



ISLE OF MAN FINANCIAL SERVICES AUTHORITY

ANNUAL REPORT 2015/16



ISLE OF MAN
FINANCIAL SERVICES AUTHORITY

Lught-Reill Shirveishyn Argidoil Ellan Vannin

BOARD MEMBERS

ISLE OF MAN FINANCIAL SERVICES AUTHORITY



Members of the Isle of Man Financial Services Authority Board from left to right, back row: Alan Smith, Mark Waterhouse, Peter Kenny, Roger Butler, Paul Wright. Seated: Lillian Boyle (Deputy Chair), Juan Clarke, Geoff Karran MBE, TH (Chair), Karen Badgerow (Chief Executive), David Stacey.

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FOREWORD

BY THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER



Geoff Karran MBE, TH - Chairman

CHAIRMAN'S STATEMENT

It is my pleasure to introduce the first Annual Report of the Isle of Man Financial Services Authority.

Prior to, and since the Authority's inception on 1 November 2015, there has been a vast amount of work carried out in order to ensure a smooth and successful merger of the two previous regulators and yet also to remain focused on our statutory objectives for regulating financial services.

It has, however, been an exciting time as it has given both our Executive and the Board the opportunity to look at our practices and procedures to see if there are ways of improving regulation on our Island not only for the benefit and protection of consumers but also for the development and ultimate benefit of all businesses operating within the financial sector, or wishing to set up here on our Island. In particular it has given us the chance to consider our core purpose, to agree our core values and look to our long term goals and outcomes, as well as reviewing the culture of regulation to be applied. Whilst here on the Island we can pride ourselves that we operate a transparent, and well regulated International Financial Centre, complying with international standards, we must always strive to see if there are ways of improving the offering being made so as to make the Island more attractive for new investors.

As well as the Authority being a new regulator, it also has a new Board and a new CEO. Karen Badgerow and all members of our staff have worked very hard, and continue to do so, in effecting the merger to ensure that in future we will adopt similar processes and have similar powers for each of the many

sections of the finance sector.

Key to success is the appropriate and positive interaction with stakeholders, which are many and varied. The term includes regulated entities, their customers or potential customers, industry bodies, the Government, other statutory boards and Government Departments, as well as other regulators and law enforcement authorities (both local and international).

The methods of communication used by the Authority depend on the type of stakeholder and the topic in question; however, consultation on proposals for regulatory or legislative change is of primary importance. Appendix F lists the consultative documents issued over the period of this Annual Report. The early engagement of others with the consultation process is invaluable, and the Authority appreciates the input of all respondents.

The period of this annual report has been a period of change, which has resulted in a positive and invigorated Authority. I look forward to the planned activities of the next 12 months, working with fellow Board Members, the CEO and the dedicated staff of the Authority. Meanwhile, the CEO sets out below some details of the transformative initiatives currently underway, which include a review of the vision and values of the Authority and the nature of its regulation.

CHIEF EXECUTIVE OFFICER'S STATEMENT



Karen Badgerow - Chief Executive

It has been an honour to be the first CEO of the new FSA. This past year has been a time of excitement and change, mixed with some uncertainty and sadness as we leave behind the two predecessor organisations, the IPA and FSC and now embark on establishing the FSA, one organisation, one culture. An incredible amount of work was undertaken by the staff and the Boards of our predecessor organisations in advance of the merger to ensure that we had day one success and these efforts have carried us forward and created a strong foundation for the future. This report recognises the accomplishments of all three organisations over this past 12 months.

The first five months for the new FSA have passed quickly and the time has been filled with getting to know the key stakeholders, establishing relationships and understanding the business culture of the Island. During this time I have also had the pleasure of meeting with each member of staff in the FSA to understand the work that we do and to seek their views on what we should consider as we establish our identity as one organisation. Together with the new board of the FSA we have been exploring some very important questions about how we want to operate and what kind of regulator we want to be.

I have been impressed by the passion and commitment of those employed in the industry and their interest in the long term financial health of the Island. Being new has allowed the FSA to revitalise our relationships with our partners in the Government and to work in concert to promote the interests of the Island. That being said, I am very mindful of our regulatory mandate and we will continue to pursue this with vigour and balance, taking into account the type of business that is being undertaken here.

We will seek to understand the issues, remediate with proportionality and use our enforcement powers where necessary.

When the FSA came into existence we committed to continue with our current high priority projects and, as you will see from this report, many of these are well progressed. Like any new organisation there are always growing pains but the newness also provides us with the opportunity to reflect on what is most important. We are taking some time over the coming months to do that through our recently launched Programme for Change initiative. This initiative will provide us with the opportunity to reflect on how we currently do our work and what our work should look like in the future. We will be reaching out to industry and other stakeholders to seek views on how this is best achieved.

We can never work in isolation and the FSA will continue to support the work undertaken here and indeed globally to improve on matters of transparency in relation to our regulated entities. We need to look out

and beyond to understand new regulatory activities, the innovative approaches of other regulators and be alert to risks that could threaten our industry. As has been evidenced by recent events, we continue to live in uncertain times and the common principles of collaboration, trust and integrity should serve to guide our collective behaviours and how we work together going forward.

I would like to thank the staff for their tremendous support in helping to create the new FSA. I have been impressed by the breadth of activities that is undertaken in the organisation and the level of expertise and professionalism of the staff in delivering on our objectives. I look forward to the years ahead.



THIS YEAR AT A GLANCE

In 2015/16 we:

- Formed the Isle of Man Financial Services Authority on 1 November 2015 as a result of the merger of the former Insurance and Pensions Authority and the Financial Supervision Commission.
- Advanced important new regulatory initiatives on the Isle of Man with legislation and policy work progressing for the introduction of both a Crowdfunding regime and an Alternative Banking regime.
- Continued work on the Insurance Core Principle (ICP) project with significant consultation undertaken on the draft Insurance Bill and ongoing consultation on key elements of the programme.
- Introduced a new Civil Penalties regime in August 2015.
- Continued outreach to the insurance industry with the roll-out of Quantitative Impact Studies to better understand the impact of the new capital requirements under the ICP project.
- Introduced the Designated Business (Registration and Oversight) Act 2015 on 26 October 2015 and, with the aid of a new system development enabling on-line applications, registered over 100 applicants, with more than 200 applications for registration currently under consideration.
- Maintained a robust supervisory program with on-site visits, complimented by annual business meetings, thematic reviews and attendance at supervisory colleges.
- Participated in the lead-up work to the MONEYVAL visit and in the on-site assessment programme which occurred in April 2016.
- Continued selected enforcement action including issuing warnings under section 11 FSA08 and commencing director disqualification proceedings.
- Supported the work of others through on-going domestic working partnerships with the Department of Economic Development, the Financial Crime Unit, the Department of Home Affairs and continued exchange of information through existing gateways.
- Maintained ongoing engagement with our international colleagues by responding to requests for information under Multi-lateral Memoranda of Understanding.
- Continued to pursue market access for the Island's financial services firms as a result of matters related to the Alternative Investment Fund Managers Directive (AIFMD, ongoing) and finally securing membership in the Single Euro Payments Area (SEPA) from May 2016.
- Issued a consultation paper on proposals for establishing and implementing a regulatory and supervisory framework for banks considered as being systemically important at a domestic level in the Isle of Man.
- Supported the work of the Department of Economic Development in delivering pensions reform proposals to Treasury.

THE ISLE OF MAN FINANCIAL SERVICES AUTHORITY

The Authority is an independent statutory board, established on 1 November 2015 by article 4 of the Transfer of Functions (Isle of Man Financial Services Authority) Order 2015. This Order dissolved the Insurance and Pensions Authority and the Financial Supervision Commission, and transferred the functions of each regulator to the new Authority.

This annual report addresses the requirement, under paragraph 7 of Schedule 1 to the FSA08, for the Authority to report to Treasury annually on its proceedings and activities for the previous year, and to supply its audited accounts. The annual report will also be laid before Tynwald.

Although the transfer of functions from the IPA and FSC took place during the period of this report, the report covers the activity of the total period from 1 April 2015 to 31 March 2016, both before and after the transfer.

REGULATORY OBJECTIVES

The Authority is required, by section 2 of the FSA08, to exercise its functions (set out in Appendix A) in a way that is compatible with, and appropriate for, the purpose of meeting its regulatory objectives. The regulatory objectives are:

- Securing an appropriate degree of protection for policyholders, members of retirement benefits schemes and the customers of persons carrying on a regulated activity
- The reduction of financial crime
- The maintenance of confidence in the Island's financial services, insurance and pensions industries through effective regulation, thereby supporting the Island's economy and its development as an international financial centre

Additionally, the Authority is guided by specified matters (under paragraph 3 of Schedule 1 to the FSA08) that it must have regard to when discharging its functions. These matters are:

- the need to balance the regulatory objectives
- 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 resources in an 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 need to promote public understanding of the financial services, insurance and pensions industries
- the responsibilities of those who manage the affairs of permitted persons, insurers and retirement benefits schemes
- the international character of financial services, insurance and pensions industries and their markets and the desirability of maintaining the competitive position of the Island
- the desirability of facilitating the development of the financial services, insurance and pensions industries
- the impact of its decisions on the stability of the financial system of the Island.

ORGANISATION OF THE AUTHORITY

The Authority operates under the Statutory Boards Act 1987, however its constitution and functions are set out in the FSA08.

Schedule 1 to the FSA08 specifies that Board Members of the Authority are appointed by the Treasury, subject to the approval of Tynwald. The minimum number of members is seven, including a chairperson, deputy-chairperson and the Authority's CEO. The current membership of the Authority's Board is set out in Appendix B.

Board Members are appointed for a fixed period of not less than two years and not more than five years.

HOW THE AUTHORITY OPERATES

The Authority is formed of five internal Divisions and has a variety of functions. The primary function is the regulation and supervision of the Island's financial services sector, such as banking, insurance, investment businesses, collective investment and retirement benefit schemes, trust and corporate services, crowdfunding platforms and money transmission services. The Authority also has an oversight and enforcement function in relation to Designated Businesses' adherence to AML/CFT legislation, as well as certain functions connected to such areas as audit and company officer disqualification. Appendix A provides further information on the Authority's functions.

GOVERNANCE AND BOARD COMMITTEE STRUCTURE

BOARD AND COMMITTEE MEETINGS

The Authority's affairs are administered by its Board, made up of a chairperson, the CEO and eight other private sector members.

The Authority's Board oversees the strategic direction of the Authority and following the announcement of the merger of the FSC and IPA by Treasury in November 2014, a Steering Committee comprising members of the Boards of both regulators was established. Separate sub-committees were established to assist the work of the Steering Committee during the period, including the recruitment of a new CEO. Additionally a working group, comprising staff from both organisations, identified and prioritised related work streams.

The Board of the Authority held its first meetings in November 2015 and continues to meet regularly. In addition, a quorum of the Board (comprising a minimum of three Board Members) meets separately to consider applications for authorisation.

The following meetings have been held between 1 November 2015 and 31 March 2016:

Meetings of the Isle of Man Financial Services Authority	6
Authorisations Meetings	1

Two standing committees of the Board were established in January 2016: the Risk and Control Committee¹ and the Human Resources and Compensation Committee². The following meetings of these committees have been held between 1 November 2015 and 31 March 2016:

Meetings of the Risk and Control Committee	2
Meetings of the HR and Compensation Committee	2

More information on the Corporate Governance arrangements of the FSA and its predecessor organisations can be found at Appendix B.

¹ Lillian Boyle, Roger Butler, Paul Wright, Juan Clarke

² Alan Smith, Peter Kenny, David Stacey, Mark Waterhouse

REGULATION AND SUPERVISION

A. AUTHORISATIONS

Applications for authorisations or registrations under the IA2008 or the RBSA2000 are made in writing by the applicant to the Authority; and those for a licence under the FSA08 are made using an application form.

As part of its authorisation process the Authority seeks to ensure that those entering the financial sector meet the required minimum standards expected of an Isle of Man regulated entity in order to protect the reputation of the Island as a reputable and responsible financial centre.

Applications are considered by authorisations staff, in close liaison with the appropriate supervisory team responsible for the relevant sector(s). In all cases, meetings take place and additional information is obtained until such time as a recommendation is made to the Board of the Authority in respect of the application.

Alongside supporting new business applicants, authorisations staff work closely with supervisory colleagues in respect of existing licenceholders that apply to extend their current services and seek additional permissions or classes of regulated activity. The number of completed vetting applications over this period in relation

to regulated activity under the FSA08 has increased by 45% over the previous year, from 380 to 550. Many such applications result from changes within licenceholders as well as from new business applications.

During the period of this report staff of the Authority continued to offer support and guidance to businesses considering the Island as 'the place to do business'. A wide variety of business propositions have been reviewed over this period although, unlike previous years, there has been no common theme to the enquiries received. The range of potential activities has included restricted banking operations, crowdfunding platforms, investment business and payment services. Enquiries range from tentative initial queries to formal applications for licensing or authorisation. In the latter case there will be greater dialogue and various meetings with the Authority as the application process progresses. A number of the enquiries have been directed to the Authority, as part of its promotion of the Island, through the Department of Economic Development, with which regular liaison meetings take place to discuss matters of common interest.



Image supplied courtesy of Manx National Heritage

B. SUPERVISION

SUPERVISORY APPROACH

The Authority's knowledge and understanding of any regulated entity, its activities and the principal risks to which it is exposed, develops on an ongoing basis through a combination of desk-based analysis and on-site inspection visits. On-site inspection visits are undertaken using a risk-based model, and they focus on the effectiveness of management and controls as well as specific themes and risks per sector.

The Authority receives information about each regulated entity from a variety of sources, including annual, quarterly and ad hoc regulatory submissions. These contain detailed information in respect of the financial position, compliance and governance of each regulated entity along with other sector specific matters.

Supervisory staff are allocated to the various sectors as follows:

- Banking (deposit takers and money

transmission)

- Insurance and Pensions (including insurance intermediaries and retirement benefits schemes)
- Fiduciary Services (corporate and trust service providers)
- Funds and Investment Services (investment advisers, investment managers, stockbrokers, fund administrators and managers, custodians, investment platforms, crowdfunding platforms)
- Risk and Compliance (responsible for internal systems, controls and procedures, as well as testing adherence with them, and co-ordinating and addressing any risk or compliance matters).

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

Regulated activity under the FSA08	Number of licenceholders conducting the following regulated activities As at 31 March	
	2016	2015
Class 1 - Deposit taking	22	23
Class 2 - Investment business	49	52
Class 3 - Services to collective investment schemes	55	55
Class 4 - Corporate services	164	167
Class 5 - Trust services	115	119
Class 7 - Management & administration	10	9
Class 8 - Money transmission services	5	5

Authorisations under the IA2008	Number of regulated entities conducting the following activities As at 31 March	
	2016	2015
Resident insurers - life	16	16
Resident insurers - non-life	118	121
Permitted insurers - life	9	9
Permitted insurers - non-life	9	7
Insurance managers	22	22
General insurance intermediaries	24	25
Registered Scheme Administrators under the RBSA2000		
Administrators - pensions	56	59

The supervisory approach document for licenceholders under the FSA08 is set out on the Authority's website and remained unchanged during the period of this report. The programme for on-site visits utilises a sector risk rating process. As part of the Programme for Change initiative, the Authority's supervisory approach will be revisited.

AML/CFT continues to be an area that is incorporated into the majority of on-site visits, in addition to key risks or developments at individual regulated entity and sector level. Where necessary, supervisory staff liaise closely with enforcement staff if issues are identified that may, or do, represent material non-compliance with legislation including AML/CFT issues and the Rule Book.

Over this period, section 23 of the FSA08 has continued to be an important provision to require the appointment of reporting accountants (or skilled persons) where areas have been identified that merit further review or investigation by a person other than the regulated entity, and the costs of the person appointed fall on the regulated entity.

The following table sets out remedial and other regulatory actions taken under the FSA08 during the period:

	Year ended 31 March	
	2016	2015
Directions – under sections 14 and 18 of the FSA08	42 – of which 7 were remedial	50 - of which 18 were remedial
Civil Penalties		
Fixed penalties relating to late filings	22	25
Discretionary penalties relating to regulatory breaches	None	None
Section 11 - warning notices	5	None
Section 23 - appointment of reporting accountant	2	3
Section 22 - successful application to court for the appointment of a business manager	1	1
FSA08 licences (or classes thereof) suspended or revoked	None	1

Supervisory staff have continued to provide feedback sessions (on the general nature of findings from supervisory visits) to the various industry sectors during the year, and staff have also been heavily involved in the relevant sector specific work-streams in relation to the National Risk Assessment for AML/CFT. The latter commenced with risk identification (including collation of information and statistics) and then providing feedback to the relevant sectors from the findings. Work is now focusing on actions arising from the findings. Ongoing updating of the sector specific assessments will be a regular feature in the future.

Preparation for the April 2016 MONEYVAL mutual evaluation and follow-up assessment has also involved significant input particularly in relation to the effectiveness aspects of the review.

BANKING AND MONEY TRANSMISSION SERVICES

Over the period of this report, the team undertook a series of annual business meetings with banking and money transmission groups / licenceholders. The compliance visits were designed to focus on areas the Authority believed were relevant to that particular licenceholder. They covered such areas as AML/CFT, corporate governance effectiveness, complaint handling and lending.

The team also continued to work on a number of initiatives. These included Capital and Liquidity proposals (under Basel III) for deposit takers, methodology proposals for the identification of Domestic Systemically Important Banking Institutions and early

exploratory work on bank resolution and recovery. The bank resolution and recovery project will be a project that is Government led, and the Authority, as one of the stakeholders, will be involved in developing and implementing the relevant legislation. In addition, input has been given on the proposed new regulatory regime for the regulation of credit unions as well as the proposed new alternative banking strategy.

During the first quarter of 2016 banks have commenced reporting additional information in relation to their loan books. This will give the Authority improved data concerning the nature and quality of the constituent parts of banks' loan books. It will also enable the Authority to publish more detailed information on bank lending.

A proposed new Annual Statistical Return for certain money transmission licenceholders (those only conducting bureau de change, cheque cashing and agency business) was trialled towards the end of 2015. It is anticipated that this will provide useful feedback to the Authority in relation to the proposed enhancement of its Annual Regulatory Returns for all regulated activities, and also improve the desk-based risk assessment of this sector (including for AML/CFT).

The Authority is also involved in liaising with relevant banking groups on the more detailed implications for the Isle of Man operations of the major UK retail banks that will be subject to the UK's 'ring-fencing' regime, which comes into full effect from 1 January 2019. The Isle of Man operations (and other parts of the UK groups' not in the EEA) must be outside of the ring-fenced part of these groups. All affected UK groups submitted near final plans to their home regulator, the Prudential Regulation Authority, in January 2016.

INSURANCE AND RETIREMENT BENEFITS SCHEMES

As many of the larger insurers in the Island are part of wider insurance or financial services groups, bilateral meetings with other regulators or participation within supervisory colleges form an important aspect of understanding how these entities fit within the wider group. Supervisory colleges also consider the intra-group risks and dependencies that may arise from these relationships.

The Authority's on-site visit programme within this sector complements its desk-based analysis, and may take the format of a routine visit or may focus on a specific area of interest, policy or procedure, including that of compliance with applicable AML/CFT legislation. Such visits assess the individual businesses, their corporate and management structure, and the activities and the risks to which the company is exposed and are undertaken by supervisory staff.

Occasionally third parties may be commissioned to undertake a review of work that the Authority has required of a company (i.e. remedial action or to justify a position). The cost of such work would ordinarily be met by the company concerned. That power has been used in this period to address the Authority's concerns regarding the reasonableness of financial information presented in regulatory returns and annual financial statements of an insurer, as well as a review of its remediated AML/CFT control environment.

FIDUCIARY SERVICES

Over the period of this report, the team undertook a number of annual business meetings with corporate and trust service providers.

This year the on-site visits mainly focused on conduct of business (including client money), corporate governance (of the fiduciary), corporate governance (over client structures), licenceholder and individual client risk assessments and AML/CFT related matters.

In November 2015, the Group of International Finance Centre Supervisors adopted its Standard on the Regulation of Trust and Corporate Service Providers. The Authority fully supports this initiative which is designed to ensure the membership of GIFCS adopts and applies these standards in their day to day fiduciary regulation. The Authority believes, after undertaking a self-assessment, that it largely meets the standard and will work towards full implementation in due course.

FUNDS AND INVESTMENT SERVICES

Over the period of this report, the team held a number of annual business meetings with investment and funds services businesses (which include investment advisers, investment managers, stockbrokers, fund administrators and managers, custodians and investment platforms).

Visits to investment advisers and discretionary investment managers continued to focus on suitability of advice and disclosure requirements, as well as AML/CFT compliance.

With regard to fund administrators and managers, focus was given to the take-on procedures applied when evaluating prospective new business. It is always important to understand any interconnectedness between the various parties / functionaries to a collective investment scheme and ensure that the overall structure and purpose of what is being established is for the benefit of investors / prospective investors into the scheme.

The project to update and simplify the Island's funds offering to take account of the revised IOSCO Principles and Methodology will be progressed over the forthcoming year.

C. CO-OPERATION AND CO-ORDINATION

SUPERVISORY

Given the international focus of the Island's regulated businesses, together with the significant proportion of them that are members of groups established or operating elsewhere, the safe and effective sharing and communication of relevant information and intelligence between interested supervisory authorities and enforcement agencies remain an important and integral part of the effective supervision of internationally active entities.

The Authority is committed to establishing new, and developing further its existing, working relationships with other supervisory authorities to allow the appropriate and timely exchange of information to facilitate cross-border and cross-sectoral supervision of individual legal entities and their groups.

In addition, the Authority believes that responsible and appropriate international co-operation can be an effective and powerful tool assisting both supervisory authorities and law enforcement agencies in the protection of global financial systems from those who wish to abuse them to launder money and finance terrorist activities or the proliferation of weapons of mass destruction.

CO-OPERATION IN DOMESTIC SUPERVISION

In developing further the Authority's legislative framework in respect of AML/CFT, it liaises about matters of common interest with the Department of Home Affairs, the Isle of Man Financial Crime Unit, and Isle of Man Customs and Excise. Its CEO is also co-chair of the Island's Joint Anti-Money Laundering Advisory Group, which provides a forum for discussions between Government, regulators and industry.

In addition, the Authority's responsibilities in relation to the supervision of regulated entities mean that it is important for it to maintain a dialogue on such matters with the Treasury's Income Tax and Social Security Divisions, and the Office of Fair Trading. Legislation also makes provision for the Authority to share information with the Financial Services Ombudsman Scheme and the Isle of Man Pensions Ombudsman where appropriate.

CONSOLIDATED / GROUP SUPERVISION

Many entities regulated by the Authority are subsidiaries of entities regulated in other jurisdictions, and several have branch operations in other jurisdictions.

In order to understand fully the nature, scale and complexity of such entities, their activities and the risks to which they may be exposed, it is necessary to understand the intra-group relationships and dependencies that may exist.

The Authority is a member of and participates in a number of supervisory colleges in respect of groups of which Isle of Man regulated entities are members; and liaises with supervisors elsewhere about matters of common interest including systemic risk, group-wide solvency and group crisis management plans.

The further development of an appropriate framework for insurance group supervision will be an important aspect of the Authority's work to implement its updated regulatory regime for insurance business.

EXCHANGE OF INFORMATION

Similar to other supervisory bodies, the Authority has a statutory duty of confidentiality in respect of information collected in the performance of its statutory

functions. Such information is classified as restricted information and may only be disclosed to third parties with the consent of the person from whom the information was received and, if different, the person to whom it relates, subject to the statutory 'gateways' set out in the various legislation that the Authority operates under.

These 'gateways' permit the Authority to disclose relevant restricted information, subject to certain safeguards, with regulators and other limited persons.

MEMORANDA OF UNDERSTANDING (MOUs)

The powers that enable the Authority to co-operate with other regulatory organisations both domestically and internationally, are supported by a number of bilateral MOUs with regulatory authorities world-wide. The existing MOUs of the IPA and FSC continue to operate for the Authority as a whole, and will be updated in due course.

MOUs provide the basis for a two way flow of information between supervisory authorities. They provide a framework which sets out the basis on which the Authority can be confident that the information it exchanges with other supervisors is treated as confidential, together with the circumstances in which that information may be shared further if it is appropriate to do so.

IAIS AND IOSCO MULTI-LATERAL MEMORANDA OF UNDERSTANDING (MMOUs)

The IPA was a signatory to the IAIS MMOU. Likewise the FSC was a signatory to the IOSCO MMOU. Confirmations have been received from the both organisations that these ascensions are carried forward to the Isle of Man Financial Services Authority.

ASSISTANCE WITH INVESTIGATIONS AND INSIDER DEALING

The Island has in place important provisions that enable it to co-operate in cross-border enquiries and investigations. Whilst mutual legal assistance in criminal matters is the preserve of the Island's Attorney General's Chambers, the Authority is able to use its powers of inspection and investigation in regulatory investigations in order to obtain information on the Island for overseas regulators who are signatories to the IOSCO MMOU. During the period of this report, nine requests were received from six different countries.

On occasion, the Authority becomes aware of instances where overseas persons falsely claim to have a presence on the Island in order to mislead the public. When these instances come to light they are investigated by enforcement staff to determine whether any criminal or regulatory proceedings are required. In most cases the Authority is able to establish that there is no genuine Isle of Man connection. In these circumstances the action that can be taken to prevent such false claims is limited, but the Authority does have power under the FSA08 to issue a public warning and publish relevant information in order to protect the public. During the year, a total of three such cases were investigated, all of which resulted in the issue of public warnings on the Authority's website.

Although the Island does not have a stock exchange, there may be occasions when a person or business on the Island is suspected of involvement in insider dealing. Under the Insider Dealing Act 1998, the Authority may appoint inspectors to investigate such cases. No such investigations took place over the last year.

D. PREVENTION OF MONEY LAUNDERING AND COUNTERING THE FINANCING OF TERRORISM

AML/CFT UNIT

This period has seen the AML/CFT Unit working on new secondary legislation and guidance, preparing for the MONEYVAL evaluation of the Island and working on tasks linked with the Designated Businesses (Registration and Oversight) Act 2015 which came into force on 26 October 2015.

LEGISLATION/GUIDANCE

A new Anti-Money Laundering and Countering the Financing of Terrorism Code, that takes into account the revised 2012 FATF Recommendations, came into force on 1 April 2015.

In April 2015, the DHA amended Schedule 4 to POCA, extending the definition of 'Business in the Regulated Sector' to include tax advisors, payroll service providers, controlled machines, specified non-profit organisations and virtual currency businesses.

As a consequence of the new AML/CFT Code and amendments to Schedule 4 POCA, it was necessary to amend the Authority's AML/CFT Handbook which, as with the Code, was substantially redrafted in order to improve its layout, language and order so that it now follows the order of the Code. Sector specific AML/CFT guidance was also substantially redrafted and, for those sectors where there was no previous guidance, was newly prepared.

MONEYVAL

The Isle of Man became a participant in the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) in December 2012 and has

undergone evaluation by MONEYVAL in 2016. The evaluation was under MONEYVAL's 5th round evaluation process and was conducted against the FATF 2012 Recommendations using the 2013 Methodology. The Island's main focus with regard to MONEYVAL over the last 12 months has therefore been on preparation for this evaluation, which included questionnaires and attendance at numerous workshops. An on-site visit to the Island, focussing on effectiveness was conducted by the MONEYVAL evaluation team over the period 25 April to 6 May 2016 and it is anticipated that the final draft report will be discussed at the MONEYVAL plenary during December 2016.

MONEYVAL holds plenary meetings three times per year in April, September and December at which mutual evaluation reports of its members and other developments in the AML/CFT arena are discussed. In addition to work linked to the evaluation, the Authority's Director of Enforcement (or deputy) attended three plenary meetings in 2015.

DESIGNATED BUSINESSES

Following comments in the IMF report in 2009, the Council of Ministers considered proposals put forward by the then Chief Secretary's Office (now the Cabinet Office) to place responsibility on the Authority for the oversight of the adherence of certain businesses and professions ('designated businesses') to the Island's AML/CFT legislation.

The Designated Businesses (Registration and Oversight) Act 2015 ('the Designated Businesses Act') came into force on 26 October 2015.

The Authority's role in financial services supervision is distinct and entirely separate from its role under the Designated Businesses Act. The Designated Businesses Act does not make persons affected by its provisions licenceholders or regulated entities of the Authority, under the FSA08, the IA2008 or the RBSA 2000.

Designated businesses are registered and overseen by the Authority for AML/CFT compliance only – they retain their current status with the various bodies (if any) responsible for their wider business, competence or other matters, such as the Isle of Man Law Society, the ICAEW, ACCA, CIMA and the Office of Fair Trading.

REGISTRATION

The Designated Businesses Act contains transitional provisions which meant that designated businesses which existed prior to 26 October 2015 could continue to undertake designated business provided they submitted their completed applications for registration to the Authority by 26 April 2016. Any businesses formed after 26 October 2015 must be registered with the Authority before undertaking designated business.

Businesses complete their registration online which facilitates the application process whilst reducing costs.

At the time of writing, the Authority has registered 119 designated businesses which are broken down as follows:

- 20 legal businesses
- 64 accountancy businesses
- 3 estate agent businesses
- 21 money lender businesses
- 11 other designated businesses

OVERSIGHT

During the last 12 months the AML Unit has conducted outreach and education sessions with all the major designated business sectors affected by the new legislation. These sessions have included the new AML/CFT code, application of the Island's AML/CFT legislation to designated businesses, the risk-based approach, the designated businesses registration system, the MONEYVAL evaluation and an introduction to countering terrorist financing for non-profit organisations.

A programme of AML/CFT compliance oversight visits commenced in January 2016 and is being undertaken by a dedicated team within the AML Unit.

This visit programme will be risk-based using information on potential risks obtained during the registration process and, in future, from our on-site visit programme.

E. ENFORCEMENT

REGULATORY ENFORCEMENT ACTION

During the year to 31 March 2016, the Authority utilised a number of enforcement powers available to it. Due to the nature of this work, and the fact that some powers are subject to appeal, the results of the exercise of the powers are not yet all in the public domain. Nevertheless, examples of the type of action that has been taken can be found on the Authority's website.

Over this period, a number of individuals were issued with Preliminary Notices under section 10B of the FSA08, and have appeared before the Authority to respond to its concerns. These cases are continuing in line with the Authority's prohibition policy.

COMPANY LAW MEASURES

The Authority has power, under the Company Officers Disqualification Act 2009, to make applications to the High Court for disqualification of company officers whose conduct renders them unfit to act in that capacity. No such disqualifications have been made by the High Court over this period although enquiries have been undertaken in respect of some instances of suspected unfitness.

The Authority also has power under the Island's company legislation to make application to the High Court for the winding-up of companies in the public interest. The Authority has wound up one company in the public interest over the last year, namely UK Secured Finance Fund PLC which was wound up on 10 June 2015.

POLICY DEVELOPMENT

The Policy and Legal Division is responsible for the maintenance of the Authority's legislative framework. The legislation requires updating from time to time for various reasons including changes to the 'boundaries' of the regulatory perimeter to reflect innovation in the marketplace and to remain in compliance with international standards, where appropriate. An example of the changing regulatory perimeter over this period is the introduction of regulation of both investment-based and loan-based crowdfunding.

REGULATORY DEVELOPMENTS

The year to 31 March 2016, saw the completion of some sizeable projects including the finalisation of Designated Businesses primary and secondary legislation, and the introduction of a discretionary civil penalties regime. In addition, staff were involved in the production of the Transfer of Functions Orders and the Isle of Man Financial Services Authority (Amendment of Constitution) Order 2015 (along with the Attorney General's Chambers); and amended various items of regulatory secondary legislation.

We continue to progress actions arising from the General Review of Collective Investment Schemes. One element of that has now been completed (the consolidation of Recognised Collective Investment Scheme secondary legislation), and over the forthcoming period it is intended to continue to work on the remaining areas of the review.

Further details on a selection of important policy developments from this period follow.



Image supplied courtesy of Manx National Heritage

CROWDFUNDING

The FSC first consulted on proposals for crowdfunding in April 2015. This consultation discussed the various types of crowdfunding, identified the risks associated with loan and investment based crowdfunding, and suggested ways in which these risks might be mitigated. While awaiting responses to the consultation, research on the crowdfunding regimes of other jurisdictions including the UK, Canada, Australia and New Zealand was undertaken.

The second consultation, published on 28 September 2015, contained a brief summary of the responses to the first consultation, including responses from crowdfunding platforms and consumers, as well as more detailed proposals on the planned regime.

The third and final consultation, which was issued on 21 December 2015, contained the draft legislation and the draft rules for crowdfunding platforms, which will be applied as licence conditions in the first instance to enable the Authority to test their appropriateness before ultimately including them in the Financial Services Rule Book. The legislation was approved by Tynwald in April 2016 and came into effect on 1 May 2016.

DISCRETIONARY CIVIL PENALTIES

This period saw the completion of a review of the civil penalties regime under section 16 of the FSA08. The FSC first introduced administrative civil penalties for the late submission of returns in 2006 and indicated that it may subsequently introduce civil penalties for more significant regulatory failings.

In 2013 the FSC began the first of a series of consultations on proposals to introduce discretionary civil penalties for serious regulatory failings. The proposals were refined throughout the consultation process and input was sought on the drafting of Regulations and an associated guidance note to explain how the enhanced regime would operate in practice. The Financial Services (Civil Penalties) Regulations 2015 came into effect on 1 August 2015 and apply to current and former licenceholders under the FSA08. Any decision to impose a discretionary civil penalty is made by the Board Members of the Authority in accordance with internal decision procedures.

DESIGNATED BUSINESSES LEGISLATION

The passage of the Designated Businesses (Registration and Oversight) Act 2015 through the branches of Tynwald, and its coming into full operation on 26 October 2015 was the achievement of a major milestone, as was the preparation of the secondary legislation required under that Act.

The draft Bill was consulted upon twice (in June 2013 and February 2014) and received Royal Assent on 16 June 2015. At the same time, the Designated Businesses (Registration and Oversight) (Amendment) Order 2015 made changes to Part 1 of Schedule 1 to the Act, which details the types of designated businesses. That Order added some new types of designated businesses which had already been included in Schedule 4 to the Proceeds of Crime Act 2008:

- The business of a tax adviser as defined in the Income Tax Act 1970;
- The business of a payroll agent;

- The business of issuing, transmitting, transferring, providing safe custody or storage of, administering, managing, lending, buying, selling, exchanging or otherwise trading or intermediating convertible virtual currencies, including crypto-currencies or similar concepts where the concept is accepted by persons as a means of payment for goods or services, a unit of account, a store of value or a commodity; and
- The activity of a specified non-profit organisation.

In addition, two further Orders came into effect on 26 October 2015: the Designated Businesses (Fees) Order 2015 which identified the registration and annual fees for designated businesses, and the Designated Businesses (Civil Penalties) Order 2015 which specified the civil penalties to be levied if a registered person contravenes certain requirements of the Designated Businesses Act, as well as specifying when certain information must be supplied to the Authority.

INSURANCE SUPERVISORY FRAMEWORK

The Island's regulatory framework for insurance supervision is set out in the IA2008.

In 2012 the ICP project was commenced to revise the insurance supervisory framework to ensure it maintains the strength of the Island's reputation as a responsible international financial centre.

Both Government and industry recognise that it is necessary to ensure that the framework appropriately addresses the nature and degree of risks of insurance, whilst protecting the interests of policyholders, and to demonstrate that the Island's insurance framework remains consistent

with international standards. Therefore the framework undergoing development and enhancement.

OBJECTIVES OF THE ENHANCEMENT

In undertaking this project the Authority's objectives are to implement a framework for the regulation and supervision of insurers and general insurance intermediaries that:

- is consistent with the Authority's regulatory objectives
- is appropriate and proportionate to the risks of the different parts of the insurance industry that operate in and from the Isle of Man
- allows the Isle of Man to be recognised as an up to date and responsible jurisdiction for insurance business, thus demonstrating its attractiveness both for existing regulated entities and new businesses that may wish to establish in, or transfer to, the Island
- will establish a high level of observance in respect of the ICPs, as assessed by international bodies such as the IAIS and the IMF.

The framework resulting from this project will, therefore, apply to all insurance entities regulated by the Authority, and all sectors of the industry can expect to be subject to new requirements, which will be tailored, where appropriate, to the specific characteristics of different segments of the market.

Since 2013 the progress of the project has been set out annually in a 'Roadmap'. The Roadmap is a document that sets out the key work streams of the project and provides information on the progress and work undertaken. The 2016 Roadmap looks ahead to significant deliverables and milestones over the following twelve months.

PENSIONS SUPERVISORY FRAMEWORK

The Island's regulatory framework is set out under the Retirement Benefits Schemes Act 2000.

All pension schemes are trust based and the framework ensures the fitness of trustees and through registration of administrators that those charged with management are appropriately skilled and resourced.

The registration of pension schemes enables the Authority to ensure that schemes are at all times fit for purpose by design.

Reporting requirements are set out so as to enable the Authority to monitor the appropriateness of decision making by trustees, in particular in relation to financial matters affecting member's interests which provides member protection whilst at the same time reducing the opportunity for financial crime and mismanagement.

On site work enables the Authority to manage risk and provide support to trustees and administrators through a detailed ongoing review of outcomes on a specific and thematic basis.

Non routine work this period centred on modernising the framework taking account of international developments and challenges so as to enhance focus on emerging risk.

INTERNATIONAL POLICY MATTERS

The Authority maintains a close watch of international matters, including evolving international standards, as well as following closely the global initiatives being taken to ensure a more robust international response to financial stability issues in future, and the prevention and detection of money

laundering and the financing of terrorism.

Over this period, an important focus of attention has been the EU and various Directives and Regulations which have an effect on market access for the Island's financial services firms. Examples of such provisions include the Markets in Financial Instruments Directive and Regulation (known as MiFID2), as well as the Alternative Investment Fund Managers Directive. The Authority has been in liaison with relevant EU bodies in connection with the measures and an assessment is currently underway by ESMA against the criteria set for third country passporting for collective investment schemes under the AIFMD.

The Authority was pleased to announce in February 2016 that the EPC confirmed that from 1 May 2016 the Isle of Man, Jersey and Guernsey will become part of the geographical scope of the direct debit and credit transfer schemes of the Single Euro Payments Area (SEPA). This is a significant development that will enable banks in the three islands to apply to join the SEPA schemes, which facilitate fast and secure cross-border transfers in euros.

The Isle of Man's inclusion in the geographical scope of SEPA reflects many years of joint working between industry, government and regulators in the three jurisdictions, in conjunction with the respective Brussels offices.

CONSULTATION

Appendix G lists the consultative documents issued over the period of this Annual Report. Responses from interested parties to consultations are invaluable, and the Authority appreciates the input of all respondents.

LEGISLATION AND GUIDANCE

The Authority's main regulatory primary legislation comprises the Financial Services Act 2008, the Insurance Act 2008, the Collective Investment Schemes Act 2008 and the Retirement Benefits Schemes Act 2000.

Beneath this primary legislation is secondary legislation which contains the Authority's detailed requirements. The updating of the legislative framework has continued over this period, and the legislation that has come into effect over the period of this report can be found in Appendix F.

The Authority also issues guidance on various topics, all of which can be found on its website.

OTHER ACTIVITIES

The Authority is also involved in a number of other areas such as dealing with applications from auditors to be listed on the Register of Recognised Auditors and handling requests from overseas auditors to audit Isle of Man companies under section 14E of the Companies Act 1982.

The Authority is an ordinary member of IOSCO and a full signatory to the IOSCO MMOU. Staff continue to take an active part in the IOSCO MMOU Screening Group meetings as well as being involved in one of the Vetting Teams reviewing the applications for signatory status of certain jurisdictions.

OPERATIONS

FINANCE AND ADMINISTRATION

The Authority is part of the centralised Isle of Man Government accounting system, and its income and expenditure, although reported and audited separately, are part of the Government's general revenue account.

The Authority's expenditure is managed against an annual budget agreed with Treasury, with any shortfall in the Authority's income, relative to its expenditure, being covered by a Treasury grant.

With the merger of the IPA and the FSC, on 1 November 2015, the agreed budgets for the former bodies were combined, to generate the Authority's budget for the remainder of the financial year.

The Authority manages its expenditure closely to ensure that it receives value for money and, as far as possible, that it remains within the Treasury approved budget. The Authority complies with the Isle of Man Government Financial Regulations.

The Authority's statement of Income and Expenditure, for the period since its creation, 1 November 2015 to 31 March 2016, and the associated Report of the Auditors are set out in Appendix D. The Authority is audited in accordance with the Audit Act 2006.

Also included at Appendix E, is a notional income and expenditure statement covering the Authority's regulatory remit for the full year. This has been calculated by combining the accounts for the IPA and FSC for the seven months to 31 October 2015 and the Authority's results for the final 5 months of the financial year. This notional income and expenditure account gives the overall, amalgamated results for the full year.

The Authority, taking the combined view including the FSC and IPA, had a shortfall in licence fee income of around £108,000 against budget for the year. The shortfall arose from a lower number of regulated entities than anticipated and the delayed implementation of the oversight regime for designated businesses.

Operational expenditure, for the whole year from the combined perspective, was within budget except in the area of professional fees, where increased enforcement related activity led to higher than predicted legal costs. The professional fees incurred for legal services were around £135,000 above the budgeted figure, with a contribution from the Isle of Man Government's Legal Reserve Fund covering the shortfall.

During the year, the Authority decided to procure and develop a dedicated IT system to support the registration and ongoing AML/CFT oversight of designated businesses. To cover this one-off system development cost, the Authority was successful in releasing around £49,000 from the Isle of Man Government's ICT fund; the Authority having contributed an equivalent amount to the fund during earlier financial years from surpluses in its IT budget.



HUMAN RESOURCES

The Authority has a full time staff establishment of 66.5.

It is the Authority's policy to promote equal opportunities in the workplace. Procedures in relation to recruitment and learning and development form part of this commitment. The Authority arranges a programme of training sessions for staff. These are delivered either by staff or external parties. In addition staff are supported in their studies towards professional qualifications.

COMPLAINTS AGAINST THE AUTHORITY

The Authority's website sets out the procedure for dealing with complaints made against the Authority. The procedure provides for a review of the matter and response by the CEO. If the complainant remains unsatisfied, they may seek a further review by the Authority's Board.

Three complaints were made against the Authority during the period of this report. Two of these have been reviewed and were not upheld; neither has resulted in a referral to the Board for review. The third complaint is outstanding, pending the completion of the review.

INFORMATION TECHNOLOGY

In general, initiatives in the information technology area are focused on maximising efficiency in the use of the Authority's resources, however this year development effort has also been directed at updating systems, which existed pre-merger, to incorporate the Authority's brand.

The most significant system development during the year was the introduction of an

administration system to support the Authority in its new role of overseeing designated businesses for AML/CFT purposes. This new system allows relevant entities to complete the application for registration on-line. The system also stores static data regarding entities, once registered, and allows those entities to submit periodic updates.

The Authority's website was launched on 1 November 2015, the day the organisation was established. Much of the content was derived from the FSC's and IPA's websites, ensuring that relevant information remains accessible. The Authority has recently sought the views of website users on the site's usability and content; future development of the website will take these views into account.

The Authority continues to develop its document management capabilities using Microsoft SharePoint. A number of developments, involving bespoke configuration of the SharePoint software, have been completed including solutions to support the designated business registration and enforcement case management processes.

The Authority is in the process of specifying a new IT system which will enable more regulated entities to submit information electronically to the Authority. The system is planned to enable the validation and storage of information received in such a way that it can be analysed efficiently, so leading to more effective supervision and also bring some efficiencies to regulated entities in their reporting process.

During the year the IT team handled almost 500 internal user support requests requiring Government Technology Services assistance. The team also dealt directly with over 100 external user requests and managed almost 250 support calls generated by external on-line system users which were referred to third party software providers for resolution.



ISLE OF MAN FINANCIAL SERVICES AUTHORITY'S FUNCTIONS

The functions of the Authority are set out in paragraph 2 of Schedule 1 to the Financial Services Act 2008 and are as follows:

- the regulation and supervision of persons undertaking regulated activities
- the regulation and supervision of persons undertaking regulated insurance activities or regulated pensions activities
- the maintenance and development of the regulatory regime for regulated insurance activities and regulated pensions activities
- the maintenance and development of the regulatory regime for regulated activities
- the conduct of investigations into any potential liability arising from breach of AML/CFT legislation by persons undertaking 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 regulation and supervision of retirement benefits schemes within the meaning of the Retirement Benefits Schemes Act 2000
- the functions conferred on it under the Acts specified below, and
- the functions conferred on it under any other statutory provision

The Acts under which functions are specified are:

- the Industrial and Building Societies Act 1892
- the Companies Act 1931
- the Income Tax Act 1970
- the Companies Act 1974
- the Companies Act 1982
- the Building Societies Act 1986
- the Insurance Act 2008
- the Retirement Benefits Schemes Act 2000
- the Life Assurance (Insurable Interests) Act 2004
- the Collective Investment Schemes Act 2008
- the Credit Unions Act 1993
- the International Business Act 1994
- the Limited Liability Companies Act 1996
- the Companies (Transfer of Domicile) Act 1998
- the Insider Dealing Act 1998
- the Online Gambling Regulation Act 2001
- the Companies Act 2006
- the Company Officers (Disqualification) Act 2009
- the Terrorism and Other Crime (Financial Restrictions) Act 2014
- the Incorporated Cell Companies Act 2010
- the Foundations Act 2011
- the Payment Services Act 2015
- the Designated Businesses (Registration and Oversight) Act 2015

MEMBERSHIP OF THE FINANCIAL SERVICES AUTHORITY

Geoff Karran MBE, TH (Chair)

Geoff Karran was appointed to the predecessor organisation in July 2007 and became Chair in April 2012. He was subsequently appointed Chair of the Financial Services Authority in November 2015. He was 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. Geoff retired from practising law in February 2007. In March 2008 he was appointed Deputy Police Complaints Commissioner and then Police Complaints Commissioner in March 2009. Geoff was awarded the MBE in the New Year's Honours List 2009. He was bestowed with the Freedom of the Borough of Douglas in 2012 and awarded the Tynwald Honour in 2015.

Lillian Boyle (Deputy Chair)

Lillian Boyle was appointed to the predecessor organisation in April 2012, and appointed Deputy Chair of the Financial Services Authority in November 2015. She is a lawyer, a Chartered Fellow of the Securities & Investment Institute and a Chartered Insurer as well as a Trust & Estate Practitioner. She is a former President of the UK Chartered Insurance Institute (CII) and currently sits on the CII Professional Standards Board. Lillian has been Managing Director of an Isle of Man based International Life Company and also Chairman of the Scottish Widows

companies on the Island. For the past seven years she has been a member of the UK Financial Reporting Council's Conduct Committee being particularly involved in the oversight of Audit Quality Review work.

She has held various non-executive roles in the investment and trust sectors on the Island and currently holds a position on a UK financial services group as well as being Audit & Risk Chair of two UK charities. Lillian has also served as a Governor of the Isle of Man College of Further & Higher Education as well as having been Chairman of the Manx Insurance Association and President of the IoM Branch for the Chartered Institute for Securities & Investments.

Karen Badgerow

Karen Badgerow was appointed to the position of Chief Executive in November 2015. Prior to this she served over 30 years with the Canadian government in senior roles in financial services regulation. Most recently she was Senior Vice-President with the Canada Deposit Insurance Corporation heading up their Insurance and Risk Assessment Division. Before joining CDIC, Karen spent over 25 years with the federal banking and insurance regulator, the Office of the Superintendent of Financial Institutions, and was responsible in her last position for oversight of the federal banking sector. She also represented Canada on a number of international committees including the Senior Supervisors Group and the FSB's Supervisory Intensity and

Effectiveness Committee. Karen holds a Bachelor's degree and a Master's degree in Public Administration from Carleton University in Ottawa, Canada.

Roger Butler

Roger Butler was appointed to the predecessor organisation in April 2012. Since 1998 Roger 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.

Juan Clarke

Juan Clarke was appointed in March 2016. Prior to this he was Managing Director of the Clerical Medical International (CMI) Group of Companies, part of the Lloyds Banking Group comprising trust, fund management and venture capital investment companies and Scottish Widows offshore insurance arm, CMI Insurance Company Limited. He has over 30 years' experience since starting

his career with Barclaytrust in 1982 and at CMI worked in various senior roles specialising in insurance, investments and fund management. Juan currently holds non-executive director positions in the Isle of Man and Luxembourg and is a Chartered Fellow of the Chartered Institute for Securities and Investment and holds Chartered Wealth Manager status with the Institute.

Peter Kenny

Peter Kenny was appointed in November 2015. He has three decades of senior level experience spanning the international life assurance and alternative investment fund industries, to which he currently provides non-executive directorship and business development consultancy services. From 2003 to 2015, he was the Chief Operating Officer and Director of an international alternative investment firm and Managing Director of a financial services distribution company. Throughout this time, he served on a number of investment fund boards covering a wide variety of strategies. From 1992 to 2003, Peter held a number of senior level positions with Zurich International Life, such as, Strategic Alliances Director, Client Services Director, Associate Director – Operations and Business Development Manager (Asia). Prior to this, he worked with Commercial Union Life Assurance in London and with Abbey Life Assurance in Dublin.

Alan Smith

Alan Smith was appointed to the predecessor organisation in July 2007. He began his career with Lloyds Bank Trust Division and then spent seven years as Manager of Bank of Bermuda's Cayman operations. Alan moved to the Isle of Man in 1987 and was appointed Managing Director of Bank of Bermuda in 1994. He was 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 until his retirement in 2005. Alan has over 40 years' experience in trust administration, corporate services, banking, custody and fund administration.

David Stacey

David Stacey was appointed to the predecessor organisation in April 2012. Prior to his retirement in 2009 he was Managing Director of Tower Insurance Company Limited and had previously spent his career in various senior management roles within RSA Insurance Group, Tower's parent.

David is a Fellow of the Chartered Insurance Institute and a Chartered Insurer, and holds the Institute of Directors' Diploma in Company Direction. He is a non-executive director of a number of companies and a board member of several local charities.

Mark Waterhouse

Mark Waterhouse was appointed in November 2015. He held a number of key positions in banking including Managing Director of Halifax International (Isle of Man) Limited and Managing Director of Halifax International Limited in Jersey. He is currently CEO of Zurich Bank International Limited which is part of the Zurich Insurance Group.

Since moving to the Isle of Man in 1997 Mark has been an active member of the Isle of Man Bankers Association and until October 2015 held its Presidency, a position he held for four and a half years, having previously held the same position in 2000. He is also currently President of the Isle of Man Centre of the Institute of Financial Services and is a Fellow of the Institute of Directors, currently serving on the Committee of its local branch.

Paul Wright

Paul Wright was appointed to the predecessor organisation in May 2012. He spent most of his career with the Bank of England where he had supervisory responsibility for global institutions. He was alternate Executive Director at the IMF in the early 1990s. In the UK FSA he oversaw supervision of the major overseas institutions in the UK and subsequently had responsibility for global and EU strategy. Until 2012 he was Senior Director at the Institute of International Finance in Washington DC. Paul was the CSFI/Swiss Re fellow in global insurance issues and currently advises on supervisory practice internationally.

CORPORATE GOVERNANCE

The Authority's CEO 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 these responsibilities and reporting to the Board, the CEO and Executive of the Authority are required to put in place adequate arrangements for the governance of the Authority'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. That code requires there to be in place a framework governing activity and ensuring that:

- Decisions are taken properly
- Channels of communication are open
- Performance is monitored
- Standards are upheld

The Authority is required to submit an annual 'Statement on Internal Control' to Government which covers implementation of the above arrangements.

The control environment within which the Authority operates includes:

- adherence to the Government's Financial Regulations
- arrangements for functions and responsibilities delegated by the Board to individual officers via job

descriptions and monitored by a regular appraisal system

- a staff handbook (including codes of conduct, etc.), and
- an internal reporting mechanism through the senior management team to the CEO and to the Board.

The control environment sets the overall structure for internal control and the exercise of the responsibilities of the Authority's Board Members, CEO, senior management 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 Authority
- 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 CEO, the Treasury has a role in reviewing the adequacy of the Authority's internal controls through use of internal audit processes. The existing memoranda of understanding with Treasury continue to set out the framework for co-operation between the Treasury and the Authority.

The memoranda establish arrangements to ensure that the Authority is accountable to Treasury for its actions and clarify the circumstances in which liaison and dialogue can flow between both parties. The Authority intends to enter into an updated memorandum of understanding with the Treasury in due course.

Financial Supervision Commission

Prior to the transfer of functions on 1 November 2015, the Board of the FSC met monthly. The FSC Board met on seven occasions between 1 April and 31 October 2015. In addition the FSC Board met separately once over this period to consider licensing matters.

There were three standing sub-committees of the FSC Board: the Risk and Internal Control Committee, the Remuneration Committee and the Complaints Committee, and over the period in question two meetings of the Risk and Internal Control Committee were held. There were no meetings of the Remuneration or Complaints Committee during the period.

Insurance and Pensions Authority

Prior to the transfer of functions on 1 November 2015, the Board of the IPA met every six weeks on average, with additional ad hoc meetings as required. The IPA Board met on seven occasions between 1 April and 31 October 2015. The IPA Board had no separate committees. Instead the IPA Board dedicated certain meetings to risk reviews.

INDUSTRY STATISTICS

Licenceholders

Number of licences

As at 31 March 2016, a total of 237 institutions held a licence issued by the Financial Services Authority 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)	21
Investment Business (Class 2)	49
Services to Collective Investment Schemes (Class 3)	55
Corporate Services (Class 4)	164
Trust Services (Class 5)	115
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 (409) 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 2016 (current year) and 31 March 2015 (prior year). The data includes figures relating to overseas branches of Isle of Man incorporated banks.

	Current Year (year-ends between 1 April 2015 and 31 March 2016)		Prior Year (year-ends between 1 April 2014 and 31 March 2015)	
	£'m	£'m	£'m	£'m
Income				
Net interest income	478		471	
Other banking income (including FX income, fees, commissions and charges)	111		106	
Total banking income		589		577
Total non-banking income		42		31
Total income		631		608
Expenses				
Total operating expenses	287		259	
Total other expenses	2		1	
Total expenses		(289)		(260)
Profit before tax and impairment (bad debts)		342		348
Impairment (bad debt) charge		(2)		(30)
Profit before tax		340		318

Assets and liabilities of licensed banks

	At 31 March			At 31 March	
Assets	2016 £'bn	2015 £'bn	Liabilities	2016 £'bn	2015 £'bn
Money market assets, due from banks and building societies	48.4	49.8	Deposits due to banks and building societies**	11.3	11.7
Loans, advances and assets leased*	8.3	8.6	Deposits due to customers	43.9	44.8
Investments	0.7	0.4	Other deposits (held as security and interest payable) including deposits due to public sector bodies	0.4	0.4
Other assets	0.5	0.5	Other liabilities	0.4	0.4
			Capital and reserves	1.9	2.0
Total assets	57.9	59.3	Total liabilities	57.9	59.3

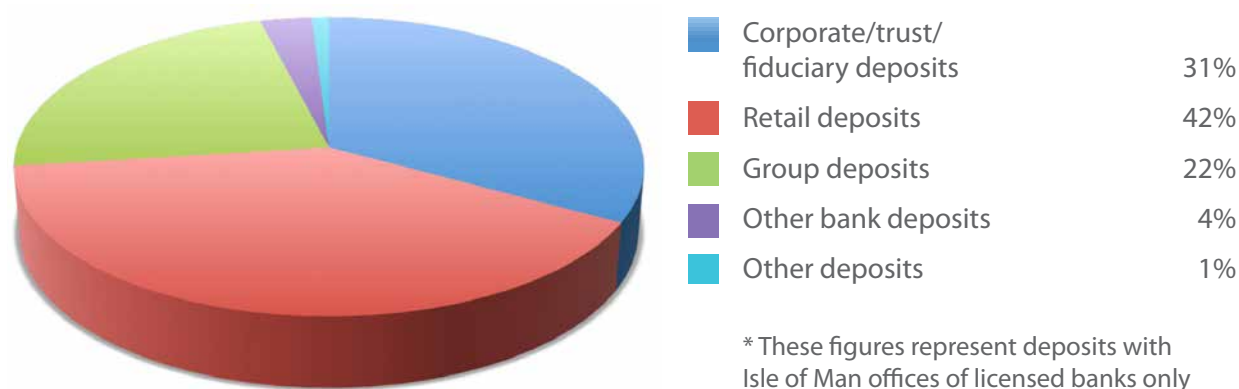
* At 31 March 2016, 61.0% of loans, advances and assets leased were classified as being secured on residential property (31 March 2015: 65.6%). The above figures relating to loans and advances are net of impairment charges.

** Includes deposits/loans received from other Isle of Man banks of £3.35bn (2015: £2.95bn).

Geographical source of non-bank deposits

Country	31 March 2016	31 March 2015	31 March 2014
Isle of Man	25%	25%	28%
United Kingdom	41%	41%	36%
European Union (excluding UK)	6%	6%	6%
Europe (non-EU)	2%	5%	7%
Middle and Far East	6%	6%	6%
North America	4%	4%	4%
Other	16%	13%	13%

Sector analysis of deposits* including inter-Isle of Man banks as at 31 March 2016



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.

At 31 March 2016			
	Total	Subsidiaries	Branches
United Kingdom	11	3	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	20	9	11
Isle of Man	1		
	21		

* 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 Authority can agree a higher minimum ratio on an individual bank basis. All Isle of Man incorporated banks are required to notify the Authority 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.

The Authority is implementing new minimum capital adequacy standards in 2017, based on the Basel III framework; this will require all Isle of Man incorporated banks to hold a minimum total ratio of 10% (with a notification level of 11% or above) and a minimum common equity tier 1 ratio of at least 8.5%.

At the end of March 2016 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%	3	Less than 10%	0
From 10% to less than 15%	7	From 10% to less than 15%	1
From 15% to less than 20%	0	From 15% to less than 20%	5
20% and over	0	20% and over	4
Total	10	Total	10

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 \$million	Gross Asset Value of funds under management/ administration \$million
Authorised Schemes (retail)	5	782.08	782.54
Regulated Fund (can be retail)	4	114.26	146.28
Specialist Fund	20	1,259.87	1,397.15
Qualifying Fund	11	401.38	442.73
Full International Scheme (retail legacy fund)	3	78.64	78.74
Experienced Investor Funds (‘EIF’) (Legacy Funds)			
Closed EIF	10	71.53	87.18
Legacy EIF	7	253.91	585.06
Qualifying EIF	7	475.42	476.70
Exempt schemes	142	5,066.67	6,556.24
Overseas schemes	61	4,864.58	5,212.41
Inward Outsourcing	17	3,711.12	3,711.39
Closed-Ended Investment Companies* (CEIC)	41	5,157.21	6,553.08
Total (31/03/2016)	328	22,236.67	26,029.50
Total (31/03/2015)	345	20,741.32	23,792.14
% Change	-4.93	7.21	9.40

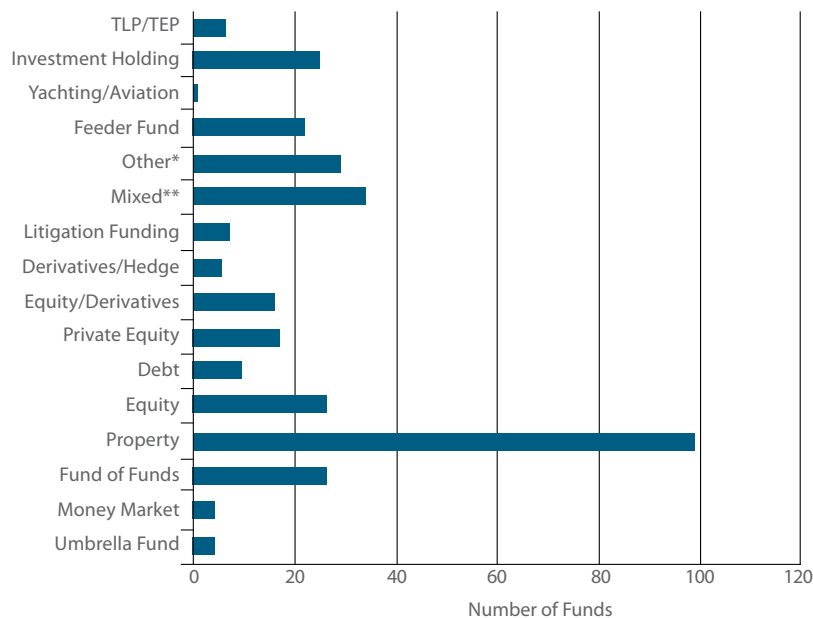
As at 31 March 2016 the Authority also had 25 Recognised Schemes from a designated territory under Schedule 4 paragraph 1 to the Collective Investment Schemes Act 2008 and 2 Individually Recognised Schemes under Schedule 4 paragraph 2 to that Act.

*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 2016
Authorised Schemes	3.52
Full International Schemes	0.35
Regulated Funds	0.51
Specialist Funds	5.67
Qualifying Funds	1.81
Qualifying EIF	2.14
Legacy EIF	1.14
Closed EIF	0.32
Exempt Schemes	21.79
Overseas	21.88
Closed Ended Investment Companies	23.19
Inward Outsourcing Arrangements	16.69

Asset classes of schemes

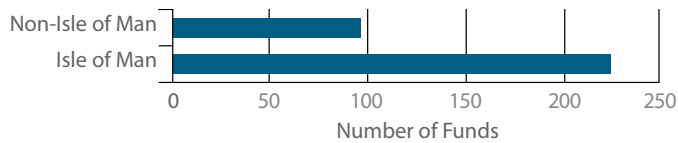


*Other: pensions; frontier markets; climate exchanges; venture capital; sustainable biological equities; mezzanine finance; power projects; artwork; non-correlated assets; alternative investments; or, only shareholder services provided

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

Geographical origin of schemes

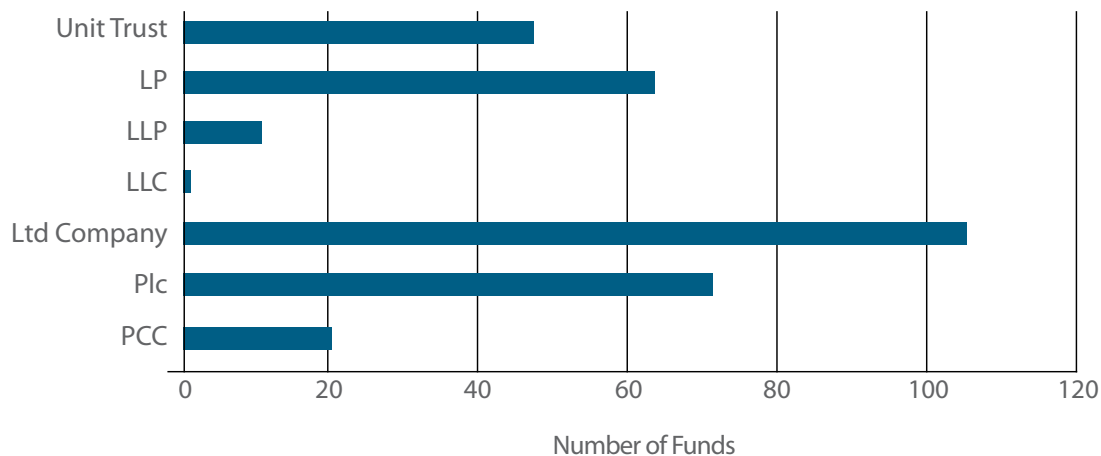
Domicile of collective investment schemes administered in the Island



Origin of non-Isle of Man schemes:

Cayman	50	UK	3
BVI	19	Delaware	2
Luxembourg	5	Ireland	1
Jersey	5	Mauritius	1
Bermuda	4	Guernsey	1
		Gibraltar	1

Legal constitution of schemes administered in the Isle of Man



Corporate and Trust Services

Companies, trusts and partnerships under administration

Companies, partnerships and foundations	2015/16	2014/15	Movement
1931 Act Companies	9,674	10,364	-6%
2006 Act Companies	8,026	7,546	+6%
Isle of Man public limited companies	141	160	-12%
Public companies incorporated elsewhere	17	11	+55%
Non-public limited companies with more than 50 shareholders	24	23	+4%
Overseas companies not registered under Part XI of the Companies Act 1931	15,009	15,921	-6%
Overseas companies registered under Part XI of the Companies Act 1931 (a.k.a. 'F-Registered')	622	710	-12%
Limited Liability Companies	439	514	-15%
Partnerships	480	490	-2%
Foundations	84	72	+17%

Trusts	2015/16	2014/15	Movement
Trusts	17,247	18,372	-6%
Private Trust Companies	205	218	-6%

Retirement Benefits Schemes

Registrations under the Retirement Benefits Schemes Act as at 31 March 2016:

	31 March 2016	31 March 2015
Professional Retirement Benefits Schemes Administrators	23	24
In-House Administrators	33	35
Domestic Schemes	845	813
International Schemes	116	104
Recognised Schemes	52	Not reported
Permitted Schemes	2	Not reported

As at 31 March 2016, a total of 56 corporate and in-house administrators held a registration issued by the Financial Services Authority under section 36 of the Retirement Benefits Schemes Act 2000 (the "Act"). A total of 961 retirement benefits schemes were registered as authorised pursuant to s. 3 of the Act, an increase of 4.8% in the period since 31 March 2015 (917 schemes).

Authorisations under the Insurance Act 2008

Number of Authorisations in respect of the Insurance Act 2008 at 31/12/2015

	31 December 2015	31 December 2014
Life Insurers	16	16
Non Life Insurers	117	118
Permit Holders – Life	9	7
Permit Holders – Non Life	9	9
Insurance Managers - Life	9	10
Insurance Managers - Non Life	11	12
General Insurance Intermediaries	24	25
Total	195	197

Premium and assets under management

	31 December 2015 £bns	31 December 2014 £bns
Funds Under Management – Life	58.8	58.0
Funds Under Management – Non Life (inc non-eu permit holders)	6.26	5.9
Gross Premiums – Life	6.5	6.3
Gross Premiums – Non Life (inc non-EU permit holders)	1.43	1.5
Pension Funds under Management	7.2	7.0

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 Services Authority ("the Authority") to prepare accounts for each financial period, which meet the requirements of the Accounts and Audit Regulations 2013 made under the Audit Act 2006. In addition, the Authority has elected to prepare the accounts in accordance with UK Accounting Standards including FRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland, as applicable to the Authority.

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

In preparing these accounts, the Authority 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
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Authority will continue in operation.

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

REPORT OF THE INDEPENDENT AUDITORS, KPMG AUDIT LLC, TO THE ISLE OF MAN FINANCIAL SERVICES AUTHORITY



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 Services Authority (the "Authority") for the period from 1 November 2015 to 31 March 2016 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 including FRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland, as applicable to the Authority.

This report is made solely to the Authority, 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 Authority 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 Authority for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Authority and Auditor

As explained more fully in the Chief Executive's Responsibilities Statement set out on page 55, the Authority is responsible for the preparation of financial statements that give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements 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 (APB's) Ethical Standards for Auditors.

We review whether the Statement of Internal Control prepared by the Authority 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 financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the report to identify material inconsistencies with the audited financial statements

and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the Accounts

In our opinion the Accounts:

- give a true and fair view of the Authority's income and expenditure from 1 November 2015 to 31 March 2016;
- have been properly prepared in accordance with UK Accounting Standards as applicable to the Authority; 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 period 1 November 2015 to 31 March 2016

Income	Note		2015-16
			£
Fee Income	1(b), 2		28,359
Civil Penalties	2		600
Government Grant	8		1,950,602
Reimbursements from Central Government Funds	3		179,788
Balancing Government Grant	8		220,709
Total Income	1(b), 8		2,380,058
Expenditure			
Salaries	4	1,531,772	
Members' Remuneration		67,188	
Recruitment		38,052	
Agency Staff		9,900	
Premises		180,019	
Training		25,528	
Travel		14,320	
Professional Fees	3	362,318	
Operating Expenses		15,009	
Information Technology		82,966	
Professional Subscriptions		48,545	
Other expenses		4,441	
Total Expenditure	1(c)		(2,380,058)
Surplus/(deficit) for the period			-

The notes on pages 59 to 61 form part of these Accounts.

The income and expenditure account was approved by the Financial Services Authority on the 28 July 2016 and signed on its behalf by Mr Geoff Karran, Chairman and Ms Karen Badgerow, Chief Executive.

Notes

to the accounts for the period 1 November 2015 to 31 March 2016

1 Accounting policies

a) Basis of accounting

The Isle of Man Financial Services Authority ("the Authority") is constituted under the Transfer of Functions (Isle of Man Financial Services Authority) Order 2015 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 deficit or surplus is not retained by the Authority. The Isle of Man Government is committed to funding any shortfall of the Authority 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 including FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland, as applicable to the Authority, and in accordance with the Isle of Man Statement of Recommended Practice 2007 on accounting for entities subject to the Audit Act 2006 ("the SORP"), to the extent applicable to the Authority.

b) Income

Income is accounted for on a receipts basis in accordance with UK Accounting Standards, as applicable to the Authority

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 Authority 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 Authority, 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) Pensions

The Authority'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 Authority 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 Fee Income and Civil Penalties

Fee income comprises annual, application and pro-rata fee income in relation to Deposit Taking, Investment Business, Services to Collective Investment Schemes, Corporate Services, Trust Services, E-money and Money Transmission Services Collective Investment Schemes, Authorised Insurers, Insurance Permit Holders, Insurance Managers, Insurance Intermediaries and Pensions Scheme Administrators along with registration fees and annual fees from DNFBPs.

Income from regulatory fees is primarily received during the first half of the year. Income for the current period comprises late annual fee payments, application and pro-rata annual fees for new licences and funds, and registration fees and pro-rata annual fees from DNFBPs.

Income from civil penalties, levied on regulated entities, is shown separately.

3 Government Contribution to Legal Fees and Systems Development

At the end of the period the Authority has drawn down £130,000 from the Isle of Man Government legal reserves fund. This is to cover additional costs incurred over and above those expected on enforcement and disciplinary cases. In addition £49,788 was drawn from the ICT Fund in respect of new system requirements arising from the implementation of the DNFBP Act. The corresponding spend in relation to the DNFBP system requirements was incurred by the FSC in the prior period (April to October 2015). Treasury had agreed the draw down from the ICT Fund with the FSC, but funds are not released until the year end.

4 Salaries

Annual remuneration of the employees of the Authority is payable within the following bands:

	At 31 March 2016 Total number of employees
£0 - £99,999	70
£100,000 - £199,999	3
£200,000 - £300,000	1

5 Operating Lease Commitments

The Authority pays an annual fee to the Isle of Man Government for the use of the building on a non-lease basis.

6 Segmental Reporting

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

7 Related Party Disclosures

There were no related party transactions requiring disclosure in the Accounts. The Authority is exempt from this disclosure as the Central Government publish their financial statements and disclose the relevant transactions.

8 Government Grant

As per note 1(a), any deficit or surplus generated by the Authority during the financial year forms part of the general revenue and any surplus is not retained by the Authority. The Isle of Man Government is committed to funding any shortfall of the Authority 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 2015 sitting, and published in the same month within the Isle of Man Government's "Budget Report and Estimates 2015-16". This grant secured the provision of up to £2,043,902 to cover any shortfall.

The grant figure included in the Accounts to 31 March 2016 is the grant figure awarded for the full financial year. The balancing grant figure is the balancing figure for the current period. The aggregated accounts for the FSC and IPA for the period 1 April 2015 to 31 October 2015 show a corresponding credit, hence the consolidated position of the FSA and the two bodies merged to form the FSA, for the full financial year balances to zero.

FULL YEAR INCOME AND EXPENDITURE ACCOUNT

for the period 1 April 2015 to 31 March 2016

Background

The Isle of Man Financial Supervision Commission ("the Commission") and the Insurance and Pensions Authority ("IPA") merged on 1 November 2016 to form the Isle of Man Financial Services Authority ("the Authority").

This account brings together the closing IPA and Commission accounts for the period 1 April 2015 to 31 October 2015, and the Financial Services Authority account for the period 1 November 2015 to 31 March 2016.

The Authority's audited account for the period 1 November 2015 to 31 March 2016 is published at Appendix D within this report.

This combined income and expenditure account for the full year has not been audited. Its purpose is to show the combined position for the three financial regulators operating during the year. For 2016/17 a single organisation, the Authority, will undertake the equivalent remit.

Income		2015-16
	£	£
Licence & Scheme Fees		
Fee Income and Civil Penalties		3,259,842
Government Grant		1,950,602
Other income		28,225
Reimbursements from Internal Funds		179,788
Total Income		5,418,457
Expenditure		
Salaries	3,790,126	
Members' Fees	194,503	
Recruitment	67,488	
Agency Staff	11,750	
Premises	317,811	
Training	47,168	
Travel	37,289	
Professional Fees and Consultancy	642,499	
Operating Expenses	62,494	
Information Technology	184,483	
Expenses - Subscriptions	52,589	
Other expenses	10,257	
Total Expenditure		(5,418,457)
Surplus/(deficit) for the year		-

LEGISLATION COMING INTO EFFECT BETWEEN 1 APRIL 2015 AND 31 MARCH 2016

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

Secondary legislation made or drafted by the Financial Supervision Commission, Insurance & Pensions Authority, or Isle of Man Financial Services Authority:

SD no. 2015/0075 effective 1 April 2015 - Insurance (Fees) Regulations 2015.

These Regulations make changes to the fees charged under section 47 of the Insurance Act 2008. Specifically, the Regulations make increases to the application and annual fees charged to certain entities regulated by the Insurance and Pensions Authority under the Insurance Act 2008.

SD no. 2015/0076 effective 1 April 2015 - Registered Schemes Administrators (Fees) Order 2015. This Order prescribes the fee to accompany the application and annual regulatory fees payable by registered schemes administrators.

SD no. 2015/0077 effective 1 April 2015 - Registered Schemes Administrators (Fees) Regulations 2015. These Regulations prescribe the time and manner of the payment of fees under Articles 4 to 5 of the Registered Schemes Administrators (Fees) Order 2015.

SD no. 2015/0165 effective 1 June 2015 - Financial Services (Fees) Order 2015. This Order specifies the application fees and annual fees payable in relation to the licensing of regulated activities under the Financial Services Act 2008. The Order also applies a fee for certain licence amendments that take place and replaces the 2013 Order.

SD no. 2015/0166 effective 1 June 2015 - Collective Investment Schemes (Fees) Order 2015. This Order specifies the application fees and annual fees payable by schemes under the Collective Investment Schemes Act 2008.

SD no. 2015/0206 effective 23 July 2015 - Payment Services Regulations 2015. These Regulations give effect to those parts of the EC Payment Services Directive that must be part of the law of the Island so that appropriately licensed financial institutions may provide payment services as part of the Single Euro Payment Area.

SD no. 2015/0214 effective 1 July 2015 and 26 October 2015 - Designated Businesses (Registration and Oversight) Act 2015 (Appointed Day) Order 2015.

This Order brings the remainder of the Designated Businesses (Registration and Oversight) Act 2015 into operation.

SD no. 2015/0243 effective 1 August 2015 - Financial Services (Civil Penalties) Regulations 2015.

These Regulations specify the formulae for the calculation of discretionary civil penalties that may be imposed upon current and former licenceholders for serious contraventions of the Financial Services Act 2008 or any prohibition or requirement imposed under that Act. These Regulations also specify the administrative civil penalties payable by current and former licenceholders in the event that returns are not submitted or provided to the Authority within certain specified periods.

SD no. 2015/0276 effective 1 November 2015 - Transfer of Functions (Isle of Man Financial Services Authority) (Amendment) Order 2015. This Order substitutes new Schedules 1 and 2 in the Transfer of Functions (Isle of Man Financial Services Authority) Order 2015 (SD 2015/0090) so that the Schedules appropriately reflect the regulators' merger in the Payment Services Act 2015, the Designated Businesses (Registration and Oversight) Act 2015, the Financial Services Act 2008, the Proceeds of Crime Act 2008 and the Insurance Act 2008.

SD no. 2015/0281 effective 1 November 2015 - Payment Services (Amendment) Regulations 2015. These Regulations amend Schedule 4 to the Financial Services Act 2008 in its application to payment services disputes, limiting the access to mediation by the Isle of Man Office of Fair Trading to disputes involving consumers or the managers or trustees of a self-invested personal pension scheme.

SD no. 2015/0282 effective 26 October 2015 - Designated Businesses (Registration and Oversight) (Amendment) Order 2015. This Order replaces Part 1 of Schedule 1 to the Designated Businesses (Registration and Oversight) Act 2015 to include some additional types of business from Schedule 4 to the Proceeds of Crime Act 2008.

SD no. 2015/0283 effective 26 October 2015 - Designated Businesses (Civil Penalties) Order 2015. This Order specifies the civil penalties to be levied when a registered person contravenes certain requirements of the Designated Businesses (Registration and Oversight) Act 2015 and when certain information must be supplied to the Authority.

SD no. 2015/0284 effective 26 October 2015 - Designated Businesses (Fees) Order 2015. This Order specifies the registration and annual fees payable by applicants for registration and registered persons under the Designated Businesses (Registration and Oversight) Act 2015.

SD no. 2015/0305 effective 1 November 2015 - Financial Services (Isle of Man Financial Services Authority) (Amendments) Rule Book 2015. In the Financial Services Rule Book 2013, this Rule Book amends the Authority's name to reflect the merger and similarly amends the rules that require licenceholders to refer to the Authority. It also provides a transitional provision in the latter regard.

SD no. 2015/0306 effective 1 November 2015 - Collective Investment Schemes (Isle of Man Financial Services Authority) (Amendments) Regulations 2015. These Regulations remove the detailed content of forms from legislation, make transitional provisions in relation to changes to offering documents and amend the Authority's name to reflect the merger.

SD no. 2015/0313 effective 1 November 2015 - Retirement Benefits Schemes (Miscellaneous Amendments) Regulations 2015. These Regulations update various public documents made under the Retirement Benefits Schemes Act 2000 to reflect the transfer of functions pursuant to the Transfer of Functions (Isle of Man Financial Services Authority) Order 2015.

SD no. 2015/0314 effective 1 November 2015 - Insurance (Miscellaneous Amendments) Regulations 2015. These Regulations update various public documents made under the Insurance Act 2008 to reflect the transfer of functions pursuant to the Transfer of Functions (Isle of Man Financial Services Authority) Order 2015.

SD no. 2015/0315 effective 1 November 2015 - Insurance (Transitional Provisions) (Amendment) Regulations 2015. These Regulations make transitional provisions following the coming into operation of the Transfer of Functions (Isle of Man Financial Services Authority) Order 2015 fully on 1 November 2015. These Regulations allow certain advertisements subject to regulation 7 of the Insurance Intermediaries (General Business) Regulations 1999 and certain information subject to regulation 18 of the Insurance (Special Purpose Vehicles) Regulations 2015 which contain reference to the "Insurance and Pensions Authority" to continue to be used for a certain period after the 1 November 2015.

SD no. 2015/0316 effective 1 November 2015 - Guidance Notes (Amendment) on Anti-Money Laundering and Preventing the Financing of Terrorism for Insurers (Long-Term Business). These Guidance Notes update the Guidance Notes on Anti-Money Laundering and Preventing the Financing of Terrorism – for Insurers (Long Term Business) to reflect the transfer of functions pursuant to the Transfer of Functions (Isle of Man Financial Services Authority) Order 2015.

SD no. 2015/0317 effective 1 November 2015 - Corporate Governance (Amendment) Code of Practice for Regulated Insurance Entities. These Guidance Notes update the Corporate Governance Code of Practice for Regulated Insurance Entities to reflect the transfer of functions pursuant to the Transfer of Functions (Isle of Man Financial Services Authority) Order 2015.

SD no. 2015/0318 effective 1 November 2015 - Guidance Notes (Amendment) for Insurance Special Purpose Vehicles. These Guidance Notes update the Corporate Governance Code of Practice for Regulated Insurance Entities to reflect the transfer of functions pursuant to the Transfer of Functions (Isle of Man Financial Services Authority) Order 2015.

SD no. 2015/0322 effective 1 November 2015 - Isle of Man Financial Services Authority (Amendment of Constitution) Order 2015. This Order amends paragraph 1 of Schedule 1 to the Financial Services Act 2008 to permit the appointment by the Treasury, subject to the approval of Tynwald, of members of the Authority for a fixed period between 2 and 5 years rather than for a fixed period of 5 years.

SD no. 2015/0324 effective 1 November 2015 - Insurance (Valuation of Long Term Liabilities) (Amendment) Regulations 2015. These Regulations amend and clarify the requirements for the rates of interest and unit growth rates to be used in calculating the present value of future payments by or to an insurance company.

SD no. 2015/0395 effective 9 February 2016 - Pension Schemes Act 1993 (Application) (Amendment) Order 2015. This Order amends the Pension Schemes Act 1993 as it has effect in the Island. The changes amend references to the maximum fines for offences to refer to "standard scale" or "statutory maximum". The Order also updates a reference to the Financial Supervision Act 1988 with that of its replacement provision and adds a new section that allows the Treasury to give to the trustees or managers of pension schemes information to establish whether contributions are payable by a member or employer to the scheme and to establish whether a member or beneficiary is entitled to benefits under the scheme.

SD no. 2015/0396 effective 9 February 2016 - Pensions Act 1995 (Application) (Amendment) Order 2015. This Order amends the Pensions Act 1995 (of Parliament) as it has effect in the Island. The changes amend references to the maximum fines for offences to refer to "standard scale" or "statutory maximum". The Order also changes "indictment" to "information" in two sections and makes some consequential amendments.

SD no. 2015/0397 effective 9 February 2016 - Pension Schemes Legislation

(Application) (Amendment) Order 2015. The Order amends the Occupational Pension Schemes (Disclosure of Information) Regulations 1996 and the Occupational Pension Schemes (Independent Trustee) Regulations 2005 to reflect the regulator's merger. The Order also amends the Personal and Occupational Pension Schemes (Pensions Ombudsman) Regulations 1996 to make it clear that the Pensions Ombudsman may not investigate or determine a complaint or dispute which could be investigated by (or under arrangements made by) the Isle of Man Office of Fair Trading other than one relating to the management of a personal pension scheme. The Order also amends the Taxation of Pension Schemes (Consequential Amendments of Occupational and Personal Pension Schemes Legislation) Order 2006 in line with changes made by the Income Tax (Approved Pension Schemes) (Trivial Commutation Lump Sums) (Amendment) Regulations 2015.

SD no. 2015/0404 effective 1 February 2016 - Collective Investment Schemes (Recognised Schemes) Regulations 2015.

These Regulations set out the requirements for Isle of Man offering documents of recognised collective investment schemes; require the governing bodies of schemes recognised under Schedule 4 paragraphs 1 and 2 to the Collective Investment Schemes Act 2008 to maintain at an address in the Island the facilities specified in these Regulations; specify the information and documents that must be provided by the governing body of a scheme when giving written notice to the Authority that it wishes it to be a recognised scheme in the Island, or applying to become individually recognised; and specify that the Authority has a period of two months to notify the governing body of a scheme if the scheme will not be recognised.

SD no. 2016/0107 effective 11 March 2016 – Insurance (Supplementary Information) Regulations 2016.

These Regulations set out the reports and information required to be submitted by insurers to the Authority at the same time as the audited accounts of the company are submitted.

Secondary legislation drafted by the Financial Supervision Commission in association with another body:**SD no. 2015/0102 effective 1 April 2015 - Anti-Money Laundering and Countering the Financing of Terrorism Code 2015.**

(Drafted by Financial Supervision Commission in association with the Department of Home Affairs.) This Code revokes and replaces the Money Laundering and Terrorist Financing Code 2013. This Code is made jointly under section 157 of the Proceeds of Crime Act 2008 and section 68 of the Terrorism and Other Crime (Financial Restrictions) Act 2014.

SD no. 2015/0321 effective 30 October 2015 - Financial Services Tribunal Rules 2015. (*Drafted by Cabinet Office with the assistance of the Financial Supervision Commission.*) These Rules regulate the practice and procedure for the Financial Services Tribunal. The Rules revoke the Financial Services Review Regulations 2001 in so far as they apply to an appeal under section 32 of the Financial Services Act 2008 (subject to the transitional provisions).

CONSULTATIVE DOCUMENTS ISSUED BETWEEN 1 APRIL 2015 AND 31 MARCH 2016

Title of consultation	Date consultation published	Date consultation closed
Unit growth rate assumptions and valuation rates of interest in the valuation of long term liabilities of insurers	16 April 2015	28 May 2015
Secondary legislation for the Designated Businesses (Registration and Oversight) Bill 2014	1 May 2015	12 June 2015
Appointed Day Order for the Designated Businesses (Registration and Oversight) Bill 2014	3 June 2015	25 June 2015
Basel III Liquidity Discussion paper	7 July 2015	7 October 2015
Amendment legislation to reflect new regulator	17 July 2015	14 August 2015
Conduct of business (IPA)	24 July 2015	18 September 2015
Basel III Capital Adequacy and Leverage	30 July 2015	30 October 2015
Transfer of Functions – transitional provisions and consequential amendments	21 August 2015	17 September 2015
Crowdfunding – 2nd consultation	28 September 2015	9 November 2015

Insurance (Amendment) Bill 2016	30 September 2015	2 December 2015
QIS2 exercise for Life Insurers	2 October 2015	31 March 2016
QIS2 exercise for Non-Life Insurers	30 October 2015	11 February 2016
Regulatory fees for entities regulated under Insurance Act 2008 and Retirement Benefits Schemes Act 2000	18 December 2015	26 January 2016
Miscellaneous Amendments to the Regulated Activities Order, Financial Services (Fees) Order and Financial Services (Exemptions) Regulations including amendments to the various exemptions for directors	21 December 2015	31 January 2016
Part 1: Crowdfunding Part 2: Other (Non-crowdfunding) Related Amendments	21 December 2015	31 January 2016
Discussion paper on new types of banking/deposit taking licences	4 January 2016	5 February 2016
Domestic Systemically Important banks	18 February 2016	31 March 2016
Draft Insurance (Supplementary Information) Regulations	28 February 2016	11 March 2016
Alternative Banking Regime - comprising three types of Class 1 licence	31 March 2016	14 May 2016

OTHER INFORMATION

The Authority's website www.iomfsa.im contains useful information including an outline of the regulatory requirements covering all areas of the Authority's remit.

Publications relating to financial services activities in general 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.wheretheyoucan.im/resources>.

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

GLOSSARY

ACCA	The Association of Chartered Certified Accountants	IA2008	Insurance Act 2008
AIFMD	Alternative Investment Fund Managers Directive	IAIS	International Association of Insurance Supervisors
AML	Anti-money Laundering	ICAEW	Institute of Chartered Accountants in England and Wales
Authority	Isle of Man Financial Services Authority	ICPs	Insurance Core Principles
CEO	Chief Executive Officer	IMF	International Monetary Fund
CDD	Customer Due Diligence	IOSCO	International Organisation of Securities Commissions
CFT	Countering the Financing of Terrorism	IPA	Insurance and Pensions Authority
CIMA	Chartered Institute of Management Accountants	Island	Isle of Man
Designated Businesses	Persons registered with the Authority under the Designated Businesses (Registration and Oversight) Act 2015	IT	Information Technology
DHA	Department of Home Affairs	MIFID2	Markets in Financial Instruments Directive
EEA	European Economic Area	MMOU	Multilateral Memorandum of Understanding
EPC	European Payments Council	MONEYVAL	Committee of Experts on the Evaluation of Anti-money Laundering Measures
ESMA	European Securities and Markets Authority	MOU	Memorandum of Understanding
EU	European Union	POCA	Proceeds of Crime Act 2008
FATF	Financial Action Task Force	RBSA2000	Retirement Benefits Schemes Act 2000
FSA08	Financial Services Act 2008	Rule Book	The Financial Services Rule Book
FSC	Financial Supervision Commission	SEPA	Single Euro Payments Area
GIFCS	Group of International Finance Centre Supervisors	UK	United Kingdom

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