 31 March 2015	106
Anti-Money Laundering and Countering the Financing of Terrorism Code 2015	57	Appendix I	
Designated non-financial businesses and professions (DNFBPs)	59	Other information	107
		Glossary	108

Chief Executive's Report

It gives me great pleasure to present the Annual Report and Accounts of the Financial Supervision Commission for the year ended 31 March 2015.

This Report on the Commission's activities has been prepared for submission to Treasury and to be laid before Tynwald in fulfilment of the Commission's obligation under Schedule 1 to the Financial Services Act 2008.

The gradual recovery in global growth which many anticipated for the period did not materialise, and contrary to many expectations money-market interest rates declined still into negative territory. Quantitative easing is designed to ensure a plentiful supply of money, and many sectors of industry are reporting increased activity. However de-risking by intermediaries clearly



John Aspden
Chief Executive

has had an effect, and overall it has not been an easy environment for growth in the Island's finance sector. The Commission is acutely aware that the right balance has to be struck between regulating effectively but at the same time encouraging economic growth. Perceptions are important.

Mindful of the importance which the Island attaches to its banking sector, the Commission joined with Government in looking at the impact of planned measures being adopted in the UK to ring-fence its core banking activities, as well as prospective changes to methods of problem resolution. The signs are positive that we can tap into new areas offering niche services to particular categories of consumer. The Government is currently discussing an alternative banking model with the sector.

This also highlights the importance of innovation where the Island prides itself in embracing new markets. High up the Government's list has been the promotion of virtual currency business, and the technological benefits which it could bring to the Island as an incubator. This activity is not regulated by the Commission, so participants have to be aware of the risks for themselves. However such businesses will need to register with the Commission for their AML/CFT oversight.

Consumers generally have remained a key focus for the Commission. A number of new initiatives were adopted to highlight the risks arising

from making investments, through explanatory materials, a redesign of the consumer part of the Commission's website, and improved disclosures. The Commission has complemented this with enhanced supervision of the conduct of business, to reinforce suitability and reduce instances of mis-selling. In deserving cases disciplinary proceedings have been instituted.

There remain a number of collective investment schemes which are still in the process of remediation, especially where liquidity issues have caused suspensions of redemptions. However this is by no means a condition confined to the Island and the Commission is working actively to ensure that investors are kept fully informed in outstanding cases.

The Island's AML/CFT framework and in particular its compliance with the FATF's Recommendations is subject to external review. The Council of Europe body MONEYVAL will be undertaking a full assessment of the Island's compliance in the first half of 2016, and preparations for this have already begun.

During the period the Government took proactive steps to co-ordinate a national risk assessment of the Island's AML/CFT threats and responsibilities. When completed and an action plan is drawn up, this will provide a foundation for refining much of AML/CFT oversight on to a risk-based approach – in other words placing most attention on where lie the actual risks. The strengthening activity which this



generates will be an important part of our ability to demonstrate effectiveness of implementation.

What is most encouraging about all the work undertaken is the enthusiasm and commitment shown by industry participants in the process. This has contributed to a very meaningful exercise which hopefully will foster full buy-in to the ensuing work.

As part of the Island's ongoing compliance with the FATF Recommendations the Commission has also been working on new arrangements for the AML/CFT oversight of designated non-financial businesses and professions. Once in force, the legislation will provide for the Commission to oversee a regime where some individual review work may be delegated to eligible professional bodies.

There have been international moves towards making sure that the ultimate beneficial owners behind legal vehicles are known by the competent authorities in jurisdictions which host them. This has been a basic principle adopted by the Island for a long while, and has provided the foundation for its ability to respond promptly when assisting in cross-border investigations. We have a 100% record of effective co-operation in this area. The Government meanwhile is consulting on and considering the wider issues arising from whether or how this information is to be held on a central register.

Back in 2008 it will be recalled that the bank Kaupthing Singer & Friedlander (IOM) Ltd went into liquidation as a result of problems in the wider group. The Island's Depositors' Compensation Scheme was triggered. While the

event was traumatic and caused many people to wait for the return of their money, it is nonetheless most encouraging to note that dividends received over the last year from the joint liquidators have now taken the distribution so far to 100p in the £. The liquidators have announced that a further small dividend can be anticipated before the liquidation is completed.

In November the Minister for the Treasury announced that the Commission and IPA were to be merged. This will be carried out on 1 November 2015 by the creation of a new body – the Isle of Man Financial Services Authority – and the corresponding cessation of the Commission and IPA. Transfer of Functions legislation for the change has already been passed, and detailed planning for the integration is now well underway.

In fact, the Commission and IPA have long worked together not least in the supervision of financial groups with common links. So this evolution is an entirely logical step and one which appears to have been generally well received by the licenceholder sector. It augurs well for the future to have a single, combined regulatory function for all financial services.

The Commission and IPA were established as separate bodies in 1984, so there is an enormous reservoir of knowledge and experience to be transferred to the new organisation from the outset. I sincerely hope

that our staff will also appreciate the opportunity for wider development which the new structure will offer them. The future looks exciting.

As hopefully will be seen in a number of places in this Report, the Commission places a high priority on communicating with its stakeholders. Effective dialogue with the industry is vital if the Commission is to understand the impact which its proposals will have. The Commission is acutely conscious that there has been a steady flow of consultations, which are needed if the Island's regime is to stay modern and effective in the new environment. We are very grateful for the time which licenceholders have taken to respond and input into the process.

This is my last report as Chief Executive as I have announced my departure upon completion of my contract later in the year. I have thoroughly enjoyed my time with the Commission, working with an exceptional group of colleagues both on the Board and in the executive as well as interacting with a licenceholder community which has been understanding of the need for regulation. Without their collective support and professional attitude the Commission would not be able to fulfil its difficult remit, and it has been a privilege to work in this environment.

John R Aspden
Chief Executive

Economic Setting

Firming the foundations
for future growth



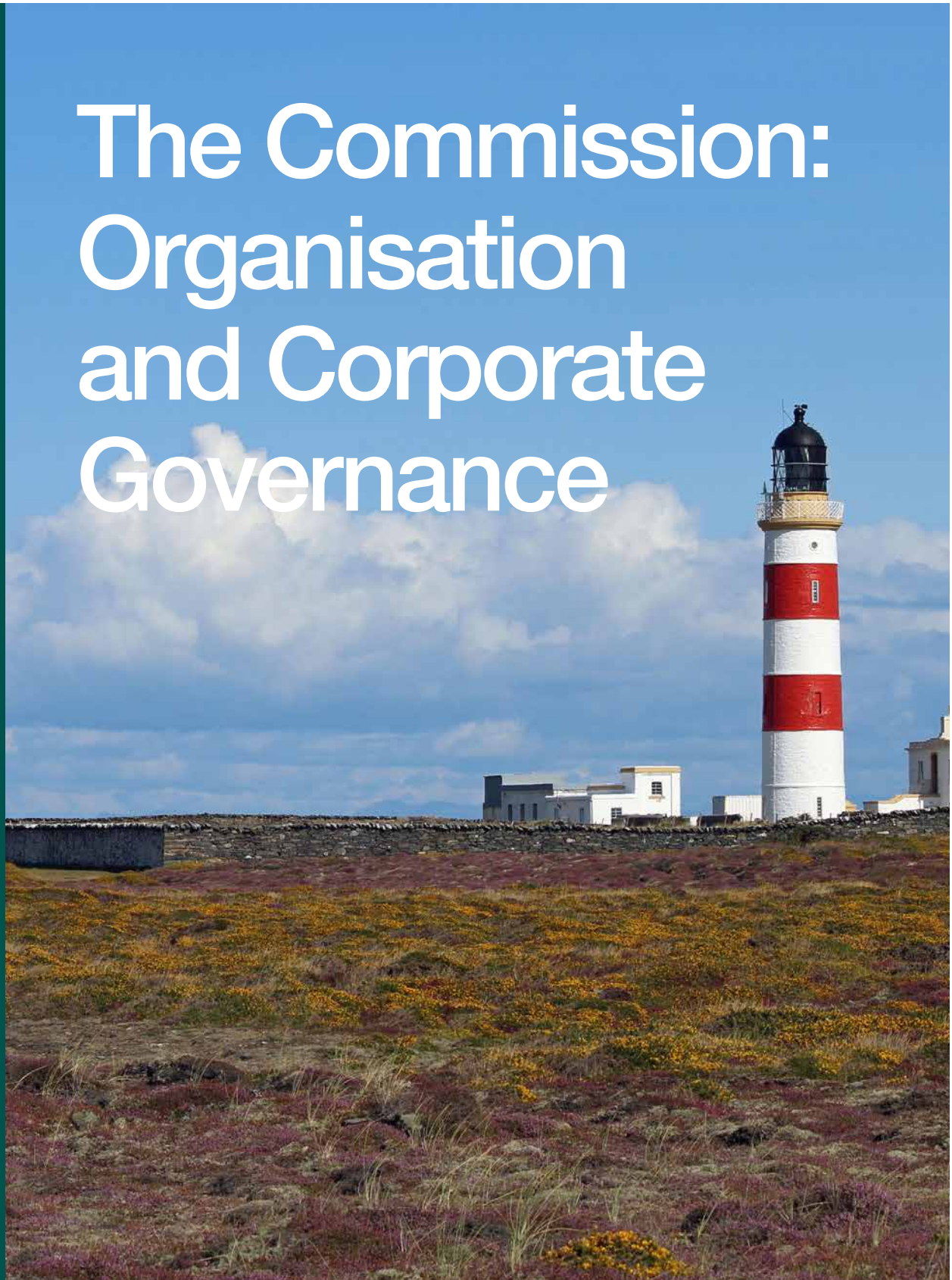
Global growth was less solid and more uneven in 2014 than had been expected a year earlier, with growth slowing in some emerging markets, but advanced economies bringing more stability to the global picture. The net effect was growth of 3.4% in 2014 and a similar level forecast in 2015, but advanced economies are expected to strengthen this year, whilst emerging markets, particularly oil-producers, are likely to weaken. The UK economy grew at 2.6% in 2014 and is forecast at 2.7% for 2015, whereas the Euro nations achieved 0.9% in 2014 and anticipate 1.5% in 2015, and the Isle of Man expects figures of around 4% for each of 2014 and 2015.

The fall in oil prices from US\$108 to US\$58 (Brent Crude) in the last year had a significant impact on many economies and the Isle of Man has not been immune from this, with a 5% drop in Government revenue from fuel duty anticipated this year, bringing a welcome fall in fuel costs and hence inflation for householders. Manx RPI was 1.9% and CPI -0.5% in March 2015, whereas the UK saw RPI of 0.9% and CPI at zero – the same as the average figure in the Eurozone, where some countries are struggling to exit deflation. The Bank of England's (base) rate has not changed from a lowly 0.5% since 2009, which means savings rates are low, but stock markets have been surging upwards, with the FTSE100 topping 7000 in spring 2015, in defiance of geopolitical tensions and other global uncertainties.

With regard to financial stability, housing and mortgage market risks are seen as a key issue in several European countries including the UK, where debt levels are high relative to incomes.

Another issue is the impact of recent currency fluctuations on trade – the US dollar has strengthened, but the euro, yen and many emerging market currencies are weaker, with sterling sitting in the middle. This does not seem to have impacted negatively on the Isle of Man's export-driven manufacturing sector however, which has seen an increase in employment in the last year. The Island's GDP data evidences net growth, with E-Gaming and information and communications technology growing strongly, but the domestic economy is vulnerable in sectors such as entertainment, retailing and construction. Financial services remains a significant contributor to the global, UK and Manx economies, although both fund investments and banking deposits in the Island fell slightly during the last year, the latter closely reflecting the global decline of around 3%. Nevertheless, the Manx Government aims to fully balance its budget in the next financial year, at which point it can begin to rebuild its reserves.

The Commission: Organisation and Corporate Governance



The Commission is an independent Statutory Board established under the Financial Supervision Commission Order 1983. During November 2014 the Treasury Minister announced that the Commission and the Insurance and Pensions Authority would be working towards a merger. This will take effect in November 2015 and will be achieved by the dissolution of both existing Statutory Boards, and their replacement by a new Statutory Board – the Isle of Man Financial Services Authority.

Organisation of the Commission

The functions of the Commission are set out at Appendix A. The membership of the Board is set out at Appendix B.

Appointments to the Board of the Commission are approved by Tynwald, and Commissioners are appointed for a 5 year term.

The Commission's regulatory objectives are set out in section 2 of the Financial Services Act 2008, and they are to:

- secure an appropriate degree of protection for the customers of persons carrying on a regulated activity
- reduce financial crime
- support the Island's economy and its development as an international financial centre.

These regulatory objectives are supported by the following matters to which the Commission must have regard when discharging its functions:

- the need for the regulatory, supervisory and registration regimes to be effective, responsive to commercial developments and proportionate to the benefits which are expected to result from the imposition of any regulatory burden
- the need to use its resources in the most efficient and economic way
- the desirability of implementing and applying recognised international standards
- the desirability of co-operating with governments, regulators and others outside the Island
- the need to safeguard the reputation of the Island
- the responsibilities of those who manage the affairs of permitted persons
- the international character of financial services and markets and the desirability of maintaining the

competitive position of the Island

- the desirability of facilitating the development of the financial services industry
- the impact of its decisions on the stability of the financial system of the Island.

The full Board of the Commission meets monthly. In addition the full Board or at least a quorum (comprising a minimum of three Commissioners) meets regularly to consider licensing matters. The following meetings were held during the period:

Meetings of the Financial Supervision Commission	12
Licence Application Meetings	3

There are three standing sub-committees of the Board: the Risk and Internal Control Committee, the Remuneration Committee and the Complaints Committee (which provides a review body for complaints that may be made against the Commission and which are initially dealt with by the Chief Executive). The following meetings of these committees were held:

Meetings of the Risk and Internal Control Committee ¹	4
Meetings of the Remuneration Committee ²	3

There were no meetings of the Complaints Committee during this period.

A range of policy, risk, case and

operational matters were discussed by the Board during its monthly meetings. Topics included (in no particular order):

- material issues concerning specific licenceholders
- risk management
- consumer initiatives
- current banking issues such as the impact of UK banking reform and recovery and resolution
- the Designated Businesses (Registration and Oversight) Bill
- an enhanced civil penalty regime
- innovations in financial services
- the collective investment schemes general review
- licenceholder fees
- divisional periodic reports
- enforcement and disciplinary procedures
- secondary legislation
- AML/CFT developments including the MONEYVAL review and the National Risk Assessment
- regular reviews of progress with implementing recommendations following the latest assisted self-assessment in readiness for the next IMF review.

Under Schedule 1 to the Financial Services Act 2008 the Commission is required to submit a report to Treasury on its proceedings and activities for the previous year, together with its accounts audited under the Audit Act 2006. This

¹Tim Cullen, Sir David Lewis and Paul Wright

²John Aspden, Roger Butler, Alan Smith, and Bryan Stott

Annual Report for 2014/15 is being submitted to Treasury in fulfilment of this obligation. The Financial Services Act 2008 also requires the Annual Report to be laid before Tynwald.

The Commission's Annual Report and Accounts for 2013/14 were laid before Tynwald in October 2014 in fulfilment of the requirement in the Financial Services Act 2008.

Corporate governance and risk management

The Chief Executive of the Commission is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and for developing and operating internal controls to ensure that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.

In discharging his responsibility and reporting to the Board, the Chief Executive and senior officers of the Commission are required to put in place adequate arrangements for the governance of the Commission's affairs and the stewardship of resources at its disposal. This is also embraced within the Isle of Man Government's Corporate Governance Principles and Code of Conduct. The Commission is required to submit to Government an annual Statement of Internal Control covering implementation of these arrangements.

The Commission operates within a control environment which includes the Government's Financial Regulations, a framework of functions

and responsibilities delegated to individual officers via job descriptions and monitored by a regular appraisal system, the staff handbook (including codes of conduct, etc.) and an internal reporting mechanism through the senior management team to the Chief Executive and to the Board.

The control environment sets the overall structure for internal control and the exercise of the responsibilities of the Commissioners, Chief Executive, directors, and officers in regard to all matters, including such areas as the:

- accomplishment of established goals and objectives
- appropriate exercise of powers and delegated authorities within the Commission
- compliance with policies, plans, procedures, law and other requirements
- management of conflicts of interests
- reliability and integrity of management information
- economical and efficient use of all resources
- safe-guarding of all assets.

Whilst responsibility and accountability for internal control is vested with the Chief Executive, the Treasury has a role in reviewing the adequacy of the Commission's internal controls through a programme of internal audit work. In August 2014 the MOU between the Commission and Treasury was refreshed, and can be found on the Commission's website. The MOU sets out the framework for co-operation between the Treasury

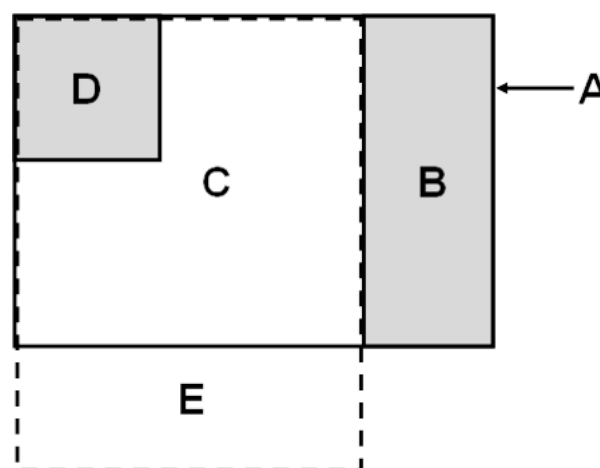
and the Commission. In particular, it establishes arrangements to ensure that the Commission is accountable to Treasury for its actions, and clarifies the circumstances in which liaison and dialogue can flow between both parties.

The Commission's Risk and Internal Control Committee meets quarterly and has completed its ninth year of operation. RICC has defined published terms of reference. Its purpose is to advise the Board on the quality of the Commission's financial management and the adequacy of its systems of internal control including:

- annual accounts for the approval of the Board and the selection of and relationship with its auditors
- systems of internal financial, risk management, operational and compliance controls
- statements from the Executive and auditors on the Commission's compliance with generally accepted principles of good corporate governance that are relevant to it
- the selection of and relationship with its auditors.

RICC also actively considers new and emerging risks, and a process is in place internally to alert both RICC and the Board of Commissioners to these. Over this period RICC undertook a review of risk typologies in order to better differentiate between the types of risk faced by the Commission and ensure that suitable mitigation is in place. It identified three main categories of risk: regulatory risks, internal control risks,

and organisational risks with no specific regulatory dimension. The relationships between these risks are illustrated in the following diagram:



A = All regulatory risks

B = Regulatory risks outside of the Commission's powers and regulatory tools

C = Risks covered by the Commission's powers and regulatory tools

D = Risks that the Commission's powers and regulatory tools may be exercised ineffectively

E = Significant organisational risks with no specific regulatory dimension.

RICC also assesses the effectiveness of the risk management processes of the Commission's individual Divisions and prepares a biannual report to the Board on broader risks to the Commission's regulatory objectives. Risks within the scope of the Commission's powers and regulatory tools are dealt with by the Divisions with oversight from RICC, whereas risks outside of the regulatory perimeter are monitored by RICC

and the Board when determining the Commission's overall risk strategy. Other matters covered by RICC at its meetings during the period included meeting with the Commission's external auditors to consider any issues arising from the audit of the Commission's Annual Report and Accounts for the period in advance of the Board's consideration of the Audited Accounts. The auditors raised no issues in relation to the audit and the audit opinion was unqualified.

Merger of the Commission and the IPA

November 2014 saw an announcement by the Island's Treasury Minister about the Commission and the IPA working towards a merger. Since that date a Transfer of Functions Order has taken effect which will bring about the dissolution of the Commission and the IPA with effect from 1 November 2015 and replace the two existing Boards with a new single Statutory Board - the Isle of Man Financial Services Authority.

A Steering Committee has been set up to oversee preparations for the new body, as has a sub-committee of the Steering Committee which draws equal numbers from both FSC and IPA executive staff as its members.

Meanwhile, a temporary sub-committee also comprising Board members of the FSC and IPA has been established to deal with the recruitment of a new Chief Executive for the IOMFSA.

External communication

The Commission's stakeholders fall into a number of categories, each with its own imperatives. The priorities of one type of stakeholder will often be different to those of another type. Effective communication with stakeholders remains of paramount importance to the Commission; yet it must on occasion determine the direction to follow and choose between competing views. To help it make such choices, the Commission focuses upon its regulatory objectives and the factors, set down in legislation, which it is obliged to consider.

The Commission's main stakeholders are as follows:

- The public – including local residents as well as the international community that use the services of the Commission's licenceholders
- Tynwald
- Licenceholders
- Treasury
- Department of Economic Development
- Other regulatory and law enforcement authorities within and outside of the Island
- Gatekeepers – those persons and bodies that provide important services to licenceholders, such as lawyers and accountants
- Its own staff.

In view of the importance to the Commission of relations with its

stakeholders, this subject is included as a standing item on all agendas for Board meetings.

Communication occurs regularly as part of the day-to-day supervision of licenceholders, but in addition to this other stakeholder communication takes place including:

- consultation on Commission proposals for regulatory or legislative change
- issuance of a regular Licenceholder News bulletin
- seminars, workshops and briefings for the industry
- issuance of relevant consumer information and warnings
- meetings between Commissioners and industry members and professional bodies
- regular meetings with Treasury, and liaison with relevant Government Departments such as the Department of Economic Development
- regular communication with other home/host regulators, including locally the Gambling Supervision Commission, IPA and OFT
- responding to consultations from other bodies, including those emanating from the FCA and HM Treasury as well as the European Supervisory Authorities such as ESMA or standard setting bodies such as IOSCO
- contact with MONEYVAL, the IMF and standard-setting bodies as appropriate

- active participation in Government working parties on relevant topics
- briefings for Members of Tynwald
- participation in industry fora
- co-operation in responding to requests for assistance from other regulators through established gateways
- liaison with the media.

Actions linked to the above are referred to throughout this Report.

On 5 November 2014 representatives of the Board of the Commission met Board members of the Guernsey and Jersey financial services regulators in London. These meetings are usually held annually and they provide a forum to exchange views on international and domestic issues, discuss commonalities of approach and learn from each other's supervisory experiences. At this meeting topics for discussion included international regulatory threats to the Crown Dependencies, trends in AML/CFT practice, MONEYVAL evaluations, National Risk Assessment, registers of beneficial ownership, virtual currencies and UK banking reform.

Consultation with industry is the main way in which the Commission discusses and seeks comments on regulatory proposals, and the Commission appreciates the time which respondents set aside to make sure this process works effectively.

In conducting its work and communicating with stakeholders the Commission met regularly (usually quarterly) with the following industry

representatives and practitioners:

- Accountancy bodies and representatives
- Association of Corporate Service Providers
- Financial Planners & Insurance Brokers Association
- Isle of Man Bankers Association
- Isle of Man Funds Association.

In addition, in July 2014 approximately 130 persons attended the Commission's annual finance sector briefing.

The Commission remains a strong supporter of the Small Countries Financial Management Programme which contributes to the growth and prosperity of small countries through capacity building in the government financial sector.

Charity involvement

All of the Commission's staff are involved in raising funds for charity. Each year an internal Charity Committee involves all staff in choosing the nominated charity for that year and in arranging events to raise funds or otherwise become involved with the charity. In 2014 the amount raised was over £2,300, for the benefit of MacMillan Cancer Support; and for 2015 the nominated recipient will be the Alzheimer's Society.

Over the last 6 years the staff of the Commission have raised almost £18,500 for nominated charities, and this is complemented by other events that take place which may be arranged by individual staff members for their favoured charities.

Complaints against the Commission

Many of the decisions taken by the Commission in the course of exercising its regulatory functions are subject to review in accordance with the Tribunals Act 2006, if the affected person so requests. This is an important safeguard for those who may be affected, and at the same time ensures that the Commission must be ready to justify its actions and that it is accountable for the procedures which it has followed.

Sometimes a person may wish to lodge a formal complaint about the Commission and how it has handled a matter. The Commission has published, on its website, its procedures for dealing with complaints made against it, providing for a review of the matter and response by the Chief Executive. If the complainant remains unsatisfied, then that person may seek a further review by the Board of the Commission.

One complaint was made against the Commission during the period of this report, but insufficient information was received for it to be considered.

Corporate Plan



The Commission prepares a medium term corporate plan, which is built around its regulatory objectives and also reflects the key messages of international co-operation, risk mitigation and economic development.

Corporate Plan 2014/15

The Commission's corporate plan for 2014/15 is set out below. The items listed beneath each objective are some of the measures that were scheduled to be undertaken over the period of this Report to meet these objectives.

The Target Date column provides an update on progress.

Objective: Secure an appropriate degree of protection for customers of persons carrying on a regulated activity

Initiative	Deliverables	Lead Division	Target Date
Domestic Systemically Important Banking Institutions	Undertake consultation with banks for the identification of Domestic (including IOM) Systemically Important Banking Institutions – thereafter finalising policy and rules / guidance	Supervision	Was 2014, now 2015 Ongoing
Civil penalties	Expansion of the use of civil penalties to encourage good compliance – consider final consultation responses, review policy, and draft Regulations and bring into effect	Policy	Final consultation issued Dec 2014 Regulations 2015 Ongoing
Sale and treatment of structured deposits and packaged products	Consider how structured deposits and packaged products are sold and marketed, including visits to banks	Supervision	Completed
Basel III implementation	In conjunction with other Crown Dependencies consider what changes in regulatory approach are appropriate, develop response and update industry	Supervision	2013-2018 Ongoing
Bank Special Resolution Regime (including recovery and resolution)	In conjunction with Government agencies, review Basel Core Principles and develop proposals for consultation	Supervision	2014-2016 Ongoing
UK Banking Reform	Working with the banking industry – identify and address issues for IOM bank operations and structure arising from UK reforms	Supervision	2014-2017 Ongoing
Credit Unions	Consult at high level, consider responses, liaise with DED and Treasury over the drafting instructions for changes to the Credit Unions law, and bringing Credit Unions into the remit of the Financial Services Act 2008 and the Regulated Activities Order	Policy	2015 Ongoing

Objective: Reduce financial crime

Initiative	Deliverables	Lead Division	Target Date
On-site MONEYVAL assessment	Prepare for a full on-site assessment by MONEYVAL	Enforcement	Q2 2016 Ongoing
National Risk Assessment	Participate in and provide AML/CFT technical support to the National Risk Assessment currently being undertaken by the Isle of Man Government and project managed by the Cabinet office	Enforcement	Completed
DNFBPs – AML/CFT compliance monitoring	Consult on draft Bill, oversee passage of Bill through Tynwald, prepare for commencement of monitoring	Enforcement	Consultation and Bill preparation completed and Royal Assent announced in Tynwald on 16 June 2015 Implementation of monitoring Ongoing 2015-2016

Objective: Support the Island's economy and its development as an international financial centre

Initiative	Deliverables	Lead Division	Target Date
Financial Services (Miscellaneous Amendments) Act	Implement Act and internal procedures	Supervision	December 2014 Completed
General Review of Collective Investment Schemes	Liaise with industry, issue detailed consultation and implement legislative change	Policy	First consultation Completed 2014 Second consultation Completed 2015 Implementation Ongoing

Initiative	Deliverables	Lead Division	Target Date
Self-assessment – IOSCO/CIS measures	Take forward necessary IOSCO/CIS changes via funds scope project. Following consultation any secondary legislative changes to be made by December 2015	Policy	December 2015 Ongoing
Self-assessment – Treasury/ Governance measures	Take forward request to Treasury on dealing with necessary points that require changes to Commission/ Treasury relationship, seek Treasury's agreement to implement and assist Treasury to do so	Chief Executive	Completed
Self-assessment – Basel measures	Implement changes necessary (excluding those detailed separately above: D-SIBs, Basel III and Bank Special Resolution Regime)	Supervision	Was 2014, now 2015
SEPA	Progress application with EPC to become SEPA member	Policy	EU dependent Ongoing
MIFID2/MIFIR	Monitor proposed items for effect on Isle of Man and its financial services sector	Policy/ Supervision	2015-2016 Ongoing

Although not a statutory objective, in order to maximise efficiency and ensure the most productive use of resources the following tasks were also identified:

Initiative	Deliverables	Lead Division	Target Date
On-line reporting system for funds and funds database	Complete development of funds database for on-line submission of funds data and implement	Operations	Implemented September 2014
Supervision database	Develop proposals to re-engineer existing system to provide for a flexible framework to submit static and annual compliance data online	Operations	November 2013 Behind schedule – revised to 2015
SharePoint 2010	Migrate to SharePoint 2010, implement SharePoint within Supervision and Authorisations. Replace existing general intelligence system, establish physical and electronic records management across the Commission	Operations	December 2014 Behind schedule – revised to 2015

Initiative	Deliverables	Lead Division	Target Date
Scope of Government	Participate in efficiency reviews as part of Scope of Government review	Operations	Completed – see merger below

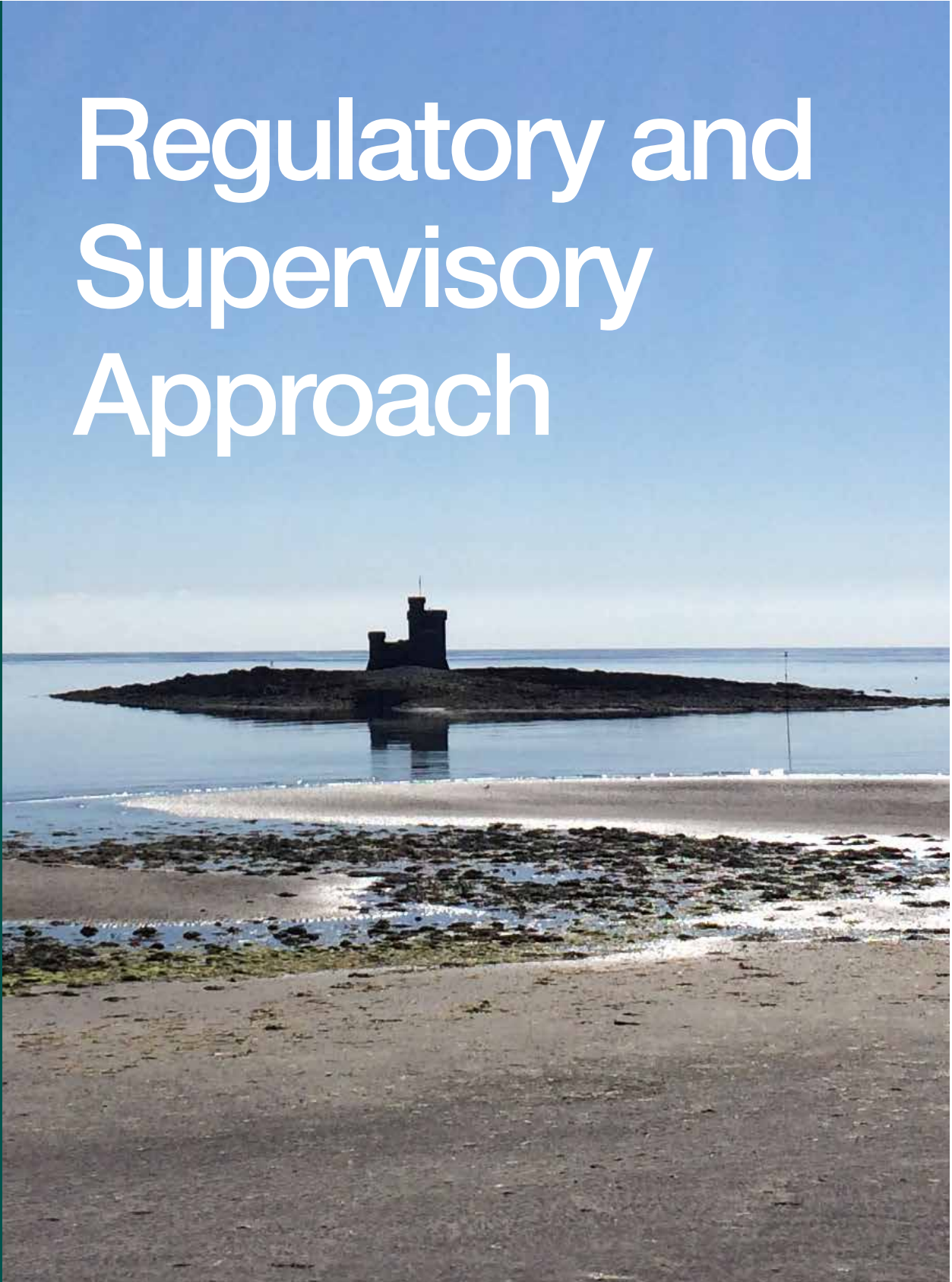
Corporate Plan 2015/16

The Commission's corporate plan for 2015/16 carries forward all ongoing matters from the 2014/15 plan set out above and also includes the additional items below:

Initiative	Deliverables	Lead Division	Target Date
Large Intragroup Exposures – Banks	Work with relevant banks to agree contingency plans for reducing/ exiting large intragroup exposures in deteriorating circumstances	Supervision	2015
Sale and treatment of structured deposits and packaged products	Consult with industry on proposals for rule changes and guidance in relation to structured deposits and packaged products	Supervision	2016
Crowdfunding as a regulated activity	Determine how best this can be achieved, consult and make necessary changes	Policy	2015
Moneylending as a regulated activity	In conjunction with the OFT, determine how best this can be achieved, consult and prepare drafting instructions for primary legislative change and draft necessary secondary legislation	Policy	2016
Regular Rule Book (and other FSA08 secondary legislation) review	Review the Financial Services Rule Book etc., issue for consultation, consider responses and implement	Policy	2016
AML/CFT Handbook	Fully revise the AML/CFT Handbook in line with the new Anti-Money Laundering and Countering the Financing of Terrorism Code 2015	Enforcement	Q2 2015
Commission/IPA Merger	Establishment of the Isle of Man Financial Services Authority to take over the functions of the Commission and IPA	Chief Executive	November 2015



Regulatory and Supervisory Approach



The Commission's regulation and supervision is designed to protect consumers, reduce financial crime and meet the requirements of international standard setters. In undertaking these functions the Commission provides an appropriate framework for industry to adhere to, and a suitable foundation for compliant Isle of Man businesses.



Michael Weldon
Director - Supervision

In both authorising and supervising licenceholders a risk based approach is used. The Commission seeks to understand the risks posed by, and impact on stakeholders of, the institutions it supervises. It also considers how these factors may alter over time due to external or internal issues impacting upon the licenceholder or its wider area of operation. Despite this, the role of a regulator is not to prevent licenceholder failure, which instead is the responsibility of the boards and management of the licenceholders.

For any business conducting regulated activity, consideration of risks by the Commission commences when determining its licence application. In

considering whether to licence any business the Commission must consider consumer protection, fitness and propriety and reputational issues. It must also be cognisant of innovative new products and services and methods of doing business which could assist consumers and the economy. Often the Commission must determine how to react appropriately and proportionately to the naturally competing interests it is faced with, and in such cases the regulatory objectives laid down in statute are its guide.

Consumer focus

It is important for the Commission to secure an appropriate degree

of protection for persons using the products and services of its licenceholders. The diversity of persons using these products and services stretches from general retail consumers to specialist entrepreneurial investors, and in broad terms, appropriate regulatory requirements may differ according to the type of user of the product or service and their perceived need for protection.

The Board and officers of the Commission are cognisant of issues that have affected the general consumer and have focused on such persons, their vulnerability and the need for their protection (which is a specific regulatory objective of the Commission).

Consumer protection is at the heart of the Commission's work. The Commission takes part in a number of consumer protection initiatives, has an internal Consumer Focus Group and has a specific section of its website dedicated to consumer issues – this area of the website has been improved and expanded over this period.

Examples of consumer protection initiatives include the following:

- Issuance of Frequently Asked Questions for consumers on the Commission's website – covering topics such as banks, funds and pooled investments, higher risk investments, and financial advice
- The production of "An Explanatory Guide About Investing" in conjunction with the OFT
- Regular liaison with the OFT regarding

its Financial Services Ombudsman Scheme and the number and type of complaints referred to it

- Issuance of warnings to the public.

However, in addition to these specific matters, much of the Commission's broader activities and requirements take place or exist primarily for consumer protection reasons. Examples include:

- Financial resources requirements – for continuity of business and to allow an orderly wind-down
- Client money and asset requirements – to protect the money and assets of consumers in the event of licenceholder failure
- Conduct of business rules – to require that consumers are treated fairly and that advertising, advice etc. maintains required standards
- Suitability of advice requirements, training and competence requirements, PI insurance requirements and civil penalties, etc. are all in place for consumer protection reasons
- Licenceholder visits take place to check adherence to the requirements and test that consumers remain protected.

Authorisations

The Commission's General Licensing Policy is published on its website and details the criteria applied by it when considering licence applications. The aim of the General Licensing Policy is to ensure firms meet and maintain the necessary standards, which in turn help

to protect consumers and maintain the Island's reputation. The Commission, as a regulator, cannot prevent failure of a licenceholder, but its General Licensing Policy, coupled with its prudential and other regulatory requirements, helps to mitigate such risk, as does its focus on the protection of the consumer of the products and services of licenceholders.

The General Licensing Policy makes sure that applicants are fully aware of the Commission's expectations, such as the requirement for a business to have a real presence on the Island, and to be operated by key persons who are fit and proper with a demonstrable track record. It also provides details of the different categories of regulated activity. With regard to Class 3 regulated activity – the provision of services to collective investment schemes – there is a supplementary licensing policy. Having regard to the General Licensing Policy should ensure that applicants are able to frame their applications appropriately, which can ultimately save time and resources for both the applicant and the Commission.

In addition to consulting the General Licensing Policy, the Commission urges potential licence applicants to contact the Authorisations Division to discuss their plans at an early stage. The Division has a positive, welcoming, open-for-business approach to new business proposals wherever they meet the Commission's criteria, and Commission staff can then talk applicants through the licensing procedure. This is an excellent opportunity to open up positive two-way dialogue and assist understanding from

both sides.

During the year, the Division met with and handled enquiries from persons interested in undertaking a wide range of financial services in the Isle of Man. The largest number of enquiries, by industry sector, related to cryptocurrency ventures. In June 2014, the Department of Economic Development issued a press release setting out the Island's approach to cryptocurrency, with a key factor that it would not be treated as a currency or money. As a consequence, the majority of the ventures, including operating a cryptocurrency exchange, are not deemed to involve regulated activity and, for the majority of enquiries, the Division's involvement has been limited to an initial meeting or discussion.

Applications for financial services licences are prepared by the Authorisations Division. Following preparation, the applications are considered by an internal committee made up of staff from across the Commission including the Supervision Division. This internal committee conducts a preliminary review of the proposal.

In due course, following the internal committee's review, a final recommendation is sent concurrently to the applicant and the Board of the Commission at least 14 days ahead of the licence hearing. The hearing will take place in front of at least a quorum of the Board. An applicant may attend the licence hearing to make any representation.

If an applicant is not satisfied with the decision of the Commission, an

application for review can be made to the Financial Services Tribunal.

The following table shows the number of applications for licences that were issued over this period, compared to the period of the previous Annual Report. The number of licence applications received during the year is similar to the volume for the previous year, and again a number of applicants had a change of heart and withdrew from the application process prior to conclusion. A number of the withdrawals were due to a realisation by the applicant that, despite earlier optimism, it would not be able to satisfy the criteria defined in the Commission's General Licensing Policy. The relatively low number of applications progressing to a positive conclusion is felt to reflect the challenging economic climate which persists for financial services enterprises on the Island and further afield.

Regulated Activity	Issued 2014/15	Issued 2013/14
Class 1 - Deposit taking	0	0
Class 2 - Investment business	0	2
Class 3 - Services to collective investment schemes	2	1
Class 4 - Corporate services	3	1
Class 5 - Trust services	0	1
Class 7 - Management & administration	0	0
Class 8 - Money transmission services	0	0
Total	5	5

(Note: Where a licence covers more than one class of regulated activity, it has been recorded against the 'principal' regulated activity of the applicant.)

Where the necessary information required by the Commission is provided in a timely manner, applications should be processed within 3 months. This timescale can be shortened, particularly if the persons involved are already undertaking regulated activity in the Isle of Man, or are licenceholders which are applying to extend their permissions in order to undertake additional regulated activities.

Unfortunately, the quality of a number of business plans, submitted in support of licence applications, remains of poor standard. It is important that all applicants can articulate with accuracy what business they plan to undertake, which regulated activities are involved, the nature and location of the intended client base and the reasons why they believe their business venture will be a success. It is also

important to document the assumptions underlying any financial projections and to demonstrate that suitable financial support is in place should income assumptions not be met.

The Commission has in place an arrangement whereby persons who make a licence application are invited after the exercise to comment on how

they feel the Commission performed. The feedback on licence applications received during this period was largely positive.

The number of individuals vetted by the Commission during the period was 380. This is a decrease of around 25% over the previous period.



Supervision

The Supervision Division is responsible for the Commission's core task of monitoring and supervising licenceholders.

The Division has a number of teams each having direct responsibility for the supervision of specific regulated activities which are:

- Banking (responsible for deposit takers and also money transmission services)

- Fiduciary services
- Funds and investment services.

In addition, another team manages the Division's Risk and Compliance matters and also provides administrative support to the remainder of the Division. This team is responsible for undertaking on-going compliance reviews of Supervision Division staff's adherence to the internal systems, controls and procedures, and highlighting, co-ordinating and addressing any risk or compliance matters.

The following table identifies permissions held by category. Some licences contain more than one permission, which means that the totals given are permission totals, rather than licence totals:

Regulated Activity	Number of licenceholders conducting the following regulated activities As at 31 March	
	2015	2014
Class 1 - Deposit taking	23	28
Class 2 - Investment business	52	54
Class 3 - Services to collective investment schemes	55	58
Class 4 - Corporate services	167	172
Class 5 - Trust services	119	126
Class 7 - Management & administration	9	9
Class 8 - Money transmission services	5	6
Total Permissions	430	453

Of the five deposit taking licences surrendered, one was the result of a reorganisation of the Isle of Man operations and four represented the banking groups which have closed their Isle of Man deposit taking presence. This represents the overall consolidation and retrenching taking place within the European banking industry. These closures were well managed so as to cause minimum disruption to depositors. Overall the figures record a decline in the number of licence permissions held year-on-year but do not necessarily mean that the business conducted by those firms has been lost to the Island.

Supervisory approach

The supervisory approach for the period of this Annual Report is contained in a published document available on the Commission's website which sets out the Commission's approach to the supervision of the different elements of the financial services industry that it regulates.

The nature and frequency of on-site visits under that approach is related to the size, activity and risk profile of any licenceholder or its corporate group.

The supervision of licenceholders is multi-faceted and it includes a combination of the following:

- Receipt and review of prudential returns, statistical information and notifications
- Use of general and themed questionnaires

- On-site visits, with follow-up action plans
- Formal and informal discussions with management
- Provision of feedback and guidance to licenceholders.

The on-site oversight of licenceholders' adherence to AML/CFT requirements remains a constant theme within the supervisory process. Another important theme that was specifically focused upon this year was the use of clients' money bank accounts and the associated record keeping and controls surrounding them, including sample testing some of the transactions passing through such accounts. Themed visits on the operation, control and oversight of clients' money bank accounts and the use of such (including further transaction testing) will continue to be a feature of our supervisory on-site visits.

The supervisory approach is in the process of review. This will place a more explicit focus on prudential and conduct supervision relative to the regulated activity being undertaken by the licenceholder/group. It is intended to place more weight on desk-based analysis of information and risks. This will involve a revision of the Annual Regulatory Return to make it more risk and regulated activity focused. More information in relation to AML/CFT risks will also be collected to reflect the valuable work and output of the NRA initiative.

On-site visits will continue to be a key element of the Supervision Division's work.

The Division is already putting more focus on the use of Reporting Accountants/Skilled Persons' reports where remediation work is necessary. These reports are particularly useful where, for example, a licenceholder has not undertaken remediation work that has previously been agreed between the licenceholder and the Commission, or where an exercise needs to be done to identify and scope the extent of an issue. This approach puts more of the cost of non-compliance onto the licenceholder, as it is the licenceholder who is responsible for paying for the report.

Commission staff keep abreast of current consumer issues. Regular meetings are held with the OFT to assist in determining which products and services are causing concern to clients of the Isle of Man financial services industry.

In addition, staff of the Supervision Division are working closely with the AML/CFT Unit to ensure that there is a level playing field between the expectations placed upon licenceholders and designated businesses subject to AML/CFT oversight by the AML/CFT Unit.

In respect of banks, in addition to AML/CFT oversight, the Commission's focus continues to be on prudential risks (such as liquidity, capital adequacy, credit and large exposures), corporate governance and risk management, and conduct issues (such as complaint handling, sale of products and treatment of customers). There is also a developing area of focus covering bank resolution,

systemic importance of banks and critical functions for the economy.

The supervisory approach continued to include Annual Desk Based Reviews. The ADBR is a review of each licenceholder's previous 12 months' regulatory history coupled with a consideration and review of each licenceholder's forward looking risk assessment and risk mitigation programme to ensure that these are accurate and up to date. The ADBR encompasses an examination of a licenceholder's Annual Return pack and its audited financial statements, an assessment of the licenceholder's compliance with the Rule Book, any current issues or key events in the period, and the licenceholder's risk and impact ratings as well as its risk mitigation programme.

On and off-site supervision will often result in suggestions or requirements for licenceholder improvement, or observations relating to shortcomings and the required action necessary to ensure regulatory compliance. Where this is the case the Commission clearly details its requirements to the licenceholder along with agreed timescales for completion of the action. Occasionally, there may be the need for follow-up visits to validate that any remediation work or other necessary actions have taken place. Over this period we have been cognisant of the need to place more of the costs of remediation onto the licenceholder, for example by the use of reporting accountants or skilled persons' reports where appropriate.

As is the case for seeking feedback on the licence application process, the Commission also invites licenceholders that have received an on-site visit to comment on how they feel the Commission performed. Suggestions for the improvement of visits, including in relation to efficiency and effectiveness are welcomed and encouraged. The feedback on visits during this period was very positive in the majority of cases and some constructive suggestions were made. Feedback was provided by 38% of firms visited, and we do issue reminders to licenceholders to complete the feedback form. The Chief Executive provides a periodic report to the Board on the feedback that has been provided by licenceholders.

Licenceholders, or their group companies, may also be subject to regulation by the IPA, and as a result the staff of Supervision Division regularly meet with the IPA to share supervisory information, and conduct other ad hoc meetings as required.

Risk and compliance

The Risk and Compliance team is involved with the maintenance of the Commission's 'compliance support' section of its website, including the provision of template registers for optional use by licenceholders in respect of various matters. The team also undertakes the analysis of licenceholders' annual and interim financial returns, and ensures the Division's operational procedures and controls are up to date and effective.

The Risk and Compliance team is also

responsible for handling complaints about non-bank licenceholders. Over the period of the report the total number of non-banking complaints reviewed was 25. The nature of these complaints included suitability of investment advice, corporate governance of funds, fee disputes and quality of service provided.

The Commission does not have a power to rule on complaints or make awards. For most clients of licenceholders (other than corporate and trust service provider clients), the Financial Services Ombudsman may be able to assist. However, the Commission will usually discuss complaints received with a licenceholder to encourage resolution if possible and will take action if any regulatory breaches have occurred.

The Risk and Compliance team assesses how the Commission is performing against the internal standards that it measures itself against. These include standards for:

- issuing responses to correspondence received
- issuing visit reports following on-site visits
- review of Annual Regulatory Returns and other submitted data
- review of financial returns
- complaint handling
- responding to international requests for assistance.

The Commission believes that it is important to monitor such areas in order to ensure it is dealing with matters in a timely manner.

The following table sets out the remedial and other licenceholder actions taken during the period:

	Year ended 31 March	
	2015	2014
Directions	50 – of which 18 were remedial	66 – of which 14 were remedial
Civil penalties	33	25
Section 11 warning notices	0	0
Licences (or classes thereof) suspended or revoked	0	0

Banking and money transmission services

The following table outlines the number of visits to, and annual business meetings with, banking groups:

Visits to and meetings with banks				
Period	Annual business meeting	Compliance		Total
		Supervisory	Focus/Themed	
Actual for year ended 31 March 2015	17	0	12	29
Planned visits for year ended 31 March 2015	17	0	14	31
Actual for year ended 31 March 2014	20	0	16	36

Banking business

Over the period of this Annual Report the Commission's supervisory work with banking groups gave priority to the following key areas:

AML/CFT

Involvement with the National Risk Assessment and discussion and consideration of the draft version of the latest AML/CFT Code and Handbook (including specific guidance for the banking sector). Remediation matters were also highly topical, and a programme of visits was undertaken focused on how banks monitor and identify higher risk relationships, consider and report suspicious activity, and screen their customer bases for PEPs, adverse information and sanctions.

Structured deposits and other non-standard accounts

Following issuance of final feedback following a detailed questionnaire concerning the way in which structured deposits are designed, marketed and sold by banks, the Commission intends to consult on changes to rules and guidance in relation to structured deposits over the forthcoming period.

Over this period work commenced on gaining a better understanding of the local market in respect of packaged bank accounts. Packaged accounts are those accounts provided to retail customers which include access to other goods and services whether or not a fee is charged (excluding those features that are normally offered as

standard for a current account, such as the use of debit cards, cash machines, internet banking, telephone banking, standing orders, Direct Debits, etc.).

The Commission issued a questionnaire to banks in the autumn of 2014, to commence the initial research on how banks design and promote packaged bank accounts. The research is helping us to formulate views on:

- whether consumers are receiving the right kind of information upon which to make informed decisions
- how such products should be treated and sold in the future
- whether any changes are needed to existing rules and guidance.

Visits in the period

Our visit programme in 2014/15 was undertaken on an individual bank basis with some core themes built into the approach. These were AML/CFT (see above), operational risk, and remuneration frameworks.

Large exposures

Following the issue of updated guidance in March 2014, work has focused on large group exposure contingency plans. In August 2014 we wrote to all relevant banks requesting that they provide draft plans outlining how they would deal with a deteriorating position in the group, including divesting of group exposures. We have agreed plans with a number of banks and continue to work on arrangements that have added complexity, including how proposals will fit into group recovery plans.

Complaints and conduct matters

During the year, some complaints about banks were received by the Commission. The only specific themes arose from some banks' customer remediation exercises, which included requesting additional due diligence information from local residents. Otherwise, the complaints ranged from issues concerning service and delays, loan products and banks' approach to account closures.

The Commission also monitors and reviews how conduct/consumer issues that arise in the home jurisdictions of banks located in the Isle of Man (most notably the UK) could impact on customers of banks in the Island. Licenceholders are expected to take into account best practice expectations and treat customers appropriately. This can result in issues originating, say, in the UK having an impact locally with customer redress having to be considered. Examples have included the sale of interest rate hedging products to small businesses, payment protection insurance and any bank specific issues that arise from past disclosure issues or ambiguity in documentation.

Closure, integration and restructuring

The closure, restructuring, integration and sale of some banking groups continued over 2014/15. Supervisory work linked to this activity involves:

- ensuring that any change in controller is acceptable to the Commission
- that relevant notification requirements are adhered to

- that liaison takes place with other relevant regulatory authorities
- that customer communication is clear and dealt with in a timely manner, and
- otherwise monitoring any wind-down in business and ultimate licence surrender.

Reporting to the Bank for International Settlements (BIS)

The Isle of Man participates in the reporting of statistics on banking activity in the Island to BIS. The Commission is the body in the Isle of Man which collects information from banks quarterly and aggregates this for reporting purposes. BIS compiles and publishes two sets of statistics on international banking activity: locational banking statistics and consolidated banking statistics. Only the locational banking statistics are relevant to the Island.

The Island's reporting to BIS during the year has complied with the enhanced statistical reporting requirements (known as Stage 2 enhancements). This includes more granular data supplied by the banks in the breakdown of assets and liabilities. At the request of BIS, new confidentiality agreements were agreed during the year to allow the publication of more information. BIS has indicated that this will commence in 2015.

International developments and the Isle of Man banking sector

Basel III

The Commission started work with its counterparts in Guernsey and Jersey in

2012 ('the tri-party group') to determine how Basel III may be implemented in the Crown Dependencies. Following the issuance in September 2012 of the first high-level tri-party group discussion paper, a decision was made to issue further detailed discussion papers covering specific proposals relating to the following core areas of Basel III: capital adequacy, liquidity and leverage ratio. Work on domestic systemically important banks and recovery and resolution is covered below but also links to Basel III.

Capital adequacy and leverage

In December 2013 the tri-party group issued a discussion paper containing detailed proposals regarding capital adequacy for incorporated banks. Responses were received from banks and tri-party feedback was issued in July 2014.

In June 2014 the tri-party group issued a discussion paper containing proposals for the implementation of a leverage ratio (a non-risk weighted measure) reporting requirement for incorporated banks. Responses were received from banks and tri-party feedback was issued in December 2014.

Following the above, the Commission will be issuing a consultation paper in 2015 covering final proposals for capital adequacy and leverage, with the intention for changes to come into effect in 2017.

Liquidity

The tri-party group has worked together on detailed proposals for introducing

revised liquidity requirements for banks, mostly aimed at incorporated banks (but some new reporting requirements will be applicable for all banks). Due to some differences in local implementation timeframes, and specific jurisdictional issues, it is expected that each island will issue individual discussion papers in 2015, albeit the papers will contain broadly identical proposals.

UK's Independent Commission on Banking Report (UK banking reform)

Following recommendations made by the Independent Commission on Banking in the UK, the UK Government introduced legislation to allow for ring-fencing of core banking services in the UK from activities associated with trading and financial interconnectedness. These changes are intended to ensure that UK ring-fenced banks, and groups containing RFBs, can be resolved in an orderly manner with minimal disruption to the provision of core services. Banks in the UK with core deposits greater than £25 billion (broadly deposits from individuals and SMEs) are required to ring-fence core activities by 1 January 2019.

In the summer of 2014 it was confirmed that a UK RFB (or ring-fenced group) would not be permitted to operate a banking subsidiary or branch outside the EEA. Therefore, a UK RFB is not permitted to have a branch or subsidiary in the Isle of Man. A UK RFB can however provide services to other parts of the group, including non-ring-fenced banks. This means that Isle of Man based operations should be able

to use a UK RFB for services. The ring fencing arrangements call into question the business models of the UK banks on the Island, and the Commission is looking for clarity in many remaining areas of the policy while the banks and Government have to consider the strategic implications.

On 6 October 2014 the Bank of England issued a news release outlining proposals to strengthen the (UK) financial system through structural reform, relating to the above UK legislative changes. As part of this, the Prudential Regulation Authority issued a consultation paper (CP 19/14) on three areas of ring-fencing policy: the legal structure of banking groups, governance and continuity of services and facilities. That consultation ended in January 2015.

All UK banking groups that expect to reach the threshold for being subject to ring-fencing requirements were required to submit a preliminary plan of their anticipated legal and operating structures to the Prudential Regulatory Authority by 31 December 2014.

As a result of the above developments the Commission wrote to all affected groups in the Isle of Man in late November 2014 in order to commence a more formal regular dialogue with them regarding the implications of the UK Banking Reform measures on Isle of Man operations. The key issues that are being discussed are:

- Business model rationale for Isle of Man operations

- Prudential matters (most notably liquidity, capital, large group exposures)
- Conduct (impact on customers)
- Resolution arrangements and changes in creditor hierarchy (noting this will involve separate but related work-streams in due course for the industry as a whole)
- Governance, reporting and risk management (relationships with group).

The Commission met with all affected banks in early February 2015 and further meetings will be held as group and local plans develop.

The Commission is also a member of a Government working group which was set up as a result of UK banking reform proposals. Other members of this group are from the Attorney General's Chambers, Cabinet Office, Department of Economic Development and Treasury. This working group is finalising a high-level plan with designated actions (in two core phases) covering the following broad areas:

- An updated document covering the Commission's approach to banking supervision, including a specific section covering branches. This will also develop the concept of domestic systemically important banks and critical functions, in both subsidiary and branch models (phase 1) and when such models are acceptable. The approach will then be developed further (phase 2) to cover recovery and resolution

- Consideration and development of a resolution regime in the Isle of Man, which will require regulatory involvement and legislative changes. This will need to focus on resolution locally and also how the Isle of Man can facilitate group resolutions and protect the interests of Isle of Man based depositors
- A review and overhaul of the depositors' compensation scheme, which will also include changes to the creditor hierarchy in the Isle of Man.

Domestic systemically important banks and recovery and resolution

In October 2012 the Basel Committee published a document on "a framework for dealing with domestic systemically important banks". This framework is focused on the impact a bank may have on the domestic economy if it fails. The framework is part of Basel III but specifically applies to subsidiaries and, at the discretion of the supervisory body, branches.

The framework has 12 key principles covering two aspects: assessment methodology (which defines what makes a bank a D-SIB) and requirements for D-SIBs to have higher loss absorbency (capital). It also recognises that other tools such as more intensive supervision and the development of a more appropriate framework for recovery and resolution play a part.

In considering recovery and resolution, the paper "Key Attributes of Effective Resolution Regimes for Financial Institutions" issued by the Financial

Stability Board in October 2011 is considered to be guidance on best international practice. Similarly another important reference point is implementation in the UK of the Bank Recovery and Resolution Directive with effect from January 2015 (bail-in applies in the EU with effect from January 2016, but the UK has adopted aspects of this early). This has implications for the creditor hierarchy framework in the UK and this impacts on banks in the Isle of Man. The Bank of England also issued an updated document in October 2014 on its approach to resolution.

The Commission has initially been working with the tri-party group to determine how to approach the matter of D-SIBs and recovery and resolution in the Crown Dependencies. A tri-party discussion paper was issued in January 2014. Responses were received from banks and tri-party feedback was issued in July 2014 and a consultation covering proposals for D-SIBs is expected to be issued in 2015.

Wider work will continue in 2015/16 in conjunction with Government where required (and also as part of the issues relating to UK banking reform), covering the following key areas:

- The development of a regime, including consultation, addressing the Basel framework for D-SIBs
- How Isle of Man branches and subsidiaries will fit into group based recovery and resolution plans
- Whether the Island needs to strengthen its powers and tools to

facilitate recovery and resolution of banks

- The role of the depositors' compensation scheme
- How bail-in and deposit preference measures in other jurisdictions (such as the Bank Recovery and Resolution Directive) may impact on operations in the Island (for branches and subsidiaries which have large intra-group exposures).

The EU creditor hierarchy and impact on the Isle of Man

As a result of the Bank Recovery and Resolution Directive, the creditor hierarchy in the EU changed with effect from 1 January 2015. The BRRD introduces mandatory preference in the creditor hierarchy for EU and non-EU deposits from individuals and micro, small and medium-sized businesses that exceed the EU deposit protection limit of €100,000 (£85,000). It also introduces mandatory 'super-preference' for deposits protected by EU Deposit Guarantee Schemes, such as the Financial Services Compensation Scheme in the United Kingdom, for amounts below €100,000 (£85,000). This means that in insolvency the FSCS is in the most senior class of unsecured creditors.

The BRRD makes deposits protected by EU guarantee schemes and deposit guarantee schemes themselves (including the FSCS) 'super-preferred'. This means that in a UK insolvency the FSCS has the first unsecured claim in the bank's estate,

along with other preferred creditors, and is likely to recover more of its costs than under the previous creditor hierarchy. Deposits from individuals and micro, small and medium-sized enterprises that are higher than the protected amount of £85,000, are preferred to other senior unsecured liabilities but not super-preferred.

The position of deposits in Isle of Man branches of UK banks is still under review, including in discussions with the relevant UK authorities.

The creditor hierarchy changes, and bail-in provisions, may also impact on the up-streaming model for some subsidiary banks in the Isle of Man, as up-streamed funds will rank as unsecured creditors (and therefore rank below ordinary and secondary preferential creditors). How up-streamed funds will be treated in a resolution plan still needs to be understood for each banking group.

Looking ahead: 2015/16

Planned visit themes for 2015/16

Our visit programme in 2015/16 will continue to be undertaken on an individual bank basis. In addition, we are proposing to undertake development work on our risk assessment of banks to better evidence our supervisory focus. We will be engaging with banks subject to UK banking reform measures, and also undertaking some specific themed AML/CFT work as a result of changes to the AML/CFT Code that came into operation on 1 April 2015.

Lending data

The Commission wishes to improve the regular information it receives in relation to banks' loan exposures and issued proposed new reporting forms and guidance to banks in April 2015 for comment. It is hoped to have a final agreed reporting form in place with effect from December 2015.

International developments

The core topics of Basel III (covering capital, leverage, liquidity, ICAAP and possible future changes to the risk weighting framework), the restructuring of banking groups as a result primarily of UK banking reform, and D-SIBs and recovery and resolution will continue to be an important focus of our work over the next year and beyond. We expect to issue consultation documents on aspects of Basel III, and also covering our proposed approach to D-SIBs. Further detail on Basel III and D-SIBs is provided in separate sections of this Report.

Supervisory approach

As mentioned earlier in this Report, the supervisory approach is undergoing change, including for banks. It will still cover both prudential and conduct matters, but the Commission intends to publish more information about its banking supervision over the forthcoming period, and this will include how supervision differs in connection with locally incorporated banks vis-a-vis local branches of banks incorporated elsewhere, and the importance of dialogue between home and host regulators. We also intend to start to

encompass the matter of systemic importance and critical functions within our approach.

As part of this work, we will also be reviewing how we risk assess banks, and align this risk assessment to the core themes of prudential supervision, conduct supervision (including AML/CFT), and to introduce recovery and resolution planning.

Money transmission services

Money transmission services businesses in the Island are split into two distinct sub-categories for supervisory purposes:

- Those that *only* conduct bureau de change, cheque cashing and provision of payment services as agent (e.g. for Moneygram or Western Union)
- Those that conduct the provisions of payment services directly

Bureau de change, cheque cashing and provision of payment services as agent (3 licenceholders, as at 31 March 2015)

These licenceholders are subject to a reduced set of regulatory requirements covering certain notifiable events and the provision of audited financial statements for Isle of Man incorporated entities. The core focus of our work is AML/CFT compliance.

In 2014, 2 update visits were planned and undertaken as follow up visits to ensure that previous actions had been addressed. In 2015/16 only 1 visit is planned. In addition, sector specific



guidance for AML/CFT will be issued following changes that impact on these businesses.

Provision of payment services directly (2 licenceholders as at 31 March 2015)

During the year, one licenceholder, Walpay Limited, ceased regulated activity and surrendered its licence.

The core focus of our work remains on reviewing business models and risk assessing firms, most notably in relation to AML/CFT compliance, and the operation of the segregated payment accounts to hold relevant funds. In 2014/15, we planned and undertook 2 annual business meetings and one focus visit. We also plan to undertake focus visits to both licenceholders in 2015/16.

Fiduciary services

The Isle of Man is one of few jurisdictions globally to licence TCSP

activity and annually attends a meeting of 4 fiduciary regulators (alongside regulators of Gibraltar, Guernsey and Jersey) to discuss common themes. In addition, the Commission is a member of GIFCS, and this group comprises many members that do regulate such activity. In 2014 GIFCS adopted an International Standard on the Regulation of Trust and Corporate Service Providers. The Commission has committed to undertake a self-assessment against the GIFCS Standard and will conduct this during 2015.

The total number of companies under administration rose slightly (with 2006 Act companies and overseas companies increasing while 1931 Act companies decreased). In contrast, the number of trusts under administration fell slightly.

There were small reductions in both the aggregate turnover (-1%) and aggregate profitability (-4%) of the sector.

The following table outlines the number of visits to, and annual business meetings with, fiduciary companies and professional officers:

Visits to and meetings with fiduciaries				
Period	Annual business meeting	Compliance		Total
		Supervisory	Focus/Themed	
Actual for year ended 31 March 2015	56	26	26	108
Planned visits for year ended 31 March 2015	41	22	25	88
Actual for year ended 31 March 2014	35	34	23	92

The on-site visits are mainly broad in scope, covering governance of the licenceholder, compliance and AML/CFT matters. During this period, visits increasingly focused on assessing compliance with client money requirements.

Discussions are being held with practitioners about the findings of these visits and how the Commission and the industry can most effectively protect client money.

In addition, greater focus has been given both in the visit programme and in desk based monitoring in connection with client companies that offer their shares to the public.

As usual, the team provided detailed

feedback on its visit findings, supervisory trends and AML/CFT issues through the ACSP and industry presentations given in September 2014.

2014-15 saw the need for effective intervention in a number of cases.

Examples include:

- In relation to consumer protection – where a licenceholder had invested client entity money with inadequate due diligence
- The appointment of reporting accountants in the case of 3 licenceholders
- The appointment of a manager in the case of 1 licenceholder – Douglas Trustees Limited.

Looking ahead: 2015/16

Visits for 2015/16 will be mainly to those licenceholders considered to be higher risk or licenceholders which have undergone some significant changes during the year (such as acquisitions of business). Compared to 2014/15, there will be a greater emphasis on higher risk situations, and less thematic work.

The fiduciary team will continue to focus on client money compliance, and files selected for sample will include client companies that are listed or quoted, other public companies, and companies that seek investments from third parties. The need for thorough due diligence when investing on behalf of a client company or trust will also be emphasised in response to two situations which arose in 2014/15.

In March 2015 the Commission updated its guidance for licenceholders' staff who act as directors or trustees of client entities. Features of the updated guidance include emphasis of context and also the quality of support that is given to persons acting as directors and trustees. It states that directors and trustees need both relevant skills and adequate time to properly discharge their responsibilities, and that licenceholders are expected to support directors and trustees who reject a transaction on the grounds of inadequate information or unresolved concerns over risk. This updated guidance will be taken into account in considering licenceholders' management controls.

Corporate governance and a comprehensive approach to risk

management remains important. With the continuing importance of tax transparency, and the international measures put in place to address this, the Commission reiterates that aggressive tax planning and mitigation structures are not a prudent business strategy, as such business brings unacceptable risk to the licenceholder but also the Island's reputation.

Investment and funds services

The Commission seeks to maximise investor protection, and has issued consumer guidance leaflets to be issued at point of sale by financial advisers. In addition the enhanced consumer section of the Commission's website includes much useful consumer protection information.

As a result of the financial crisis some funds suffered difficulties such as fund suspensions, illiquidity of assets, and in some cases liquidation. These matters create extra work for the Commission, in particular to ensure that discussions with and transparency towards investors by the funds is maintained.

Commission intervention in problematic issues is a key method of protecting consumers and this period has seen intervention in the form of initiating independent reports on particular compliance issues or matters of concern, the issuance of directions to licenceholders and collective investment schemes, and the appointment of a controller for fund arrangements.

The following table outlines the number of visits to, and annual business meetings with, investment and funds services businesses during the period:

Visits to and meetings with investment and funds services businesses				
Period	Annual business meeting	Compliance		Total
		Supervisory	Focus/Themed	
Actual for year ended 31 March 2015	37	5	39	81
Planned for year ended 31 March 2015	52	4	53	109
Actual for year ended 31 March 2014	53	12	40	105

Investment businesses

Retail Distribution Review

The changes to the Rule Book that took place on 1 February 2014 increased the minimum qualification level of financial advisers, which means that those who advise the retail public must hold a Level 4 qualification from a relevant professional body. The changes also increased the disclosures that need to be provided to consumers and introduced additional protections for vulnerable clients.

Additionally, from January 2015 all financial advisers were required to hold Statements of Professional Standing.

Cross-sector information questionnaires

Over this period the Investments and Funds Services team has used cross-sector information questionnaires as

part of its regulatory toolkit. These provide snapshot information across the industry at the same date and help the Commission to better understand macro issues. They have provided useful comparative information to benchmark licenceholders between each other and pinpoint ‘outlying’ data, which can highlight customer type/product/income stream risk.

Investment business visit programme

- *Financial advisers* – During 2014/15 supervisory visits to financial advisers focussed on the suitability of advice given and also included “implementation” visits to review the steps they have taken to come into compliance with the RDR requirements and to consider the results of a financial adviser product and remuneration questionnaire.

- *Other investment businesses including investment managers, stockbrokers, fund investment advisers and asset managers* – During 2014/15 supervisory visits focused on operational issues, dealing and custody arrangements and assessing compliance with client money requirements.

Services to collective investment schemes

This period has seen the successful registration in the UK of a new Isle of Man Authorised Scheme. A new regime began over this period which permits Isle of Man Authorised Schemes to have off-Island Fiduciary Custodians or Trustees subject to reporting requirements, on-site visits and inter-regulator co-operation. Numbers of new applications for Regulated Funds and other scheme types are also increasing.

Also over this period the Commission signed an AIFMD co-operation agreement with the Comisión Nacional del Mercado de Valores of Spain, bringing the total of such agreements with EEA competent authorities to 27.

Regulation of functionaries to collective investment schemes places great importance on their roles to ensure that schemes operate within the terms of their offering document and scheme particulars. It is also vital for functionaries to identify and to address and monitor conflicts of interest.

Where funds are in liquidation or have controllers appointed, the team continues to work with the liquidators/

controllers of such schemes in order to keep updated on any issues arising which may impact on the fitness and propriety of key persons, including the governing bodies of such funds. Also the Commission continues to promote the principles of good corporate governance for funds, including the timely issue of investor updates and audited financial statements. A guidance note for the governing bodies of funds will be finalised and issued in 2015.

Scheme functionaries – Visit programme

During 2014/15 supervisory visits were bespoke according to the nature of business undertaken. Visits included a focus on compliance, corporate governance, risk management and scheme based protocols. This approach will continue in 2015/16.

Looking forward, the Commission is working on the following areas in relation to funds:

- Completion of the guidance document on corporate governance for the governing bodies of funds.
- Embedding and making maximum use of the online funds submission portal and online funds statistical reporting. The online information links into the Commission's database and enables electronic notification of funds and changes to funds, annual compliance declarations and the supply of statistical information. The database streamlines the administration of funds information for the Commission and licenceholders, provides electronic reminders in

advance of regular reporting dates and acts as a source of reference to licenceholders for their submissions to the Commission in respect of funds.

- On the basis of the revised IOSCO Principles and Methodology – continuing with the next phase of the Collective Investment Schemes General Review, which includes updating and simplifying the Island's funds structure and related legislation and guidance, considering an appropriate and limited definition of closed-ended investment company to be encompassed by the definition of collective investment scheme and improvements to the Commission's website and guidance notes in relation to funds.

Depositors' and Investors' Compensation Schemes

The Isle of Man has both Depositors' and Investors' Compensations Schemes. Further information and details of the coverage which they provide are set out on the Commission's website.

The compensation schemes only come into operation when a relevant default has been triggered, and no claim has ever been made against the Investors' Compensation Scheme, which covers only investors in authorised collective investment schemes.

The Depositors' Compensation Scheme and Investors' Compensation Scheme are separate from the Commission and are administered under specific legislation. The DCS, which has

previously been activated, produces its own report and audited financial statements.

It is important to note that neither scheme is pre-funded, both compensation schemes are funded by participants (i.e. the relevant licenceholders), and in the case of the DCS also by Government, up to maximum levels set down in the legislation. The Scheme Manager, which is the body responsible for managing the DCS, also has a power to borrow.

Broadly, the DCS compensates persons that have money in current and deposit accounts in the Isle of Man with 100% of their qualifying deposit subject to a maximum £50,000 of net deposits per individual depositor or £20,000 of net deposits for most other categories of depositor.

Because of the cap which the DCS legislation places on total contributions (paid by the Government and participating banks) to the DCS, and the fact that borrowing is discretionary and subject to availability, it is possible that there may be insufficient funds available to pay the full level of compensation to depositors at a particular time. This especially applies if a large bank fails and/or there is more than one failure within a short period of time.

Banks and financial advisers should take account of the DCS' limitations in any references they make to it. Depositors should also take into account the limitations of the DCS when deciding where to place their money. This is made clear in the consumer information

section of the Commission's website.

The DCS was previously activated (on 27 May 2009) in respect of the insolvency of KSFIOM and (on 16 January 1992) in respect of the failure of BCCI which had a branch in the Island. The DCS Regulations applying at these times differed in respect of the amount of compensation available to depositors.

The Commission, as Scheme Manager at the time of the KSFIOM and BCCI failures, has devoted considerable resources to ensure the effective operation of both schemes and publishes its own separate Annual Report and Accounts which refer to the events in greater detail.

In relation to KSFIOM, the Joint Liquidators declared two dividends in the year ended 31 March 2015, totalling 4.2p, which took the total dividend declared to 100p in the £. It is expected that one further dividend will be paid but the timing of this is dependent on the realisation of assets and has not yet been determined.

In relation to BCCI, Regulations came into effect from 1 November 2014 that provided for the fund created for this liquidation to be terminated (because the final dividend was paid in August 2012 and payments of surplus funds due to claimants of the DCS re BCCI S.A. were made). On 26 February 2015 the Commission, as Scheme Manager of the fund, resolved to terminate the fund forthwith, and payments due to Treasury were made (representing the funds of former depositors which remain unclaimed). A final payment will be made

to original participating banks once the final costs of the winding up of the fund have been paid.

Compensation under the Investors' Compensation Scheme payable is as follows: 100% of the first £30,000, 90% of the next £20,000 with a maximum compensation of £48,000.

Complaints about licenceholders

The Commission does not have the remit to undertake dispute resolution or make awards in relation to complaints about licenceholders.

The Isle of Man has a Financial Services Ombudsman Scheme. The Ombudsman Scheme is a free, independent dispute resolution service for customers with unresolved complaints against some Isle of Man financial firms such as banks, insurance companies and financial advisers. The Ombudsman Scheme does not cover complaints regarding corporate or trust services.

The role and powers of the Ombudsman Scheme are set down by law and the adjudicators are appointed by Appointments Commission, which is an independent body, established by the Council of Ministers under the auspices of the Tribunals Act 2006.

As an alternative, the Isle of Man Courts operate a small claims procedure which is available for claims up to £10,000.

If the Commission does receive a complaint about a licenceholder it will however review it in order to see

whether any breaches of regulatory requirements appear to have occurred. Often the Commission finds that disputes tend to be of a commercial (rather than regulatory) nature, for example involving contractual issues.

International relations

International co-operation

The importance of co-operation agreements in relation to financial services continues to grow. Over this period a further co-operation agreement was signed, helping the local fund industry to continue to market Isle of Man alternative investment funds to professional investors in the EU and EEA, bringing the total of such agreements to 27. The agreements bolster the Isle of Man's reputation as an excellent location from which to do business with the EU and the rest of the world.

In addition to specific agreements for particular topics, the Commission seeks to further extend its communication with home regulators. In many cases these relationships are underpinned by MOUs signed between the Commission and relevant authorities. While these are not formal legal agreements, they can assist mutual understanding by setting down how the various parties will interact and co-ordinate action. Over this period the Commission entered into one MOU with the China Securities Regulatory Commission.

The Commission is an ordinary member of IOSCO and a full signatory to the IOSCO MMOU. An account is given

in the 'Assistance with investigations and insider dealing' section of this Report of the assistance provided by the Commission in respect of requests made under the IOSCO MMOU.

The Island is a member of Group of International Finance Centre Supervisors and the Commission's Chief Executive is its Chairman.

A meeting of the Enlarged Contact Group of Collective Investment Fund Supervisors took place in September 2014 during which a wide range of issues were discussed including:

- Mutual co-operation arrangements between regulators
- Complexity of funds and products and transparency of information
- Risk management and on-site inspections
- EU Member State and third country experiences with regard to implementation of the AIFMD
- Retail versus non-retail schemes
- Closed-ended investment companies and collective investment schemes.

International regulatory liaison

Where a licenceholder is part of a cross-border group, the Commission's reports following its on-site visits are forwarded to that licenceholder's home regulator for their information and inclusion in the consolidated supervision of the group.

Over the period of this Report, the Commission sent 130 letters to other supervisors for regulatory purposes, and received 83. These included standard letters to home and host regulators in

relation to high impact licenceholders, requests for information, the passing of information to inform other regulators (including the sharing of visit reports where there is a home supervisor) and replies to other regulators' requests for assistance.

The Commission participates in 'college' meetings and teleconferences arranged by home supervisors (primarily the UK Prudential Regulation Authority and Financial Conduct Authority and the Central Bank of Ireland). This enables the Commission to better understand the financial position of the group and any supervisory issues being addressed by the parent supervisor, and provides an opportunity to discuss any local concerns it may have as host supervisor.

The Commission also writes to the home supervisors of licenceholders at least annually updating on any prudential concerns which may be held by either party; it also meets face-to-face with home supervisors as necessary.

During the year, representatives from an overseas regulator came to the Island for a period of one week. This was so that they could obtain an understanding of the Commission's operational approach to discharging its supervisory responsibilities, and consider its relevance to their own regulated sector. There were no visits to the Island from host or parent supervisory authorities of our licenceholders during the year, although such visits are welcomed.



The background of the page features a light grey, semi-transparent image of a building's exterior. On the right side, a crest or coat of arms is visible, featuring a bird (possibly a gannet) perched on a shield, with a crown above it. The building has a modern architectural style with large windows and a stone or concrete facade. A dark teal vertical bar is positioned on the left side of the page, partially overlapping the text.

Prevention of money laundering and countering the financing of terrorism, and enforcement action

The Commission's Enforcement Division is tasked with ensuring that the Commission's AML/CFT requirements are maintained in line with international expectations. The Division is also empowered to deal with those who undertake regulated activities without the necessary licence and to pursue enforcement and disciplinary action with licenceholders as necessary.



David Griffin
Director - Enforcement

Prevention of money laundering and countering the financing of terrorism

National Risk Assessment

The Financial Action Task Force's Recommendation 1 (as revised in February 2012) provides that:

'countries should identify, assess and understand the money laundering and

terrorist financing risks for the country and should take action, including designating an authority or mechanism to coordinate actions to assess risks and apply resources, aimed at ensuring the risks are mitigated effectively. Based on that assessment, countries should apply a risk-based approach to ensure that measures to prevent or mitigate money laundering and terrorist financing are commensurate with the risks identified. This approach should be an essential foundation to efficient allocation of resources across the anti-money



laundering and countering the financing of terrorism regime. When countries identify higher risks, they should ensure that their AML/CFT regime adequately addresses such risks. Where countries identify lower risks, they may decide to allow simplified measures for some of the FATF Recommendations under certain conditions.'

This Recommendation embodies the concept of National Risk Assessment and the Isle of Man's compliance with it will be assessed when it is evaluated by MONEYVAL in 2016.

The NRA therefore constitutes the core element of a risk-based system and is the basis upon which relevant strategic and policy decisions should be made, ensuring that the measures to prevent or mitigate money laundering and terrorist financing are commensurate with the risks identified.

In order to assist in determining how the Isle of Man would undertake its NRA, the Commission's Chief Executive and Director of Enforcement attended a workshop on this subject in October 2013. It became apparent that three

options were available, namely using a specific tool and methodology developed by the International Monetary Fund, one developed by the World Bank or designing and developing a methodology itself.

A pan-Government National Risk Assessment Working Group was established in October 2013 with the Commission acting as interim project manager to co-ordinate the group's efforts. The group proceeded to research the various models and methods available for conducting a NRA and determined that the World Bank appeared to provide the most appropriate model for an international finance centre. The decision to use the World Bank model was approved by the Government's AML/CFT Strategic Group. The Government has taken this project extremely seriously and a major commitment has been made by all stakeholders including relevant Government bodies and industry. As part of that commitment, a full time project manager was appointed in October 2014 to lead and co-ordinate the NRA from the Cabinet Office.

World Bank Model Approach

The World Bank provides an “assisted self-assessment model” that measures risk as a product of two factors: threats and vulnerabilities. The assessment is based on an intelligent mixture of statistical analysis and subject knowledge from a broad range of experts.

Threat – a person or group of people, an object or an activity with the potential to cause harm.

Vulnerability – a weakness that can be exploited by the threat or that may support or facilitate its activities.

Overall risk in a jurisdiction is a product of overall threat and overall vulnerability. The diagram to the right is known as a “risk map” which can be used to locate the final risk level of the jurisdiction when threat and vulnerability are known (L= low, ML = medium low, M = medium, MH = medium high, H = high).

OVERALL MONEY LAUNDERING RISK IN THE JURISDICTION

OVERALL THREAT	H	M	M	MH	H	H
	MH	M	M	MH	MH	H
	M	ML	M	M	MH	MH
	ML	ML	ML	M	M	M
	L	L	ML	ML	M	M
		L	ML	M	MH	H
		OVERALL VULNERABILITY				

Timeline

It was apparent from mid-September 2013 that the Isle of Man would undergo an early evaluation under MONEYVAL's 5th round evaluation process (revised FATF Recommendations and new Methodology), with the on-site visit probably taking place in the second quarter of 2016.

Under the new FATF Methodology, a country is assessed in terms of both technical compliance and effectiveness. The technical compliance assessment addresses the specific requirements of the FATF Recommendations, principally as they relate to the legal and institutional framework of the country and the powers and procedures of the competent authorities. This is a

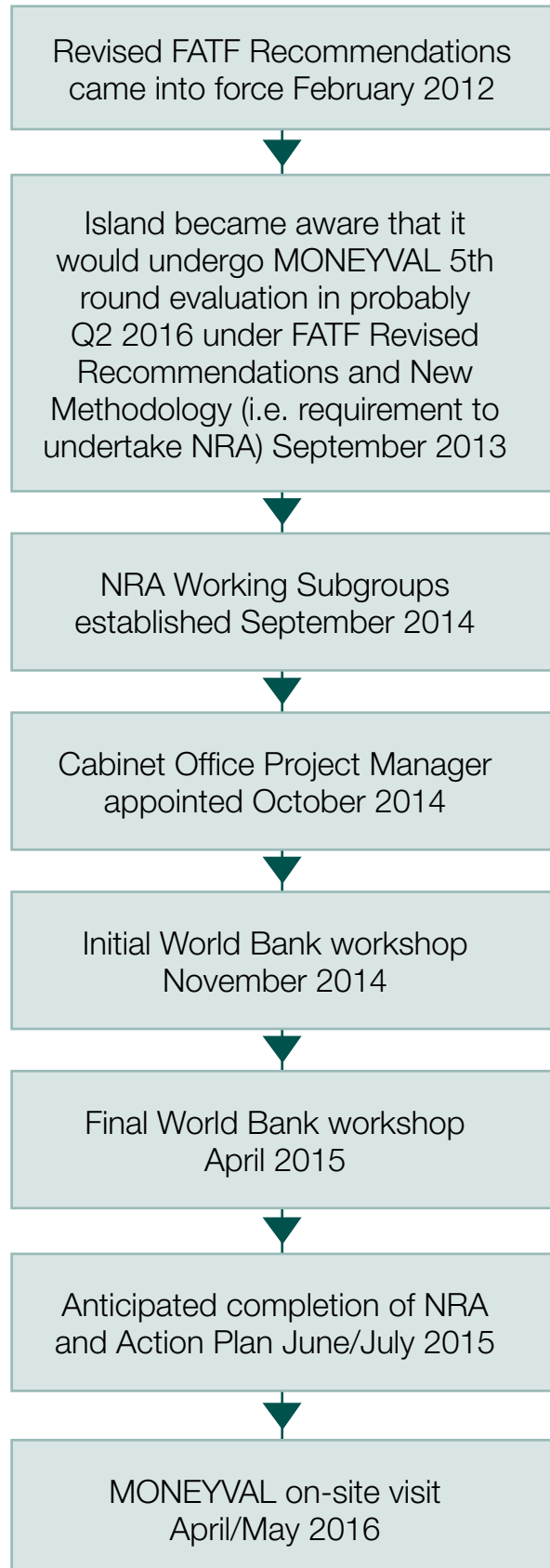
similar process to that undertaken on earlier evaluations under the old Recommendations and Methodology where a rating of compliant, largely compliant, partially compliant, non-compliant or not applicable was awarded for each Recommendation.

The effectiveness assessment differs fundamentally from the assessment of technical compliance. It seeks to address the adequacy of the implementation of the FATF Recommendations and identifies the extent to which a country achieves a defined set of outcomes that are central to a robust AML/CFT system. The focus of the effectiveness assessment is therefore on the extent to which the legal and institutional framework is producing the expected result. Effectiveness is

assessed primarily on the basis of 11 Immediate Outcomes, each of which represents one of the key goals which an effective AML/CFT system should achieve.

In order to demonstrate both technical compliance with Recommendation 1 and effectiveness in respect of Immediate Outcome 1 (Money laundering and terrorist financing risks are understood and, where appropriate, actions co-ordinated domestically to combat money laundering and the financing of terrorism) the Island would be required to conduct a NRA and prepare an action plan well in advance of that evaluation. It can be seen from the timeline to the right that the Island's authorities have acted in a timely manner to ensure that the NRA process will be completed well in advance of the MONEYVAL 2016 on-site visit. Much work was done by the Commission's AML Unit in advance of the engagement of the World Bank including the preparation of detailed questionnaires for both Government bodies and industry which were used to gather data to be used in the NRA process.

Following the final World Bank workshop in April 2015, a NRA Assessment Report will be completed but this does not mark the end of NRA. The report will highlight the areas in which resources should be concentrated to mitigate the risks identified and will also provide a foundation upon which future assessments can be built. This will be the basis on which an action plan will be drawn up, so that the Island's AML/CFT regime can be tailored to effectively



target and mitigate the risks identified in the NRA. The NRA itself is an ongoing project which will enable the Island to ensure that its risk-based focus remains current.

From the Commission's perspective this has been challenging but very worthwhile exercise. It has been particularly pleasing to work across such a varied group of stakeholders, who, despite a significant impact on their resources, have been prepared to engage in open and frank discussions for the benefit of the Island as a whole. We hope to continue and build upon this positive, collaborative approach.

MONEYVAL

The Isle of Man, along with the other Crown Dependencies is a member of the Council of Europe's Committee of Experts on the Evaluation of Anti-money Laundering Measures and the Financing of Terrorism. MONEYVAL is the European FATF-style Regional Body for Member States of the Council of Europe and certain other countries and territories that are not members of the Council of Europe but are from the same geographical area.

MONEYVAL holds plenary meetings 3 times per year (in April, September and December) at which mutual evaluation reports of its members, and other developments in the AML/CFT sphere, are discussed. During this period, the Director of Enforcement, representing the Isle of Man, attended 2 plenary meetings (April and September) whilst another member of the Commission's AML Unit attended the December

plenary meeting. In addition, a member of the AML Unit underwent evaluator training in March 2015 and is now a MONEYVAL-trained evaluator.

The Island is due to undergo a full AML/CFT evaluation by MONEYVAL in 2016. This will be a 5th round evaluation against the 2012 FATF Recommendations using the 2013 Methodology. The Island is likely to receive a detailed questionnaire which it will be required to complete and submit to MONEYVAL in September 2015. The questionnaire will focus on technical compliance with the FATF 40 Recommendations and will be followed by a site visit to the Island by MONEYVAL in the second quarter of 2016 to assess effectiveness of the Island's implementation of the FATF Recommendations. The results of this evaluation are likely to be presented and discussed at MONEYVAL's December 2016 plenary meeting. This will be a significant event for the Island as it will represent one of the first MONEYVAL evaluations conducted against the 2012 Recommendations using the 2013 Methodology.

AML/CFT Unit

It has been a busy year for the AML/CFT Unit which has played an active role in a number of major AML/CFT related projects, including the NRA (see above), the redrafting of the Anti-Money Laundering and Countering the Financing of Terrorism Code 2015 and AML/CFT Handbook, and the genesis of the Designated Businesses (Registration and Oversight) Bill.

Anti-Money Laundering and Countering the Financing of Terrorism Code 2015 and AML/CFT Handbook

The remit of the AML/CFT Unit includes working on the Island's AML/CFT policy to ensure that the Island's AML/CFT legislation and the Commission's AML/CFT guidance is kept up-to-date, is consistent and complies with international standards.

The Director of Enforcement chairs the AML/CFT Technical Group, which is a cross-Government group of technical AML/CFT experts and he also sits on the Isle of Man Government's AML/CFT Strategic Group.

The Government's AML/CFT Strategic Group is a cross-Government group of senior executives chaired by the Chief Secretary which meets regularly to consider the Island's Commitment to the prevention of money laundering and the financing of terrorism and proliferation, and also to review progress in meeting international AML/CFT standards. The Strategic Group met 3 times over the period.

Industry co-ordination of AML/CFT matters takes place through the Joint Anti-Money Laundering Advisory Group comprising industry representatives and most other AML/CFT stakeholders. JAMLAG was established to advise and comment on proposed AML/CFT legislation and issues and JAMLAG meetings have covered all of the issues set out below.

A decision was made by the AML/CFT

Strategic Group in 2014, following a recommendation from the AML/CFT Technical Group at the request of the Commission's AML/CFT Unit, to redraft the Island's AML/CFT key secondary legislation (the Money Laundering and Terrorist Financing Code 2013) in line with the revised (2012) FATF Recommendations and new (2013) FATF methodology. Rather than simply update the existing Code, it was felt that the Code (which had evolved by piecemeal amendment over a number of years) would benefit from comprehensive redrafting and restructuring to make it easier to read and understand and therefore more user-friendly. At the same time, certain concessions relating to simplified due diligence which had been requested by industry could be incorporated in the new Code.

Whilst the Code remains the Department of Home Affairs' legislation, following discussions and agreement with the Department, the new AML/CFT Code was drafted by the Commission's Policy Division on instruction from the AML/CFT Technical Group. A preliminary version of the new Code underwent a public consultation in summer 2014 and following feedback from that consultation was amended, and underwent a second public consultation in January 2015. Feedback from the second consultation was overwhelmingly positive and the new AML/CFT Code was laid before Tynwald in January 2015, coming into force on 1 April 2015.

The AML Unit has also completed a comprehensive redrafting of the AML/CFT Handbook, which is the

Commission's guidance in interpretation of the AML/CFT Code in collaboration with industry.

In April 2014 the Enforcement Division ran an Anti-money Laundering and Financial Fraud conference for the benefit of 180 industry participants. Speakers included Michael Broomfield of the UK Pensions Regulator who spoke about pensions liberation fraud, and Hilary Clarkson of the National Crime Agency who spoke about the work of that agency and current fraud and money laundering threats.

Designated non-financial businesses and professions

As a result of the highlighting by the IMF of a deficiency during its last review – the lack of a suitable AML/CFT oversight regime for DNFBPs – the Council of Ministers approved the Commission's instructing on draft new primary legislation to rectify this. The aim of the legislation is to provide the Commission with the necessary powers to enable it to undertake AML/CFT oversight work in relation to DNFBPs.

Following liaison with the Department of Home Affairs and affected parties a draft Bill – the Designated Businesses (Registration and Oversight) Bill – was prepared and has been the subject of detailed consultation and constructive meetings and liaison with affected persons and their professional bodies. The Bill has completed its passage through Tynwald (the Island's legislature) in 2015, and Royal Assent was announced in Tynwald on 16 June 2015. It is expected to come into force in October 2015.

The Designated Businesses (Registration

and Oversight) Bill requires persons that carry on designated business (listed in Schedule 1 to the Bill) to register with the Commission. The Bill then empowers the Commission to conduct AML/CFT compliance oversight and, if necessary, enforcement action. Whilst the Bill does contain a provision empowering the Commission to delegate any of its functions under the Bill, only AML/CFT compliance oversight will be delegated with registration and enforcement remaining with the Commission.

The AML/CFT Unit has been busy preparing detailed procedures in respect of both registration and AML/CFT oversight and, in preparation for the legislation coming into force, the Unit has had a number of helpful meetings with professional bodies representing certain elements of the legal and accountancy professionals to whom the Commission is likely to delegate elements of the compliance oversight process. The meetings have focused on the nature and scope of the proposed AML/CFT compliance visit regime and more of these meetings are planned so that a consistent approach can be adopted across the wide and disparate designated business sector. In addition, further specific industry briefings will be held, particularly focusing on those businesses that have not been exposed to AML/CFT oversight in the past.

Once the Bill comes into force, there will be an initial 6 month registration period, during which designated businesses will be required to register with the Commission, prior to the compliance visit programme commencing. It is proposed that registration will be an on-line process and this is currently being developed.

Assistance with investigations and insider dealing

There has been much international focus on the issue of beneficial ownership behind legal structures and the degree of disclosure and transparency which should be given to such information. The Island is well placed to demonstrate how it already obtains this information and co-operates fully with eligible requesting authorities to assist their investigations.

In order to be considered to have an internationally acceptable AML/CFT regime, a jurisdiction must have effective co-operation and co-ordination of intelligence which can be shared with other regulators and law enforcement authorities globally.

The Island has in place important provisions to enable it to co-operate in cross-border enquiries and investigations. Criminal matters are dealt with by the Attorney General's Chambers while the Commission is able to use its regulatory powers of inspection and investigation to obtain information on the Island on behalf of other regulators. 11 requests were received during this period under the IOSCO MMOU from 8 different jurisdictions.

To assist other regulators, the Commission maintains a list of regulators and law enforcement agencies to which it can circulate public warnings, as well as publishing these warnings on its own and IOSCO's websites. On occasion the Commission becomes aware of instances where overseas persons

falsely claim to have a presence on the Island in order to mislead the public. Where suspected instances come to light they are in the first instance investigated by the Enforcement Division in order to establish whether any criminal or regulatory proceedings are called for or possible. In many cases the Division is able to establish categorically that there is no genuine Isle of Man connection. In such cases the Division is limited in the action that it can take to stop the false claims however the Commission does have a power under the FSA08 to publish relevant information to protect the public. During the year a total of 3 cases investigated resulted in the issue of public warnings on the Commission's website.

Although the Island does not have a stock exchange, regrettably there may be occasions when alleged insider dealing transactions are routed through the Island. Under the Insider Dealing Act 1998 the Commission may appoint inspectors to investigate such cases. Such inspectors are typically appointed from within the Commission.

Enforcement action

Progression of escalating regulatory action

The Commission has a range of regulatory powers to enable it to secure change and necessary improvement in the way in which regulated activities are managed and conducted.

The Commission's regulatory powers can be considered on a spectrum varying in severity. This can be illustrated

in the table below, where (F) reflects a power that is applicable to firms and (I) reflects a power applicable to individuals:

Remedial	Administrative Fixed Penalties (F)
	Directions (F)
	Licence Conditions (F)
Disciplinary	Skilled Persons' Report (F)
	Public Notice (F)
	Discretionary Civil Penalties (F)
	Warning Notice (I)
	Lack of Fitness and Propriety (I)
	Prohibition (I)
Enforcement	Manager Appointments (F)
	Licence Suspension (F)
	Prosecution (F)
	Licence Withdrawal (F)
	Company Officers Disqualification Act 2009 (I)

In many cases, the remedial matters will be dealt with within the Supervision teams, for example action plans following on-site visits and the issuance of directions or licence conditions to ensure these are dealt with. However when it becomes necessary for action to escalate, where regulatory powers need to be exercised in a more punitive manner, such matters are dealt with by the Disciplinary Unit.

Disciplinary Unit

The Commission's stakeholders will appreciate that, given the range of activities subject to its oversight, there is a great deal of scope for non-compliance to occur. The key for the Commission in assessing such non-compliance is to correctly apply its assessment of materiality.

The role of the Disciplinary Unit is to bring forward cases where the Commission identifies non-compliance that is sufficiently material that even a program of remediation may not alleviate the risk to the *customers of persons carrying on a regulated activity*.

Examples of cases subject to investigation by the Unit include:

- Financial advisory processes not being in compliance with regulations
- Complaints handling shortcomings
- Lack of corporate governance adequacy at both licenceholder and client company level
- Professional Indemnity Insurance arrangements not being appropriate to the scale and nature of activities being undertaken

- Lack of adherence to AML/CFT requirements.

The Commission has wide-ranging investigatory powers, and, during the year under review has utilised a number of them in bringing forward matters. It is important to note that the powers afforded to the Commission are not provided to punish but to protect customers moving forward. Whilst past misdemeanours may be relevant to this forward-looking assessment it is not the only consideration. A wide range of the powers employed by the Commission can be subject to appeal to either the Financial Services Tribunal and/or via a petition of doleance.

Where the Commission determines to investigate a particular matter, it typically has to gain authority from a Justice of the Peace before it utilises certain investigatory powers. If this authority is obtained it can begin the process of collating evidence (both documentary and via compelled interviews). The time taken to bring forward a case is dependent on a number of factors, not least of which is:

- The extent of documentary evidence
- The number of persons to be interviewed
- The time period over which non-compliance has occurred.

In undertaking its work the Disciplinary Unit remains mindful of the mechanisms within the regulatory framework for intelligence to come into its possession. In particular, where customers complain to the Commission regarding their dealings with a licenceholder or where

persons seek to whistle blow to the Commission. Such safeguards provide the mechanism for 'live' issues to be brought to the Commission's attention.

The relevant powers that the Disciplinary Unit may utilise include section 11 warnings and prohibitions. A warning under section 11 of the FSA08 can have effect for a period of up to 3 years, and is not a public matter. It is not a declaration of lack of fitness and propriety; it is instead notice to the relevant person that in the Commission's opinion, it has grounds to believe that person's activities (which must be specified in the notice) are prejudicial to their fitness and propriety. There are similar powers under the Collective Investment Schemes Act 2008.

A prohibition may be imposed if it appears that any individual is not a fit and proper person to perform one or more functions in relation to a regulated activity. A prohibition is flexible and can be tailored to the needs of any given situation. A prohibition can apply to any role in relation to a regulated activity, and not only the roles of controller, director or key person, and may prevent an individual from performing any function, a specified function, or a function of a specified class. Furthermore it can be in relation to a particular permitted person, a specified class of permitted person, or all permitted persons, and may relate to:

- any regulated activity
- a regulated activity specified in the prohibition, or
- a regulated activity of a specified class.

Enforcement

The Enforcement Division is responsible for handling the most serious regulatory cases, and has various avenues of possible action. For example, under the FSA08, the Commission is empowered to petition the High Court for the appointment of managers over the affairs of a licenceholder. Over this period, the power was successfully exercised in respect of 1 licenceholder and another manager appointment that was made in the previous year was continued.

Company law measures

By virtue of its remit over TCSPs, and in particular the client companies, foundations and trusts which those licenceholders establish and administer, the Commission's role can go beyond the immediate regulated sector.

On occasion the Commission will become aware that company officers (the definition of which includes Council Members of an Isle of Man foundation) are not carrying out their legal duties and responsibilities. In such cases, the Commission considers any shortfalls in the context of the powers available to it, and if those shortfalls are sufficiently serious, and where it would be in the public interest to do so, it may consider action. In some cases, where a regulated activity is involved, such action may comprise the use of regulatory powers mentioned previously. In other cases the Commission has powers under the Company Officers Disqualification Act 2009 to petition the Court under section 3(1)(a) for the

disqualification of the person.

Under CODA, the Commission also has the power to investigate a person it suspects of:

- being unfit to act as officer of a company, or
- acting in breach of a disqualification order or disqualification undertaking.

This includes the power to inspect and take possession of books, accounts and documents and to require information.

Upon successful application persons may be disqualified by the Court. Persons may also offer to enter into a 'disqualification undertaking', which is an agreement between the relevant person and the Commission whereby that person acknowledges their previous unfit conduct and agrees not to, amongst other responsibilities, be an officer of a company for an agreed number of years. In this way the time and cost of going through the courts can be avoided.

During this period 8 investigations are in progress in respect of a number of instances of suspected unfitness. High Court proceedings are underway regarding one case in relation to two company officers. Meanwhile 11 persons remain subject to previous disqualifications which are still current.

The Commission also has power under the Island's companies' legislation to petition the High Court of Justice for the winding up of companies in the public interest. The Enforcement Division usually has responsibility for the conduct of such cases. This power is an important tool for the Commission

in dealing with public interest concerns in respect of both regulated and unregulated companies.

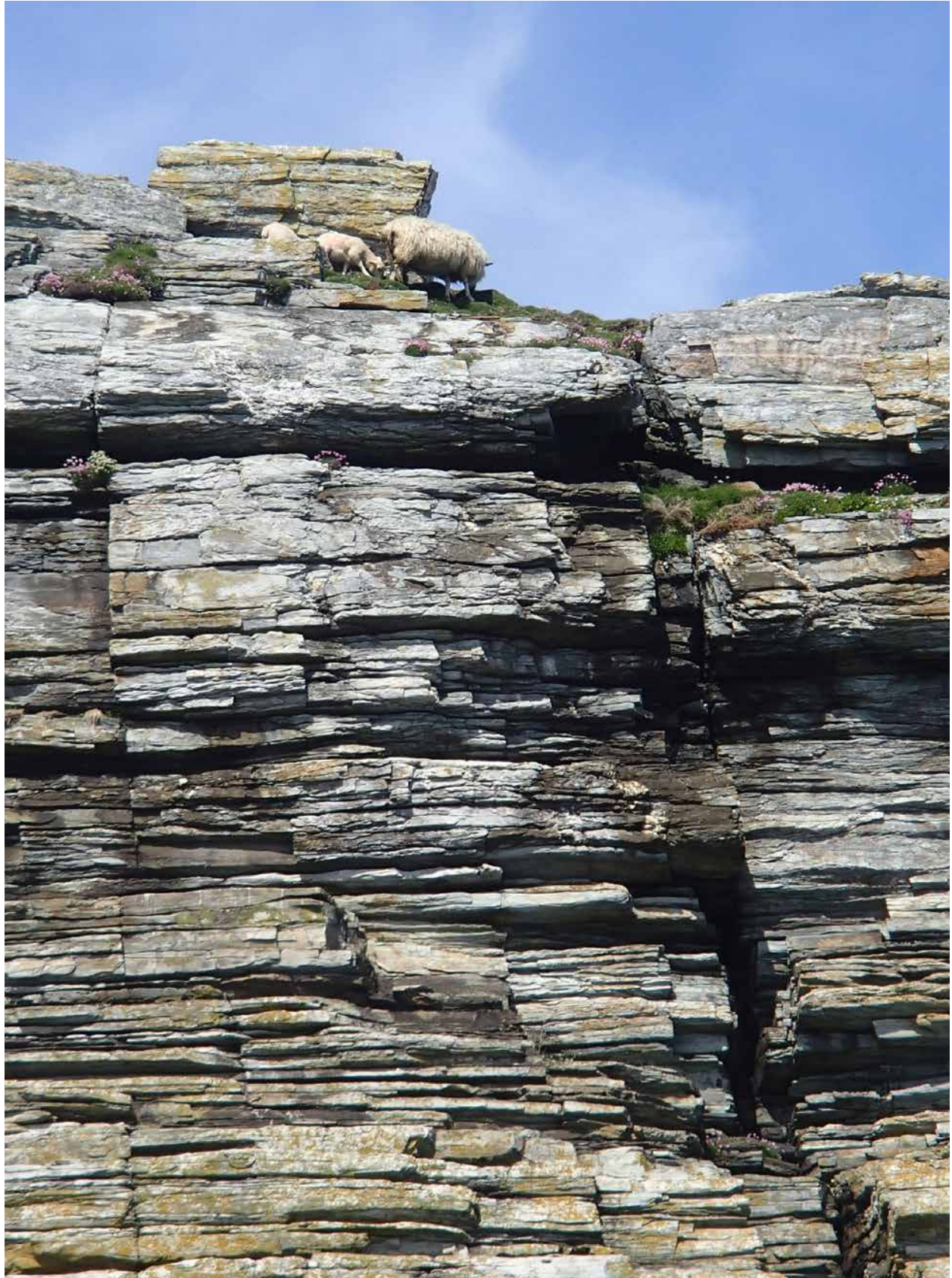
The Commission has not wound up any companies in the public interest during the year, but has made 3 recoveries of liquidators' funding that it had provided in respect of previous winding up cases totalling over £500,000. An action to enforce recovery of winding up costs in the Island, South Africa and the UK is currently underway.

Another Commission power in company law is to petition the High Court of Justice for the appointment of inspectors to investigate and report into the affairs of companies in the public interest. Over this period the Commission has made 1 successful application for the appointment of company inspectors and their inspection is ongoing.

This power was also used previously in respect of Louis Group Structured Fund PLC. Further details of the Commission's actions and the current situation regarding Louis Group Structured Fund PLC and the other companies are available on the Commission's website www.fsc.gov.im.

Other enforcement measures over this period have included:

- investigation of 2 suspected breaches of the FSA08 and their consideration for prosecution/disqualification
- 2 skilled persons reports obtained
- 45 sanctions updates published
- 1 investigation in respect of suspected AML/CFT Code breaches undertaken.



Policy Development



The Commission's regulatory and legislative framework must be maintained in order to remain in compliance with developing international standards and best practice. This is the role of the Commission's Policy and Legal Division. This activity assists in maintaining the Island's position as an internationally recognised, well regulated jurisdiction resulting in an appropriate platform for business.

**Roxanne Oldham**

Director - Policy and Legal

International matters

The Island is part of a global financial community and it must play its part in the improvement of global standards, and the avoidance thereby, of further financial crises and instability. It is also incumbent on the Commission, as part of its regulatory objectives, to secure an appropriate degree of protection for the customers of licenceholders. Much of the international response to the financial crisis has resulted in measures to further

protect the interests of customers.

The Policy and Legal Division maintains a close watch on international matters and continues to focus on matters such as EU Directives and Regulations and changing standards issued by the international standard setting bodies such as the Bank for International Settlements and IOSCO.

Over this period, the Division has considered the EU's MIFID2/MIFIR provisions, especially from the stance

of the ability of affected businesses (mainly investment businesses) from 'third countries' such as the Isle of Man, to do business with customers in the EU. A questionnaire has been issued to relevant licenceholders in connection with this topic.

The Policy and Legal Division is responsible for monitoring and coordinating the Commission's progress with the recommendations made by the IMF in its last FSAP report and the recommendations made as a result of an independent self-assessment that took place in late 2012. The Division ensures that the Board of the Commission receives a report on progress at least every 6 months.

Another matter flowing from the previous IMF review is the expansion of the use by the Commission of civil penalties to address serious regulatory failings. The Commission recognises the potential impact that an expanded civil penalties framework may have upon licenceholders and the resulting importance of its having suitably robust internal procedures for the administration of the framework in an effective, proportionate and fair manner. Nevertheless, the ability to issue civil penalties can encourage good compliance and will provide an efficient and cost effective method to consider in dealing with serious matters of non-compliance that could put licenceholders' clients greatly at risk.

Following the Commission's initial consultation in early 2013, and detailed second consultation of January 2014, a final consultation was issued in

December 2014. At the time of writing, consultation responses are being considered.

The international outlook of the Commission was enhanced over this period by the hosting of a delegation from the China Securities Regulatory Commission in June 2014 as part of the Isle of Man Government's commitment towards building stronger ties with China on political and economic issues. The visit from Vice Chairman Mr Jiang Yang included meetings with the Department of Economic Development and the Island's regulatory authorities, culminating in the signing of a memorandum of understanding between the Commission and the China Securities Regulatory Commission to further regulatory co-operation in respect of securities and futures supervision.

Relationships with regulatory authorities in the Seychelles were also strengthened following visits from delegates of the Central Bank and Financial Services Authority in the fourth quarter of 2014. Useful discussions were held with delegates on approaches to the current challenges faced by international financial centres, in addition to knowledge sharing exercises on topical issues such as the prudential regulation of banks following the 2007-2008 financial crisis and the development of an effective regulatory strategy within a competitive business environment. Delegates from the Seychelles Financial Services Authority were able to meet with representatives from both public and private sectors to discuss the role of effective regulation in financial services.

Legislation and guidance

The Commission's regulatory framework is enshrined in different layers of provisions. The main regulatory legislation is the primary legislation enacted by Tynwald, which encompasses the FSA08 and the CISA08.

Below this layer is the secondary legislation, which is enacted by Tynwald under specific sections of the relevant Acts. The secondary legislation contains the detailed requirements that underpin the Commission's remit and the requirements it places on licenceholders. The main secondary legislation made under the FSA08 – being the Financial Services Rule Book, the Regulated Activities Order and the Financial Services (Exemption) Regulations – is reviewed periodically and the latest versions came into effect in February 2014.

Secondary legislation which has been made over the period of this report includes:

- Depositors' Compensation Schemes (Miscellaneous Provisions) Regulations 2014
- Financial Services (Appointment of Manager) Order 2014.

The Division prepared the drafting instructions for the Designated Businesses (Registration and Oversight) Bill, and assisted the Enforcement Division and the Department of Home Affairs by drafting the replacement AML/CFT Code.

In early 2015, as anticipated, the Division issued the Commission's initial

high-level consultation on proposals to amend the Credit Unions Act 1993 and develop a regulatory regime, following the Council of Ministers agreement that the Commission should take this matter forward. The consultation closed in March 2015 and over 100 responses were received. Most responses were from the public, and supported the idea of credit unions. The responses, together with further research including fact finding visits to credit unions and their regulators in the UK and Ireland, will inform the next, more detailed, stage of this project. This will ultimately result in draft legislation for a more detailed consultation.

As well as legislation, another layer of the regulatory framework is the guidance issued by the Commission. Guidance has been issued on various topics, and is a useful way of illustrating best practice, assisting licenceholders to comply with legislation and to provide examples or illustrations, etc. Guidance is not law in the way that primary and secondary legislation is, but following guidance is persuasive – where a licenceholder follows guidance this would tend to indicate compliance with the legislative provisions, and vice versa.

Innovation

Innovation within the financial services industry continues apace, with potential new products and services of a financial nature being developed, as well as new methods for the distribution and sale of existing products.

Policy and Legal Division maintains a close watch on such matters to

determine whether some of the innovative activity could fall within the existing parameters of the Regulated Activities Order, or whether it arguably ought to do so. Over this period work has progressed particularly in relation to crowdfunding, both via loans and equity, and a consultation on this topic was issued in April 2015.

Another area of innovation is virtual currencies. The Commission is aware of increasing interest from businesses looking to become involved in this rapidly developing market. Recognising this trend, the Isle of Man Government has already stated that it welcomes those who can meet the necessary standards, while also preserving the Island's good reputation as a financial centre.

In order to ensure that the Island's international reputation is maintained, it has been decided that certain activities relating to virtual currencies should be brought within the AML/CFT framework. As a result, certain amendments were made to Schedule 4 to the Proceeds of Crime Act 2008 which applied the Island's AML/CFT legislation to those involved in the virtual currencies market. In addition, the Designated Businesses (Registration and Oversight) Bill will provide the Commission with the ability to oversee how virtual currency and other designated businesses comply with the Island's AML/CFT legislation.

Meanwhile, consumers need to be aware that virtual currency businesses will not be subject to a conduct of business or prudential regime of the

Commission unless they also carry on a regulated activity under the FSA08 (e.g. money transmission services) and are authorised as such. The Commission issued a public statement over this period to make its position clear and to inform potential consumers that this can be a high risk area for those who do not understand the risks involved, and that there is no Government protection in place for them.

Other activities

The Division is responsible for reviewing and commenting upon the relevant consultations of other bodies. Over this period staff continued to reiterate the need for improvements in relation to the Island's company law. This is particularly relevant to the Commission due to its remit over TCSP licenceholders and also the fact that many company law provisions are relied on for the Island's compliance with some IOSCO principles. The Commission remains of the opinion that a thorough review of the Island's company legislation should be undertaken so that the Island remains competitive in this area.

In relation to IOSCO principles, a focus for this period was on the simplification and clarification of the Island's collective investment schemes regime, as well as a review of the same to ensure it continues to meet the IOSCO principles as viewed under the latest IOSCO Methodology. A high-level consultation on possible areas to address was issued in August 2014, followed by a response document in December 2014 and a more detailed consultation in February 2015.

Policy staff deal with applications to be placed on, or continue on, the Register of Recognised Auditors. Additionally, they are responsible for liaison with competent authorities in Guernsey and Jersey, the UK's Financial Reporting Council, its Audit Inspection Unit and the ICAEW in relation to the EU 8th Directive on Statutory Audits.

The Division also handles requests from overseas auditors seeking to audit Isle of Man companies where those auditors do not meet the requirements of the Companies Act 1982. Section 14E of the Companies Act 1982 provides the Commission with specific power to authorise such auditors, subject to their meeting certain criteria. Enhancements to this procedure were consulted upon and are in the process of being introduced along with application fees for new authorisations.

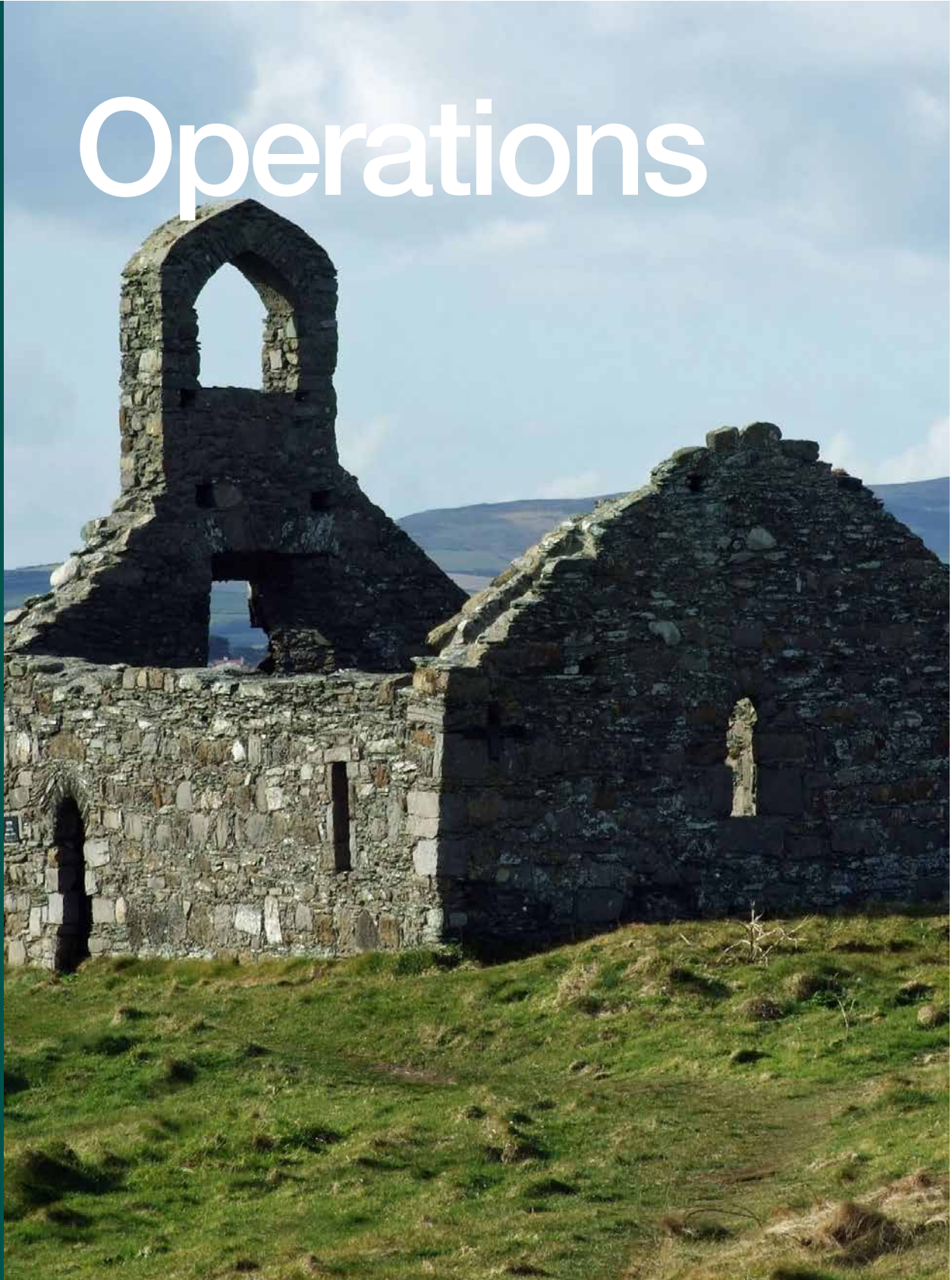
In conjunction with the Attorney General's Chambers, the Department of Economic Development and a Working Group that includes Commission representatives and industry participants, work continues to prepare for the Island's banks to make applications to the European Payments Council for membership of SEPA. The Working Group is pleased with progress, especially as the enabling primary legislation has progressed through Tynwald over this period, which means that a formal application can soon be made.

The Commission is an ordinary member of IOSCO and a full signatory to the IOSCO MMOU. The Director - Policy and Legal continued to take an active

part in the IOSCO MMOU Screening Group meetings during the period of this report as well as being involved in one of the Vetting Teams reviewing the applications for signatory status of certain jurisdictions.

The Division handles data protection issues for the Commission, as well as the administration of any complaints made about the Commission.

Operations



The Operations Division's activities fall under the principal headings of: finance, human resources and technology. The Division has responsibility for the regular administration and running of the Commission. It also provides a Secretariat function for the Board.



Anne Dorling
Director - Operations

Finance and administration

The Commission's statement of Income and Expenditure for the year ended 31 March 2015 and the Report of the Auditors are set out in Appendix F. The Commission is part of the centralised Government accounting system, and its income and expenditure is part of the Government's general revenue account and as such all fees are received by Government. Expenditure is drawn against a budget approved by Tynwald.

In line with Government the Commission is audited under the Audit Act 2006 which sets out the requirements for accounting and reporting under the Act.

The Commission had a shortfall in

licence fee income of £17,378 against budget for the year and after other receipts had a net shortfall of £5,635. Expenditure exceeded budget by £81,968. This arose in relation to costs associated with professional fees as a result of ongoing cases relating to company officers' disqualification and disciplinary and enforcement actions, as well as costs incurred for the recruitment of a new Chief Executive. The Commission received £135,000 from the Government's legal reserve fund in addition to the Government grant.

The Commission manages its budget closely to ensure that it receives value for money and to ensure that it remains within the overall Government approved

budget. The Commission has seen no increase in its budget for a number of years. Increases to pay have to be met from savings within the Commission's budget. A general salary award of 2% was provided to staff with effect from April 2014.

Human resources

The Commission has a full time staff establishment of 50.5. A number of staff gained industry experience before joining the Commission, with some of our longer serving members of staff having joined the Commission and progressed their careers within it. Staff turnover was 8% in the year to March 2015.

Average sickness absence per employee was 3.2 days – at a total average cost per annum of £36,579.

Recruitment

It is the Commission's policy to promote equal opportunities in the workplace. Procedures in relation to recruitment form part of this commitment. The Commission seeks to select the most suitable person for the post, subject to the provisions of the Control of Employment Legislation. The selection process is undertaken without discrimination and regardless of disability, sex, ethnic background, sexual orientation or religious beliefs.

Investors in People

The Commission's Business Improvement Group continued its work to:

- Review the Commission against the

IIP framework

- Identify areas where organisational improvements could be made within the Commission in relation to maintaining or enhancing its position against the IIP framework and make recommendations to the Chief Executive's Committee in relation to these
- Communicate with all staff and obtain feedback on initiatives being undertaken by the Group, encouraging forward thinking to enhance the Commission as a vibrant place to work
- Be ambassadors for improving and enhancing the Commission's performance and productivity
- Champion IIP by sharing and promoting good business and people practice both internally and externally.

The Commission was reassessed under the IIP framework in July 2014 and successfully retained its accreditation achieving the Gold award. The Commission met 169 out of 196 evidence requirements. A number of development areas were identified including:

- Staff engagement
- Focused management development
- Recognition and reward
- Appraisal system
- Further integration of core values.

The Personnel Committee of the Executive met on 3 occasions during the period of the Annual Report. Key items

discussed were:

- Participation in the National Learning at Work Day
- Team building
- The Commission's learning and development policy
- Pay progression
- Performance reviews
- Staff satisfaction survey
- Succession planning
- Health and safety policy and risk assessment.

The Commission participated in the Government's Employment Skills event in November 2014.

The Commission hosted 3 work placement students from the Island's secondary schools. This provided a good opportunity for them to gain some valuable work experience.

Learning and development

The internal target of 40 hours training per employee per annum is included in the Commission's learning and development strategy which was reviewed during the year. The average actual training spend per employee in 2014/15 was £571.

The Commission has an extensive programme of internal training sessions. These are given by staff and have included subjects such as:

- Anti-money laundering
- Data Protection
- MLRO responsibilities and reporting

- The Commission's information management security policy
- International developments on shadow banking.

The Commission is currently supporting 7 staff studying towards the following qualifications:

- ACCA
- CAT
- Investment Compliance Diploma
- AML Diploma
- STEP Diploma.

Staff have also attended a number of management and technical development programmes. These included attendance at the FCA's International Regulators programme and advanced interview techniques, World Bank training, MONEYVAL assessor training, IT skills and softer skills refresher training.

Information technology

Initiatives in the information technology area continue to have an overarching focus of maximising efficiency in the use of the Commission's resources. Some initiatives in this area have progressed behind the delivery dates initially envisaged within the Commission's Corporate Plan. This has arisen as a result of a range of technical and resourcing challenges across all projects which has affected our delivery timescales.

Work on extending the Commission's existing on-line system to collective

investment schemes was completed and implemented in September 2014. The funds industry is actively using this to submit notifications and submission of data on funds.

A major project to utilise SharePoint progressed through a number of work streams during the year. This included the implementation of a replacement to the Commission's legacy general intelligence system and management of the Commission's physical records. Customisation work continued on the implementation of a licenceholders' records centre and work is underway to instigate a pilot to assist in identifying issues and help with a smooth transition.

Two other work streams are currently in progress, which include the restructuring and enhancement of the human resources SharePoint site. This will introduce a records centre, recruitment area, self-service facility, access to and audit of staff records, address long-term storage and extend functionality and a case management site for enforcement and disciplinary cases. The second work stream involved working with the AML/CFT team to draft system requirements to provide for an online registration system to support the implementation of the DNFBP regime. Work is under way to provide for a suitable system using the infrastructure of the Commission's existing online reporting system.

The Commission's IT Committee met on 2 occasions during the period and considered papers on:

- On-line reporting system

- SharePoint implementation of records management
- Funds database
- Future system strategy for the supervisory system
- Hardware upgrade
- Business requirements for a system to support the implementation of the DNFBP regime
- IT budget and resourcing of IT projects
- Ongoing IT support.

The Commission's business continuity plan and risk register is reviewed on a quarterly basis. Testing at the Commission's off-site business continuity location takes place 6 monthly.

The IT team within the Operations Division handled 256 internal user calls for support and assistance over this period, along with a total of 111 support calls generated by external on-line system users.



Financial Supervision Commission and its Functions

The Financial Services Act 2008 sets out the Commission's regulatory objectives which are as follows:

- securing an appropriate degree of protection for the customers of persons carrying on a regulated activity
- the reduction of financial crime, and
- supporting the Island's economy and its development as an international financial centre.

These regulatory objectives are supported by the following which the Commission must have regard to when discharging its functions:

- the need for the regulatory, supervisory and registration regimes to be effective, responsive to commercial developments and proportionate to the benefits which are expected to result from the imposition of any regulatory burden
- the need to use its resources in the most efficient and economic way
- the desirability of implementing and applying recognised international standards
- the desirability of co-operating with governments, regulators and others outside the Island
- the need to safeguard the reputation of the Island
- the responsibilities of those who manage the affairs of permitted persons
- the international character of financial services and markets and the desirability of maintaining the competitive position of the Island
- the desirability of facilitating the development of the financial services industry.

The Commission's functions are set out in the Financial Services Act 2008 as follows:

- the regulation and supervision of persons undertaking regulated activities
- the maintenance and development of the regulatory regime for regulated activities
- the oversight of directors and persons responsible for the management, administration or affairs of commercial entities
- participation in consultative bodies, working groups and other arrangements
- the functions conferred on it under the Financial Services Act 2008
- the regulation and supervision of collective investment schemes within the meaning of the Collective Investment Schemes Act 2008
- the functions conferred on it under:
 - the Building Societies Act 1986
 - the Collective Investment Schemes Act 2008
 - the Industrial and Building Societies Act 1892
 - the Companies Acts 1931-2006
 - the Company Officers (Disqualification) Act 2009
 - the Companies (Transfer of Domicile) Act 1998
 - the Credit Unions Act 1993
 - the Income Tax Act 1970
 - the Incorporated Cell Companies Act 2010
 - the Insurance Act 1986
 - the Insider Dealing Act 1998
 - the International Business Act 1994
 - the Limited Liability Companies Act 1996
 - the Online Gambling Regulation Act 2001
 - the Terrorism (Finance) Act 2009
- the functions conferred on it under any other statutory provision.

Membership of the Financial Supervision Commission

Geoff Karran MBE (Chairman)

Appointed in July 2007 and became Chairman on 1 April 2012. Admitted to the Manx Bar in 1969 and during his time as an Advocate he became Senior Partner in Dickinson Cruickshank and served for three years as President of the IOM Law Society. Retired from practising Law in February 2007. Appointed Deputy Police Complaints Commissioner in March 2008 and Police Complaints Commissioner in March 2009. Awarded the MBE in the New Year's Honours List 2009.

Bryan Stott (Deputy Chairman)

Appointed in June 2001. Initially his career focussed mainly on the Island's property business. In 1973 he was appointed to the Board of the Isle of Man Bank Limited and became Chairman in 1980. Has 28 years' banking experience with the Isle of Man Bank and subsequently NatWest Offshore Limited. Retired as Chairman of NatWest Offshore Limited in 2000. Mr Stott has extensive experience in the investment and insurance field. He was also involved in the development of the space and satellite business for the Island and is now focussing on running the family office.

John Aspden (Chief Executive)

Appointed as Chief Executive of the Commission in August 1998. Commenced his career for 15 years with the Bank of England including three years on secondment to the Council for the Securities Industry. Then became adviser to the Commissioner of Banking in Hong Kong. Subsequently moved to become Deputy General Manager at International Bank of Asia Limited, and then Managing Director of Matheson InvestNet Limited, both also in Hong Kong. John was appointed Chairman of the Group of International Finance Centre Supervisors in November 2011.

Roger Butler

Since 1998 Roger Butler has been chairman and non-executive director of, and consultant to, several companies in varied industries. Between 1996 and 1998, he was Chief Executive of Newton Investment Management, a major UK fund management company, until its sale to Mellon Bank. Previously, he was a Senior Advisor to Morgan Stanley, where he was involved in advising both the firm and its investment banking clients on corporate structuring and taxation matters. Prior to this, Roger was with Arthur Young (now Ernst & Young) where he was latterly Regional Managing Partner in London and Chairman of the global tax practice, having previously been UK National Director of Taxation.

Tim Cullen MBE

Appointed June 2001. Spent 21 years with the World Bank, where he served inter alia as Chief Spokesman of the Bank and, latterly, as Senior Advisor for External and United Nations Affairs. He is the founder and was the first Executive Director of the Small Countries Financial Management Centre and is an Associate Fellow of the Saïd Business School at the University of Oxford, where he directs the Oxford Programme on Negotiation.

He heads a small international consulting firm, TCA Limited, that focuses on achieving more effective outcomes in negotiations between Western and Chinese entities. He also teaches negotiation at Oxford University and throughout the world.

Sir David Lewis

Appointed April 2012. Practised as a corporate and financial services solicitor in London and the Far East with the international law firm Norton Rose since 1969. Served as Senior Partner and Chairman, now a consultant. President of the City of London Law Society 2009-10. Served as Sheriff of London and then Lord Mayor of London 2007-8. Knighted in 2009.

Alan Smith

Appointed July 2007. Initial career with Lloyds Bank Trust Division and then spent seven years as Manager of Bank of Bermuda's Cayman operations. Moved to the Isle of Man in 1987 and was appointed Managing Director of Bank of Bermuda in 1994. Appointed to the Global Board of the Bank's Fund Services Division in 2001 as Global Head of Marketing and Strategy and subsequently of HSBC's Alternative Fund Services Division up to his retirement in 2005. He has over 40 years' experience in Trust Administration, Corporate Services, Banking, Custody and Fund Administration.

Paul Wright

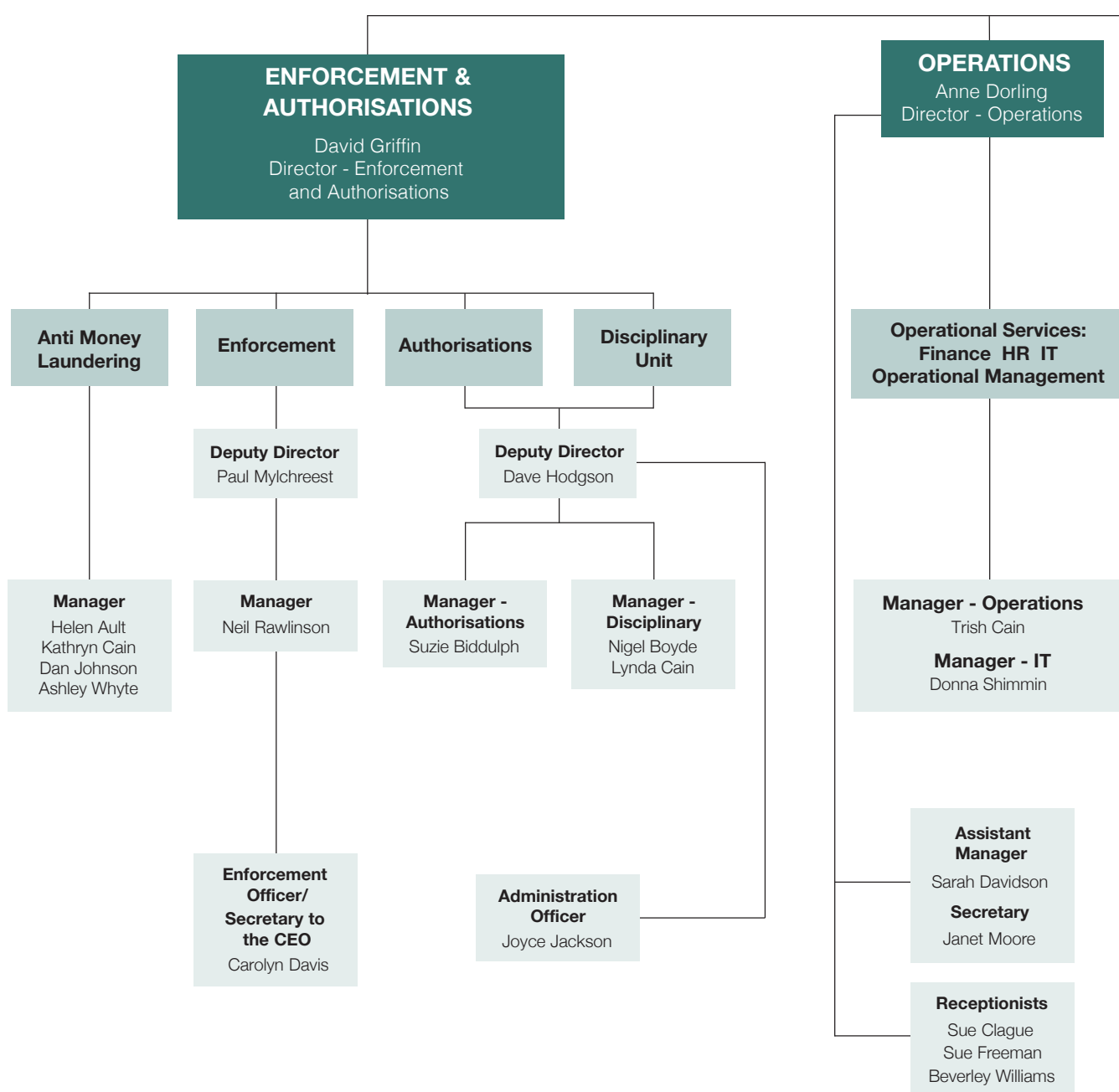
Appointed in May 2012. Paul spent much of his career with the Bank of England in economics and international roles before taking supervisory responsibility for international banks. He was alternate Executive Director at the IMF between 1990 and 1992. At the UK FSA he headed the division responsible for major overseas institutions in the UK and subsequently had responsibility for global and EU strategy. From 2009 to 2012 he was Senior Director at the Institute of International Finance in Washington DC. Paul is the CSFI/Swiss Re fellow in global insurance issues and teaches and advises on regulatory practice.

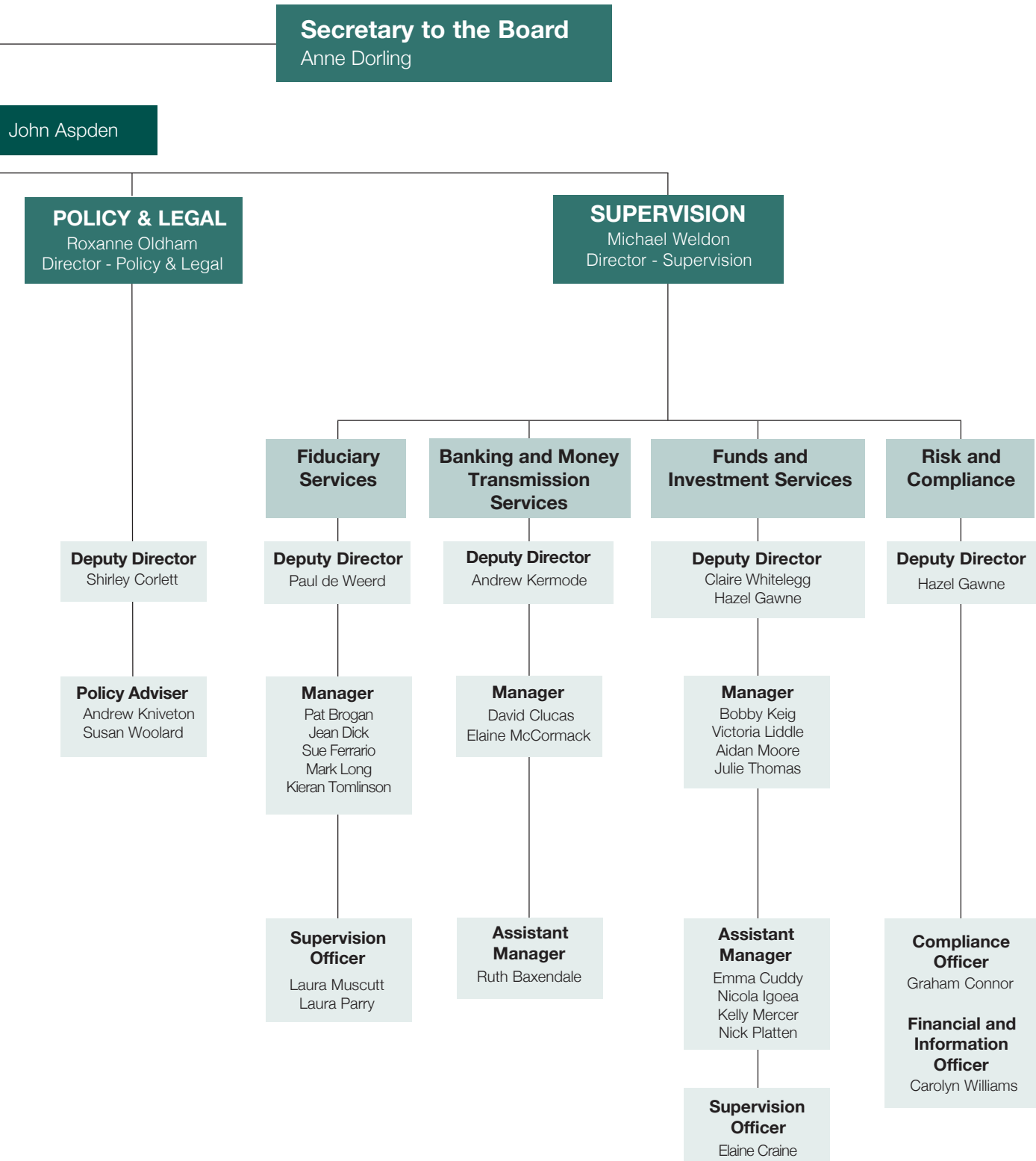
Organisation Chart

Board of Commissioners

Geoff Karran MBE (Chairman) - John Aspden - Roger Butler - Tim Cullen MBE
Sir David Lewis - Bryan Stott - Alan Smith - Paul Wright

Chief Executive





How the Commission operates

The purpose of this Appendix is to describe how the Commission operates through a structured approach to its operations.

Statutory Board

The Commission is an independent Statutory Board established under the Financial Supervision Commission Order 1983. As a Statutory Board the Commission operates under the Statutory Boards Act 1987, as amended.

The Commission's Regulatory Objectives are:

- securing an appropriate degree of protection for the customers of persons carrying on a regulated activity;
- the reduction of financial crime; and
- supporting the Island's economy and its development as an international financial centre.

The Commission's regulatory and supervisory role extends to the banking, investment, funds and fiduciary sectors.

Members of the Commission

Appointments to the Board of Commissioners are made by Treasury and are subject to the approval of Tynwald.

Commissioners are appointed for a

five year term. Government issues a public invitation for persons to apply to be appointed as Members of Statutory Boards including the Commission. The remuneration paid to Members of Statutory Boards is set down by Order.

The Board of Commissioners currently comprises a Chairman, a Deputy Chairman, the Chief Executive and a further five Non-Executive Commissioners. The quorum of the Board is a minimum of three persons. Further background details of Members of the Board as at 31 March 2015 are set out in Appendix B.

The Board has established Sub-Committees on Remuneration, Risk and Internal Control, and Complaints.

Conflicts of interest

The Board of Commissioners benefits from having members who have broad, up-to-date commercial and compliance experience. Inevitably this means that from time-to-time conflicts of interest may arise in dealing with particular issues. A Code of Conduct has been drawn up to cover these situations. The Code provides for the prior disclosure of interests and sets down how they

should be handled. Commissioners are required to absent themselves from decisions where they may be conflicted. Staff also have to disclose their conflicts of interests. The code is published on the Commission's website together with a list of current directorships.

Meetings of the Board

Routine meetings of the Board are held monthly, generally on the last Thursday of a calendar month. In addition a quorum of the Board meets monthly as necessary to hear licence applications. The Board additionally meets on an ad hoc basis as required.

During the period the Board met for:

12 routine monthly meetings

3 licensing meetings (quorum)

A number of other ad hoc meetings including with industry and other regulators.

Attendance at board meetings is set out below:

G Karran	11
B Stott	9
J Aspden	12
R Butler	11
T Cullen	7
D Lewis	8
A Smith	11
P Wright	11

Delegated authorities

The Board has delegated certain powers to the Chief Executive. These include:

- changes in licence conditions attached to a licence
- extensions to licences to include new schemes etc.

- surrender of lapsed licences
- restructure of organisations/sale or merger of licenceholders
- approving recognition of schemes under the Collective Investment Schemes Act 2008.

The Chief Executive in turn delegates certain matters within the Executive.

The Executive

The Executive Management Team is structured as follows:

The Chief Executive, also a Commissioner

Directors

Deputy Directors

Managers

There are five Divisions within the Commission comprising Authorisations, Enforcement, Operations, Policy, and Supervision. An organisation chart is set out in Appendix C.

Accountability and scrutiny

A Memorandum of Understanding between the Commission and Treasury sets out the arrangements which have been established to ensure that the Commission is accountable to Treasury for its actions and clarifies the circumstances in which sensitive information might flow. The division of responsibilities is based on four guiding principles:

- Clear accountability: each authority must be accountable for its actions, so each must have unambiguous and well-defined responsibilities.
- Transparency: Tynwald, the financial services industry and the public must

know who is responsible for what.

- Avoidance of duplication: each authority must have a clearly defined role, to avoid second guessing, inefficiency and the unnecessary duplication of effort. This will help ensure proper accountability.
- Regular information exchange: this helps each authority to discharge its responsibilities as efficiently and effectively as possible.

The MOU is available from the Commission's website.

The Commission is subject to scrutiny in the following areas:

- Tynwald: appointment of Commissioners, Corporate Plan, new legislation
- Government and Treasury: strategic objectives, legislative policy and proposals, budgeting and funding, establishment headcount
- Industry: consultation on regulatory and supervisory proposals
- Home regulators of licensed institutions.

In addition the Commission's regulatory and supervisory approach is subject to ongoing review by standard-setting organisations including the International Monetary Fund and the FATF.

Appeals against decisions of the Commission

The key decisions of the Commission, including in relation to licensing, are subject to review by a committee established by the Council of Ministers. Tynwald has approved the Financial Services Review Regulations 2001

governing this committee and a panel of persons has been nominated by the Council of Ministers from which it may select individuals to hear a particular case.

Finance

The Commission operates within a budget agreed with Treasury, and within a headcount restriction set down centrally within Government. The Commission's revenue and expenditure is audited annually by the Government's external auditors, and the Commission is subject to review by the Government's internal audit department. Further details of the Commission's financial position are set out in Appendix F.

Industry Statistics

Licenceholders

Number of licences

As at 31 March 2015, a total of 242 institutions held a licence issued by the Financial Supervision Commission under section 7 of the Financial Services Act 2008. The Classes of regulated activity which these institutions were permitted to conduct were as follows:

Deposit Taking (Class 1) (excluding Kaupthing Singer & Friedlander (Isle of Man) Limited, in liquidation)	22
Investment Business (Class 2)	52
Services to Collective Investment Schemes (Class 3)	55
Corporate Services (Class 4)	167
Trust Services (Class 5)	119
Money Transmission Services (Class 8)	5

Some licenceholders are permitted to conduct more than one Class of regulated activity; hence the total of the above (420) exceeds the number of licenceholders.

The Banking industry

Profit and loss data - deposit takers

The data below is taken from the year-end (unaudited) prudential returns for all year-ends up to and including 31 March 2015 (current year) and 31 March 2014 (prior year). The data includes figures relating to overseas branches of Isle of Man incorporated banks.

	Current Year (year-ends between 1 April 2014 and 31 March 2015)		Prior Year (year-ends between 1 April 2013 and 31 March 2014)	
Income	£'m	£'m	£'m	£'m
Net interest income	471		433	
Other banking income (including FX income, fees, commissions and charges)	106		113	
Total banking income		577		546
Total non-banking income		31		49
Total income		608		595
Expenses				
Total operating expenses	259		261	
Total other expenses	1		4	
Total expenses		(260)		(265)
Profit before tax and impairment (bad debts)		348		330
Impairment (bad debt) charge		(30)		(31)
Profit before tax		318		299

Assets and liabilities of licensed banks

	As at 31 March			As at 31 March	
Assets	2015 £'bn	2014 £'bn	Liabilities	2015 £'bn	2014 £'bn
Money market assets, due from banks and building societies	49.8	45.8	Deposits due to banks and building societies**	11.7	8.7
Loans, advances and assets leased*	8.6	8.6	Deposits due to customers	44.8	43.7
Investments	0.4	0.1	Other deposits (held as security and interest payable) including deposits due to public sector bodies	0.4	0.3
Other assets	0.5	0.6	Other liabilities	0.4	0.4
			Capital and reserves	2.0	2.0
Total assets	59.3	55.1	Total liabilities	59.3	55.1

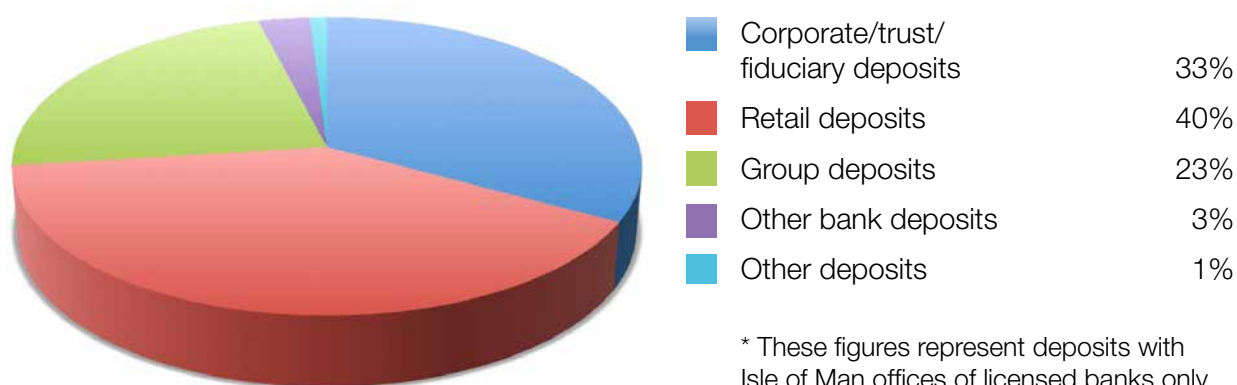
* At 31 March 2015, 65.6% of loans, advances and assets leased were classified as being secured on residential property (31 March 2014: 68.0%). The above figures relating to loans and advances are net of impairment charges.

** Includes deposits/loans received from other Isle of Man banks of £2.95bn (2014: £1.33bn).

Geographical source of non-bank deposits

Country	31 March 2015	31 March 2014	31 March 2013
Isle of Man	25%	28%	29%
United Kingdom	41%	36%	36%
European Union (excluding UK)	6%	6%	6%
Europe (non-EU)	5%	7%	7%
Middle and Far East	6%	6%	5%
North America	4%	4%	5%
Other	13%	13%	12%

Sector analysis of deposits* including inter-Isle of Man banks as at 31 March 2015



Ultimate country of origin of banking and building society groups* operating in the Isle of Man

The ultimate country of origin is that used for definitions of reporting information to the Bank of International Settlements and relates to the country of incorporation of the ultimate parent/controlling party.

As at March 2015			
	Total	Subsidiaries	Branches
United Kingdom	12	4	8
Ireland	1	1	0
Spain	1	0	1
South Africa	3	2	1
Switzerland	2	2	0
Cayman Islands	1	1	0
USA	1	0	1
Sub total	21	10	11
Isle of Man	1		
	22		

* excluding Kaupthing Singer & Friedlander (Isle of Man) Limited, in liquidation

Distribution of locally incorporated banks by risk asset ratio

The capital adequacy of Isle of Man incorporated banks is measured on a risk-weighted basis in accordance with Basel II international standards. The higher the ratio, the greater is the level of capital adequacy relative to risk rated assets. The statutory minimum risk asset ratio is 8% and the Commission can agree a higher minimum ratio on an individual bank basis. All Isle of Man incorporated banks are required to notify the Commission if their actual risk asset ratio falls, or is expected to fall, within at least 1% of their minimum ratio. All banks have a notification level of 10% or above.

At the end of March 2015 all Isle of Man incorporated banks held more than the minimum risk asset ratio.

The actual risk asset ratios are in the following ranges:

	Number of locally incorporated banks		Number of locally incorporated banks
Minimum prescribed risk asset ratio:		Actual risk asset ratio:	
Less than 10%	4	Less than 10%	0
From 10% to less than 15%	7	From 10% to less than 15%	5
From 15% to less than 20%	0	From 15% to less than 20%	2
20% and over	0	20% and over	4
Total	11	Total	11

Collective Investment Schemes and services to schemes

Types of scheme and asset values

Category of collective investment scheme	Number of schemes	Net asset value of funds under management/ administration US\$m	Gross asset value of funds under management/ administration US\$m
Authorised Schemes	5	814	810
Full International Schemes	5	159	159
Regulated Funds	4	126	140
Professional Investor Funds	2	3	3
Specialist Funds	21	534	546
Qualifying Funds	14	587	681
Experienced Investor Funds			
• Qualifying EIF	7	544	545
• Legacy EIF	10	719	1,073
• Closed EIF	11	120	138
Exempt Schemes	147	4,740	5,996
Overseas Funds	60	5,438	5,687
Closed-Ended Investment Companies*	40	5,076	6,166
Inward Outsourcing Arrangements	19	1,881	1,884
Total all schemes: 31/03/15	345	20,741	23,828
Total all schemes: 31/03/14	366	21,844	25,357
% change: 2014-2015	-5.7	-5.0	-6.0

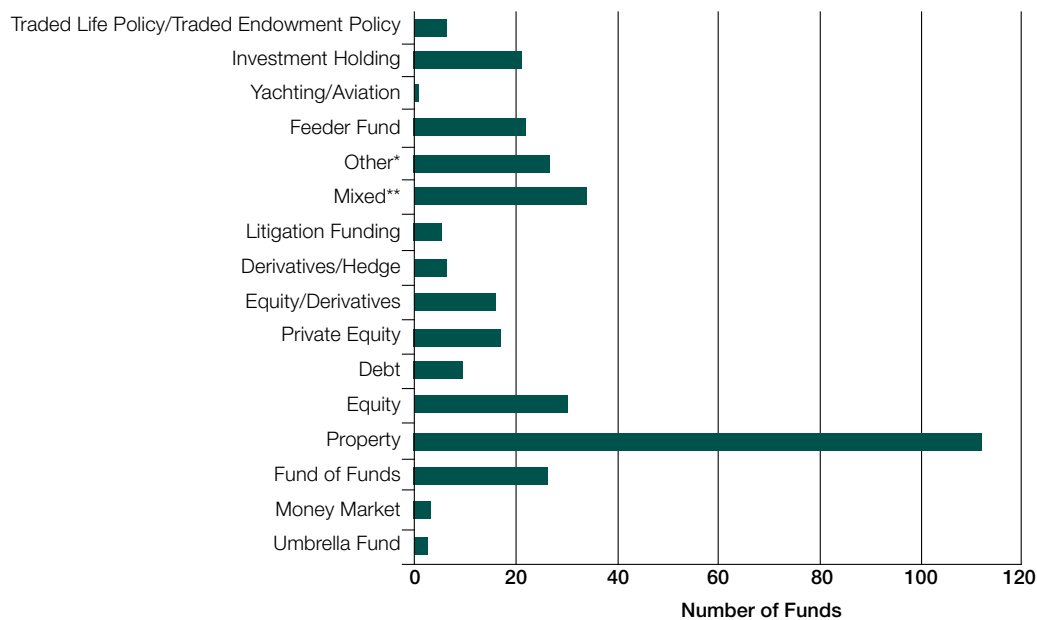
As at 31 March 2015 the Commission also had 25 Recognised Schemes from a designated territory under Schedule 4 paragraph 1 to the Collective Investment Schemes Act 2008 and 2 Individually Recognised Schemes under Schedule 4 paragraph 2 to that Act.

* Statistics are only collected in relation to services provided to Closed-Ended Investment Companies that are listed vehicles or with a minimum NAV of USD\$50 million.

Types of Isle of Man schemes (percentage breakdown by NAV)

	As at 31 March 2015
Authorised Schemes	3.92
Full International Schemes	0.77
Regulated Funds	0.61
Professional Investor Funds	0.02
Specialist Funds	2.57
Qualifying Funds	2.83
Qualifying EIF	2.62
Legacy EIF	3.47
Closed EIF	0.58
Exempt Schemes	22.85
Overseas Funds	26.22
Closed-Ended Investment Companies	24.47
Inward Outsourcing Arrangements	9.07

Asset classes of schemes

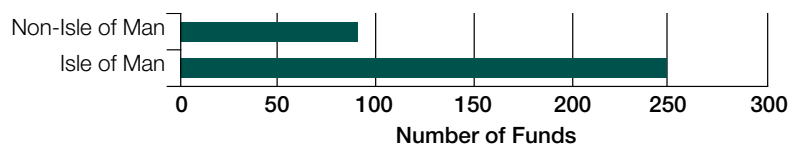


*Other: pensions; frontier markets; climate exchanges; venture capital; sustainable biological equities; mezzanine finance; power projects; artwork; non-correlated assets; alternative investments; or, only shareholder services provided

**Mixed: Equities/Derivatives/Hedge; Equities/Derivatives/Options; Bonds/Shares; and, Cash & Absolute Return Investments

Geographical origin of schemes

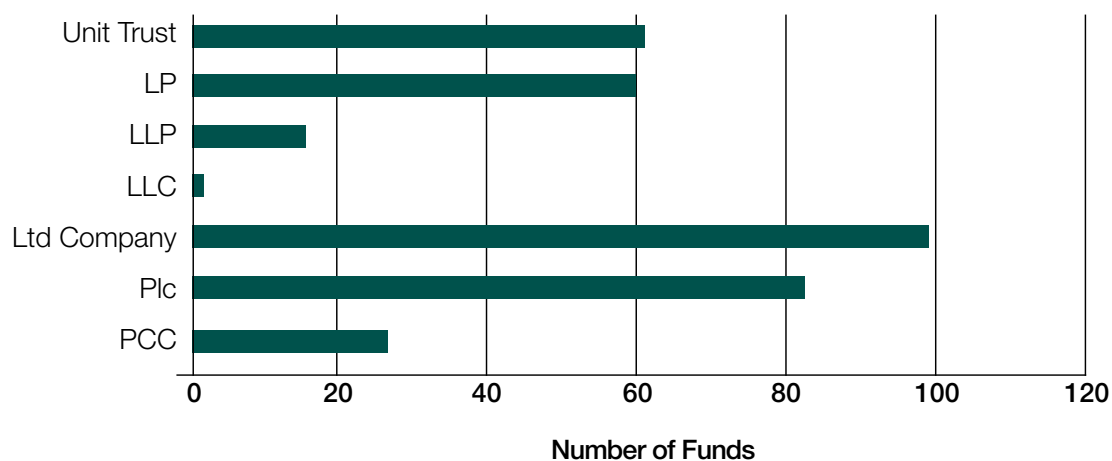
Domicile of collective investment schemes administered in the Island



Origin of non-Isle of Man schemes:

Cayman	52	Bermuda	3
BVI	17	Ireland	1
Luxembourg	8	Delaware	1
Jersey	4	Mauritius	1
UK	4	Guernsey	1

Legal constitution of schemes administered in the Isle of Man



Corporate and Trust Services

Companies, trusts, partnerships and foundations under administration

Companies, partnerships and foundations	2014/15	2013/14	Movement
1931 Act Companies	10,364	11,080	-6%
2006 Act Companies	7,546	6,915	+9%
Isle of Man public limited companies	160	150	+7%
Public companies incorporated elsewhere	11	14	-21%
Non-public limited companies with more than 50 shareholders	23	19	+21%
Overseas companies not registered under Part XI of the Companies Act 1931	15,921	15,145	+5%
Overseas companies registered under Part XI of the Companies Act 1931 (a.k.a. 'F-Registered')	710	738	-4%
Limited Liability Companies	514	465	+11%
Partnerships	490	533	-8%
Foundations	72	66	+9%

Trusts	2014/15	2013/14	Movement
Trusts	18,372	18,953 ¹	-3%
Private Trust Companies	218	277 ²	-21%

¹Revised figure

²Revised figure

Statement of responsibilities in respect of the Chief Executive's Report and the Accounts

The Chief Executive is responsible for preparing the Chief Executive's Report and the Accounts in accordance with applicable law and regulations.

The Audit Act 2006 requires the Isle of Man Financial Supervision Commission to prepare accounts for each financial year, which meet the requirements of the Accounts and Audit Regulations 2013 made under the Audit Act 2006. In addition, the Commission has elected to prepare the accounts in accordance with UK Accounting Standards.

The Accounts are required by law to give a true and fair view of the state of affairs of the Commission and of the profit or loss of the Commission for that period.

In preparing these accounts, the Commission is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with UK Accounting Standards; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Commission will continue in operation.

The Commission is responsible for keeping proper accounting records that are sufficient to show and explain the Commission's transactions and disclose with reasonable accuracy at any time the financial position of the Commission and to enable them to ensure that the accounts comply with the Accounts and Audit Regulations 2013 made under the Audit Act 2006. The Commission has general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Commission and to prevent and detect fraud and other irregularities.

Report of the independent auditors, KPMG Audit LLC, to the Isle of Man Financial Supervision Commission



KPMG Audit LLC
Chartered Accountants
Heritage Court
41 Athol Street
Douglas
Isle of Man IM99 1HN

We have audited the Accounts of the Isle of Man Financial Supervision Commission for the year ended 31 March 2015 which comprise the Income and Expenditure Account and the related notes. The financial reporting framework that has been applied in their preparation is the Audit Act 2006 and UK Accounting Standards.

This report is made solely to the Commission, as a body, in accordance with Section 4 of the Audit Act 2006. Our audit work has been undertaken so that we might state to the Commission those matters we are required to state to them in an auditor's report and for

no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Commission for our audit work, for this report, or for the opinions we have formed.

Commission's Responsibility for the Accounts

As explained more fully in the Commission's Responsibilities Statement, the Commission is responsible for the preparation of accounts that give a true and fair view. Our responsibility is to audit, and express an opinion on, the accounts in accordance with the Accounts and Audit Regulations 2013 made under the Audit

Act 2006, and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

We review whether the Statement of Internal Control prepared by the Commission reflects compliance with the Accounts and Audit Regulations 2013 made under the Audit Act 2006. We report if the statement is misleading or inconsistent with other information we are aware of from our audit of the accounts. We are not required to consider, nor have we considered, whether the Statement on Internal Controls covers all risks and controls.

Scope of the audit of the accounts

An audit involves obtaining evidence about the amounts and disclosures in the accounts sufficient to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Commission's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Commission; and the overall presentation of the accounts.

Opinion on the accounts

In our opinion the accounts:

- give a true and fair view of the Commission's income and expenditure for the year ended 31

March 2015;

- have been properly prepared in accordance with UK Accounting Standards; and
- have been properly prepared in accordance with the provisions of the Accounts and Audit Regulations 2013 made under the Audit Act 2006.

Income and Expenditure Account

for the year ending 31 March 2015

Income	Note	2015		2014	
		£	£	£	£
Licence & Scheme Fees					
Fees Income	2		1,656,502		1,847,335
Government Grant	10		1,832,946		1,601,193
Other income			16,732		15,485
Transfer from Legal Reserve Fund	1(b)		135,000		-
Total Income	1(b)		3,641,180		3,464,013
Expenditure					
Salaries	4	2,558,348		2,478,838	
Commissioners' Remuneration		148,172		143,681	
Recruitment		109,612		-	
Premises		290,851		293,088	
Training		43,338		43,099	
Travel		45,478		45,046	
Professional Fees		274,822		291,214	
Operating Expenses		36,886		43,051	
Information Technology		95,877		119,420	
Transfer to ICT Fund	1(c)	29,000		-	
Other expenses		8,796		6,576	
Total Expenditure	1(c), 3		3,641,180		(3,464,013)
Surplus/(deficit) for the year			-		-

The notes on pages 101 to 103 form part of these accounts.

The income and expenditure account was approved by the Financial Supervision Commission on the 28 May 2015 and signed on its behalf by Mr Geoff Karran, Chairman and Mr John Aspden, Chief Executive.

Notes

to the accounts for the year ended 31 March 2015

1 Accounting policies

a) Basis of accounting

The Isle of Man Financial Supervision Commission is constituted under the Financial Supervision Commission Order 1983 as a Statutory Board of Tynwald. The income and expenditure account is part of the general revenue account of the Isle of Man Government. Accordingly, any deficit or surplus for the year forms part of general revenue and any surplus is not retained by the Commission. The Isle of Man Government is committed to funding any shortfall of the Commission on an on-going basis, in accordance with section 52(1) of the Financial Services Act 2008.

The accounts are prepared in accordance with the Accounts and Audit Regulations 2013, made under the Audit Act 2006. They are also prepared in accordance with UK Accounting Standards, and in accordance with the Isle of Man Statement of Recommended Practice 2007 on accounting for entities subject to the Audit Act 2006, to the extent applicable to the Commission.

b) Income

Income is accounted for on an accruals basis.

The Commission received £135,000 from the Isle of Man Government legal reserves fund to cover the cost of professional fees relating to enforcement and disciplinary cases.

c) Expenditure

Expenditure is accounted for on an accruals basis. Amounts properly incurred during the year but not yet paid are included within expenditure.

The Commission has elected to include within expenditure, rather than capitalising, the cost of fixed assets not being made from the Consolidated Loans Fund of the Isle of Man Government. The Commission, as a Statutory Board, does not hold assets in its own name. Any assets purchased are of immaterial value with limited useful lives therefore a policy of non-capitalisation is adopted.

d) During the year the Isle of Man Government announced the creation of a new statutory body, the Isle of Man Financial Services Authority, into which the existing Financial Supervision Commission and Insurance and Pensions Authority will be merged. Costs associated with the recruitment of a new Chief Executive for the merged body are included in the accounts.

e) Pensions

The Commission's employees, with the exception of the Chief Executive, are members of the Isle of Man Government Unified Pension Scheme which is administered by the Public Service Pensions Authority. Employees contribute to the scheme with employer's contributions being funded from central Treasury and Government reserves.

e) *Balance Sheet*

The Commission is a statutory board of the Isle of Man Government and does not hold any assets or liabilities in its own name. Accordingly, an independent Balance Sheet does not form part of the Accounts.

2 Licence and scheme fees income

Licence and scheme fee income comprises licence fee income due in relation to Deposit Taking, Investment Business, Services to Collective Investment Schemes, Corporate Services, Trust Services, E-money and Money Transmission Services and fee income due in relation to Collective Investment Schemes.

3 Auditors' remuneration

Auditors' remuneration is paid by the Commission and is included within the expenditure of the Commission.

4 Salaries

Remuneration of members, officers and employees of the Commission, earning more than £50,000 per annum, are payable within the following bands:

	2015 Number	2014 Number
£50,000 - £74,999	7	5
£75,000 - £99,999	3	3
£100,000 - £124,999	1	1
£125,000 - £149,999	-	-
£150,000 - £174,999	-	-
£175,000 - £199,999	-	-
£200,000 - £224,999	-	-
£225,000 - £250,000	-	-
£250,000 +	1	1

Included within salaries are pension contributions of £nil (2014: £nil).

5 Debtors and Accruals

There were no significant accruals or prepayments in both the current and previous year.

6 Operating lease commitments

The FSC pay an annual fee to the Isle of Man Government for the use of the building on a non-lease basis. This fee is equivalent to the annual sum paid under the operating lease (£243,020 per annum).

7 Segmental reporting

No segmental analysis has been provided as the Commission has only one business activity and operates in only one geographical area, being the regulation of relevant entities in the Isle of Man.

8 Related party disclosures

There were no related party transactions requiring disclosure in the accounts.

9 Commitments and contingencies

The Commission has committed to expenditure of £75,311 (2014: £76,961) in relation to Information and Communications Technology improvements and these funds are held in the Government's ICT Fund.

9 Government Grant

As per note 1(a), any deficit or surplus generated by the Commission during the financial year forms part of the general revenue and any surplus is not retained by the Commission. The Isle of Man Government is committed to funding any shortfall of the Commission on an on-going basis, in accordance with section 52(1) of the Financial Services Act 2008.

A budgetary grant was approved by Tynwald at its February 2014 sitting, and published in the same month within the Isle of Man Government's "Budget Report and Estimates 2014-15". This grant secured the provision of up to £1,856,822 to cover the Commission's deficit for 2014-15. During the year the Commission utilised £1,832,946 of the total allocated grant.

Legislation coming into operation between 1 April 2014 and 31 March 2015

All recent Isle of Man legislation is accessible via:
<http://www.legislation.gov.im/cms/en/>

Secondary legislation made or drafted by the Commission:

SD no. 2014/0299 effective 01/11/14 and 01/04/15 - Depositors' Compensation Schemes (Miscellaneous Provisions) Regulations 2014.

These Regulations disburse the balance in the fund related to failure of the Bank of Credit and Commerce International S.A. and revoke the continuation of the Banking Business (Compensation of Depositors) Regulations 1991. (On behalf of the Treasury).

SD no. 2014/0359 effective 01/01/15 - Financial Services (Appointment of Manager) Order 2014. This Order specifies when an application may be made to appoint someone to manage the affairs of a person carrying on a regulated activity.

SD no. 2014/0390 effective 23/02/15 - Financial Services (Exemptions) (Contracts of Insurance) Regulations 2014. These Regulations exempt from licensing the carrying out of certain contracts of insurance that are shown in the Regulated Activities (Contracts of Insurance) Order 2014. (To assist the Insurance and Pensions Authority).

SD no. 2014/0391 effective 23/02/15 - Regulated Activities (Contracts of Insurance) Order 2014. This Order specifies that carrying out certain contracts of insurance is a regulated activity, but only for the purposes of section 47 of the Financial Services Act 2008. (To assist the Insurance and Pensions Authority).

SD no. 2015/0102 effective 01/04/15 - Anti-Money Laundering and Countering the Financing of Terrorism Code 2015. This Code replaces the Money Laundering and Terrorist Financing Code 2013 and contains provisions in line with the Financial Action Task Force's Recommendations on preventing money laundering and the financing of terrorism. (On behalf of the Department of Home Affairs).

Secondary legislation affecting the Commission, but made by another body

SD no. 2015/0090 effective 20/03/15 and 01/11/15 - Transfer of Functions (Isle of Man Financial Services Authority) Order 2015. This Order will (in November 2015) transfer the functions of the Commission and the Insurance and Pensions Authority to the Isle of Man Financial Services Authority and dissolve the two existing bodies.

Consultative documents issued between 1 April 2014 and 31 March 2015

Title of consultation	Date consultation published	Date consultation closed
Draft Register Regulations for Auditors Authorised under Section 14E of the Companies Act 1982	11 April 2014	23 May 2014
Revisions to the Financial Services (Appointment of Manager) Order	25 April 2014	6 June 2014
General Review of Collective Investment Schemes (high level)	1 August 2014	31 October 2014
Changes to Regulatory Fees from 2015	12 December 2014	30 January 2015
Implementation of Discretionary Civil Penalties	19 December 2014	30 January 2015
Credit Unions (high level)	30 January 2015	13 March 2015
General Review of Collective Investment Schemes (second)	26 February 2015	24 April 2015

Other Information

The Commission's website www.fsc.gov.im contains useful information including an outline of the regulatory requirements covering all areas of its responsibility.

The website provides legislation and guidance for licenceholders together with downloadable PDFs of the various legislation and Regulations.

Further publications relating to Fiduciaries, Funds, Insurance and Pensions, Tax, and Business Relocation are available from the Department of Economic Development, St George's Court, Upper Church Street, Douglas, Isle of Man, IM1 1EX or can be downloaded from <http://www.whereyoucan.im/resources>

The Isle of Man Insurance and Pensions Authority also provides copies of legislation on its website www.gov.im/ipa, including:

- The Insurance Act 2008 and attendant regulations and guidance
- The Retirement Benefits Schemes Act 2000 and attendant regulations
- The Insurance (Anti-Money Laundering) Regulations 2008 and associated guidance notes.

Telephone calls made to or from the Commission may be recorded or monitored.

ACCA	The Association of Chartered Certified Accountants	ICCAP	International Capital Adequacy Assessment Process
ACSP	Association of Corporate Service Providers	IIP	Investors in People
ADBR	Annual Desk Based Review	IMF	International Monetary Fund
AIFMD	Alternative Investment Fund Managers Directive	IOM	Isle of Man
AML	Anti-money Laundering	IOMFSA	Isle of Man Financial Services Authority
APB	Auditing Practices Board	IOSCO	International Organisation of Securities Commissions
BCCI	Bank of Credit and Commerce International S.A.	IPA	Insurance and Pensions Authority
BIS	Bank for International Settlements	Island	Isle of Man
BRRD	Bank Recovery and Resolution Directive	IT	Information Technology
BVI	British Virgin Islands	JAMLAG	Joint Anti-money Laundering Advisory Group
CAT	Certified Accounting Technician	KSFiom	Kaupthing Singer & Friedlander (Isle of Man) Limited
CFT	Countering the Financing of Terrorism	MIFID2	Draft Markets in Financial Instruments Directive
CIS	Collective Investment Scheme	MIFIR	Draft Markets in Financial Instruments Regulation
CISA08	Collective Investment Schemes Act 2008	MLRO	Money Laundering Reporting Officer
Commission	The Financial Supervision Commission	MMOU	Multilateral Memorandum of Understanding
CODA	Company Officers Disqualification Act 2009	MONEYVAL	Committee of Experts on the Evaluation of Anti-money Laundering Measures
CPI	Consumer Price Index	MOU	Memorandum of Understanding
DCS	Depositors' Compensation Scheme	NAV	Net Asset Value
DED	Department of Economic Development	NRA	National Risk Assessment
D-SIBs	Domestic Systemically Important Banks	OFT	Office of Fair Trading
DNFBPs	Designated Non-Financial Businesses and Professions	PDF	Portable Document Format
ECB	European Central Bank	PI	Professional Indemnity
EEA	European Economic Area	PEP	Politically Exposed Persons
EIF	Experienced Investor Fund	PLC	Public Limited Company
EPC	European Payments Council	RDR	Retail Distribution Review
ESMA	European Securities and Markets Authority	RFB	Ring Fenced Banks
EU	European Union	RICC	Risk and Internal Control Committee
FATF	Financial Action Task Force	RPI	Retail Price Index
FCA	UK Financial Conduct Authority	Rule Book	Financial Services Rule Book
FSAP	Financial Sector Assessment Programme	SEPA	Single Euro Payments Area
FSA08	Financial Services Act 2008	SMEs	Small and Medium Sized Enterprises
FSC	Financial Supervision Commission	SORP	Statement of Recommended Practice 2007
GDP	Gross Domestic Product	STEP	Society of Trust and Estate Practitioners
GIFCS	Group of International Finance Centre Supervisors	TCSPs	Trust and Corporate Service Providers
ICB	Independent Commission on Banking	UK	United Kingdom
ICAEW	The Institute of Chartered Accountants in England and Wales	USA	United States of America

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The photographs in this annual report were
taken by staff as part of a competition.