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## FINANCIAL SERVICES RULE BOOK 2016

*Coming into operation 1 January 2017: SD 2016/0264*

*(amendments in operation 1 August 2018: SD 2018/0151)*

*(amendments in operation 31 January 2020: SD 2019/0027)*

*(amendments in operation 1 April 2019: SD 2019/0049)*

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Statutory Document No. 2016/0264



*Financial Services Act 2008*

## FINANCIAL SERVICES RULE BOOK 2016

*Approved by Tynwald:*

*15 November 2016*

*Coming into Operation:*

*1 January 2017*

The Isle of Man Financial Services Authority makes the following Rule Book under section 18 of and Schedule 3 to the Financial Services Act 2008, after carrying out the consultations required by section 44(5) of that Act.

### 1 Title

This Rule Book is the Financial Services Rule Book 2016.

### 2 Commencement

If approved by Tynwald, this Rule Book comes into operation on 1 January 2017.

### 3 Application

- (1) This Rule Book applies to every licenceholder except those licensed to carry on regulated activities of Class 1(3), ~~or~~ Class 6 ~~or~~ Class 9. Parts 1 to 8 apply to all licenceholders except professional officers, as indicated by the application column in the Schedule. Part 9 applies only to professional officers.
- (2) Subject to paragraph (1), where a provision of this Rule Book is stated to apply to a licenceholder licensed to carry on regulated activities of a specified description, that provision applies —
  - (a) except where otherwise expressly provided;
  - (b) only so far as applicable;
  - (c) only in relation to regulated activities of that description; and
  - (d) in the case of a licenceholder incorporated in a country or territory outside the Island, only in relation to regulated activities carried on in or from the Island.

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- (3) Requirements in this Rule Book are in addition to those under other legislation, including companies' legislation, and compliance with other legislation will not of itself satisfy the requirements in this Rule Book.
- (4) Requirements in this Rule Book cannot be disapplied by any agreement between a licenceholder and a third party.

## 4 Interpretation

- (1) In this Rule Book —
  - "the Act"** means the *Financial Services Act 2008*<sup>1</sup>;
  - "the Order"** means the Regulated Activities Order 2011<sup>2</sup>;
  - "professional officer"** is defined in Appendix 1 to the Schedule; andparagraphs in the Schedule are referred to as **"rules"**.
- (2) References in this Rule Book to —
  - (a) a class of regulated activities are to regulated activities of a class specified in Schedule 1 to the Order;
  - (b) a numbered class, or to a numbered paragraph of such a class, are to the class of regulated activities so numbered in Schedule 1 to the Order, or to the paragraph so numbered of that class, as the case may be.
- (3) Other expressions in this Rule Book have the meanings given by Appendix 1 to the Schedule.
- (4) Any note in an Appendix to the Schedule to this Rule Book shall be construed as part of that Appendix.

## 5 Revocation

The Financial Services Rule Book 2013<sup>3</sup> is revoked.

**MADE 7 SEPTEMBER 2016**

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**K. Badgerow**  
*Chief Executive*

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<sup>1</sup> AT 8 of 2008

<sup>2</sup> SD 0884/11

<sup>3</sup> SD 0372/2013

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**G.F. Karran**

*Member of the Isle of Man Financial Services Authority*



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## SCHEDULE

### PART 1 – INTRODUCTORY

| Rule   | Application |
|--|-------------|
| <p><b>1.1 Confirmation of oral notification</b></p> <p>Where a licenceholder —</p> <p style="padding-left: 40px;">(a) is required by any provision of this Rule Book to notify the Authority of 6.37 matter; and</p> <p style="padding-left: 40px;">(b) notifies the Authority orally of that matter,</p> <p>that requirement shall not be taken to have been complied with unless the oral notification is confirmed in writing by the licenceholder within 24 hours.</p> | All         |
| <p><b>1.2 Commencement of regulated activities</b></p> <p>Where a licenceholder has not commenced regulated activities within 4 months of the date of grant of its licence, it must notify the Authority of this fact within 10 business days after the end of the 4 month period.</p>   | All         |
| <p><b>1.3 Returns to be submitted in English</b></p> <p>Where a licenceholder is required to submit returns or supply information to the Authority, such returns or information must be submitted in English.</p>  | All         |



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## PART 2 – FINANCIAL RESOURCES AND REPORTING

| Rule  | Application   |
|---|---|
| <p><b>2.1 Annual reporting date</b></p> <p>A licenceholder must notify the Authority of its annual reporting date.</p>  | <p><i>All Classes except:</i></p> <p><i>Class 8(1), 8(2)(b) or 8(3) incorporated outside the Island</i></p> |
| <p><b>2.2 Notification of inability to comply</b></p> <p>A licenceholder must notify the Authority immediately where it has reason to believe that —</p> <ul style="list-style-type: none"> <li>(a) it will be unable to make a financial return; or</li> <li>(b) it will be unable to comply, or to demonstrate compliance, with any provision of this Part as a result of a failure in accounting systems.</li> </ul> | <p><i>All Classes except:</i></p> <p><i>Class 8(1), 8(2)(b) or 8(3) incorporated outside the Island</i></p> |
| <p><b>2.3 Reporting currency</b></p> <p>Any financial return made by a licenceholder must be expressed in sterling, unless the licenceholder has obtained the Authority's prior approval to report in another currency.</p>   | <p><i>All Classes except:</i></p> <p><i>Class 8(1), 8(2)(b) or 8(3) incorporated outside the Island</i></p> |
| <p><b>2.4 Responsibility for returns</b></p> <p>Any person who is a responsible officer is responsible for the completeness and accuracy of any financial return made to the Authority by or in respect of the licenceholder.</p>   | <p><i>All Classes except:</i></p> <p><i>Class 8(1), 8(2)(b) or 8(3) incorporated outside the Island</i></p> |
| <p><b>2.5 Misleading financial returns</b></p> <p>A licenceholder must notify the Authority as soon as it has reason to believe that any financial return previously made by it to the Authority was or has become misleading in any material respect.</p>  | <p><i>All Classes except:</i></p> <p><i>Class 8(1), 8(2)(b) or 8(3) incorporated outside the Island</i></p> |

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| Rule  | Application   |
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| <p><b>2.6 Electronic reporting</b></p> <p>(1) A financial return must be made to the Authority —</p> <p>(a) by such method of electronic communication as the Authority may reasonably require; or</p> <p>(b) such other method of communication as the Authority may approve.</p> <p>(2) Paragraph (1) does not apply to —</p> <p>(a) a licenceholder's annual financial return referred to in rule 2.8; or</p> <p>(b) any annual financial statements of a parent company, holding company, trust, foundation, subsidiary or associated company referred to in rule 2.10 or 2.13.</p> <p>(3) In paragraph (1) "<b>electronic communication</b>" has the same meaning as in the Electronic Transactions Act 2000.</p>                                      | <p><i>All Classes except:</i></p> <p><i>Class 8(1), 8(2)(b) or 8(3) incorporated outside the Island</i></p> |
| <p><b>2.7 Annual financial statements</b></p> <p>(1) References in this Part to the annual financial statements of —</p> <p>(a) a licenceholder;</p> <p>(b) a company, of which a licenceholder is a subsidiary;</p> <p>(c) a trust or foundation which is the direct or ultimate owner of the licenceholder; or</p> <p>(d) a subsidiary or associated company of a licenceholder;</p> <p>shall be construed in accordance with this rule.</p> <p>(2) Subject to paragraph (3), the annual financial statements of a person referred to in paragraph (1) comprise one or more statements in monetary terms of the results of the transactions of —</p> <p>(a) that person; or</p> <p>(b) if the Authority so directs, that person and its subsidiaries,</p> | <p><i>All Classes except:</i></p> <p><i>Class 8(1), 8(2)(b) or 8(3) incorporated outside the Island</i></p> |

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| Rule   | Application   |
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| <p>over a year ending on its annual reporting date.</p> <p>(3) Those statements —</p> <p>(a) must include —</p> <p>(i) a Statement of Financial Position as at that date; and</p> <p>(ii) a Statement of Profit and Loss or income statement for that year,</p> <p>(iii) of that person, or that person and its subsidiaries, as the case may be;</p> <p>(b) may relate to a period other than a year where permitted by rule 2.8(3); and</p> <p>(c) must be prepared according to —</p> <p>(i) the standards required by the law of the country or territory in which that person is incorporated, if that law requires that person to comply with accounting standards; or</p> <p>(ii) otherwise, the standards referred to in rule 2.9.</p> |   |
| <p><b>2.8 Annual financial return</b></p> <p>(1) A licenceholder must provide to the Authority an annual financial return as soon as it is available, and in any case, within 4 months of the licenceholder's annual reporting date.</p> <p>(2) The annual financial return must comprise —</p> <p>(a) in respect of the period to which the return relates —</p> <p>(i) for Class 1 licenceholders incorporated outside the Island, the licenceholder's audited annual financial statements; or</p>   | <p><i>All Classes except:</i></p> <p><i>Class 8(1), 8(2)(b) or 8(3) incorporated outside the Island</i></p> |

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| Rule   | Application   |
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| <p>(ii) for all other licenceholders, the licenceholder's unconsolidated audited annual financial statements and, where consolidated audited annual financial statements are available, a copy of these should also be submitted; and</p> <p>(b) such other statements (if any) as are required by the following provisions of this Part.</p> <p>(3) The period to which the annual financial return relates must be the year ending on the licenceholder's annual reporting date, unless —</p> <p>(a) it is the licenceholder's first annual financial return, in which case the period shall be the period (not being more than 18 months) beginning with the date the licenceholder began trading and ending on its annual reporting date; or</p> <p>(b) the licenceholder's annual reporting date has changed since the previous annual financial return, in which case the period shall be such period (not being more than 18 months) beginning on a previous annual reporting date and ending on the new annual reporting date.</p> <p>(4) The annual financial statements provided under paragraph (2)(a) must be originals verified by the auditor or a copy of such originals.</p> <p>(5) Where the licenceholder is licensed to carry on Class 8(2)(a) or 8(4) regulated activity, the licenceholder's Statement of Financial Position must account for relevant funds held in segregated accounts separately from any operating funds that it holds.</p> |   |
| <p><b>2.9 Accounting standards</b></p> <p>Except where otherwise provided, any financial return which is required by this Rule Book to be submitted to the Authority must be prepared in accordance with either —</p> <p>(a) any applicable Financial Reporting Standards issued or adopted from time to time by the</p>   | <p><i>All Classes except:</i></p> <p><i>Class 8(1), 8(2)(b) or 8(3) incorporated outside the Island</i></p> |

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| Rule  | Application   |
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| <p>Accounting Standards Board in the United Kingdom;</p> <p>(b) the Statement of Recommended Practice; or</p> <p>(c) any International Financial Reporting Standards published from time to time by the International Accounting Standards Board.</p>   |   |
| <p><b>2.10 Annual financial statements of parent and holding companies, trusts or foundations</b></p> <p>(1) Where a licenceholder is a subsidiary of another company it must provide to the Authority –</p> <p>(a) unconsolidated (if consolidated are not available) audited financial statements and (in the case of a trust or foundation) other confirmations of that entity's financial position; and</p> <p>(b) such financial statements and other confirmations in respect of any other companies as the Authority may require.</p> <p>(2) Where financial statements are required to be provided to the Authority under (1) they must be audited –</p> <p>(a) in accordance with the law of the country or territory in which the parent company or holding company (as the case may be), trust or foundation is incorporated or established, if they are required by that law to be audited;</p> <p>(b) otherwise, as if they were the annual financial statements of the licenceholder.</p> <p>(3) The statements provided under (1) must be originals verified by the auditor or a copy of such originals.</p> <p>(4) The statements and confirmations in (1) must be provided as soon as they become available, and in any case, within 6 months of the licenceholder's annual reporting date.</p> <p>(5) For the purposes of this rule, "<b>company</b>" includes a company, trust or foundation involved in the ownership structure of the licenceholder.</p> | <p><i>All Classes except:</i></p> <p><i>Class 8(1), 8(2)(b) or 8(3) incorporated outside the Island</i></p> |

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| <b>Rule</b>   | <b>Application</b>                                   |
|---|--|
| <p><b>2.11 Change of annual reporting date</b></p> <p>A licenceholder may not change its annual reporting date without the prior written consent of the Authority.</p>  | <p><i>All Classes incorporated in the Island</i></p> |
| <p><b>2.12 Accounting records</b></p> <p>(1) A licenceholder must keep such accounting records in the Island as are necessary to show accurately at any time —</p> <p>(a) the financial position of the licenceholder's business; and</p> <p>(b) whether the licenceholder complies with any applicable provisions of this Part relating to its financial resources.</p> <p>(2) A licenceholder must preserve its accounting records for at least 6 years beginning with the date on which they are made.</p> <p>(3) Where a licence is surrendered or revoked, the licenceholder must preserve its accounting records for at least 6 years beginning with the date of surrender or revocation.</p> <p>(4) A licenceholder must notify the Authority of the method of storage and location of any records required by this rule to be preserved at least 20 business days prior to the surrender of its licence.</p> <p>(5) The requirements of this rule are without prejudice to the requirements of any other statutory provision.</p> | <p><i>All Classes incorporated in the Island</i></p> |
| <p><b>2.13 Accounts of subsidiary and associated companies</b></p> <p>(1) A licenceholder's annual financial return must include (in addition to the audited annual financial statements mentioned in rule 2.8(2)(a)) the latest audited annual financial statements of —</p> <p>(a) any subsidiary (apart from a shelf company) of the licenceholder, which must be as at the same date as those of the licenceholder; and</p> <p>(b) any associated company of the licenceholder, which must be the most recently produced.</p>   | <p><i>All Classes incorporated in the Island</i></p> |

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| Rule   | Application   |
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| <p><b>unless such a subsidiary or associated company has not traded in the financial year in question.</b></p> <p>(2) In addition, if a subsidiary or associate company in (1) has not traded in the financial year in question —</p> <p>(a) the licenceholder must confirm this to the Authority; and</p> <p>(b) the licenceholder's auditor must confirm to the Authority that nothing has come to its attention that suggests the contrary.</p> <p>(3) Those financial statements must be audited —</p> <p>(a) in accordance with the law of the country or territory in which the subsidiary or associated company (as the case may be) is incorporated, if they are required by that law to be audited;</p> <p>(b) otherwise, as if they were the annual financial return of the licenceholder.</p> <p>(4) The financial statements provided under paragraph (1) must be originals verified by the auditor or a copy of such originals.</p> |   |
| <p><b>2.14 Change of annual reporting date</b></p> <p>A licenceholder must notify the Authority before changing its annual reporting date.</p>   | <p><i>All Classes incorporated outside the Island</i></p> |
| <p><b>2.15 Accounting records</b></p> <p>(1) A licenceholder must keep such accounting records in the Island as are necessary to show accurately its operations in or from the Island at any time.</p> <p>(2) A licenceholder must preserve its accounting records for at least 6 years beginning with the date on which they are made.</p> <p>(3) Where a licence is surrendered or revoked, the licenceholder must preserve its accounting records for at least 6 years beginning with the date of surrender or revocation.</p> <p>(4) A licenceholder must notify the Authority of the method of storage and location of any records required by this</p>   | <p><i>All Classes incorporated outside the Island</i></p> |



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| <b>Rule</b>  | <b>Application</b>  |
|--|---|
| <p>rule to be preserved at least 20 business days prior to the surrender of its licence.</p> <p>(5) The requirements of this rule are without prejudice to the requirements of any other statutory provision.</p>  |   |
| <p><b>2.16 Contents of annual financial return</b></p> <p>A licenceholder's annual financial return must include (in addition to the annual financial statements mentioned in rule 2.8(2)(a)) a detailed Statement of Profit and Loss in respect of its operations in or from the Island.</p>  | <p><i>All Classes incorporated outside the Island; except Class 8(1), 8(2)(b) or 8(3)</i></p> |
| <p><b>2.17 Share capital</b></p> <p>The paid-up share capital of a licenceholder must not be less than £3,500,000 or its equivalent in another currency.</p>   | <p><i>All Class 1 incorporated in the Island</i></p>  |
| <p><b>2.18 Charges</b></p> <p>(1) A licenceholder must notify the Authority before —</p> <p>(a) creating any charge on any of its assets; or</p> <p>(b) entering into an agreement by virtue of which such a charge may be created.</p> <p>(2) A notification under paragraph (1) must be made —</p> <p>(a) if practicable, not less than 20 business days before the charge is created or the agreement is entered into, as the case may be; or</p> <p>(b) otherwise, as soon as practicable.</p> | <p><i>All Class 1 incorporated in the Island</i></p>  |
| <p><b>2.19 Capital resources</b></p> <p>(1) A licenceholder must by its directors —</p> <p>(a) establish and maintain an internal capital adequacy assessment process ("ICAAP") which is appropriate to the nature and scale of its business; and</p> <p>(b) review that process annually and evidence that review.</p>  | <p><i>All Class 1 incorporated in the Island</i></p>  |

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| Rule  | Application |
|---|-------------|
| <p>(2) Until 1 July 2017, a licenceholder must not at any time permit its risk-asset ratio to fall below the minimum risk-asset ratio.</p> <p>(3) From 1 July 2017, a licenceholder must not at any time permit its CET1 ratio, Tier 1 ratio, or Total capital ratio to fall below the minimum capital requirements as set out in paragraph (9).</p> <p>(4) Until 1 July 2017, a licenceholder must immediately notify the Authority if at any time it has reason to believe that its risk-asset ratio —</p> <p>(a) is below the minimum risk-asset ratio; or</p> <p>(b) is within 1% of the minimum risk-asset ratio. For example, where a licenceholder has a minimum risk-asset ratio of 8%, it must notify the Authority if its risk-asset ratio is 9% or lower.</p> <p>(5) From 1 July 2017, a licenceholder must immediately notify the Authority if at any time it has reason to believe that its CET1 ratio, Tier 1 ratio, or Total capital ratio —</p> <p>(a) is below the minimum capital requirements as set out in paragraph (9); or</p> <p>(b) is within 1% of the minimum capital requirement (for the Total capital ratio only). For example, where a licenceholder has a minimum Total capital ratio of 10%, it must notify the Authority if its Total capital ratio is 11% or lower.</p> <p>(6) A licenceholder must by its directors —</p> <p>(a) maintain appropriate procedures and controls for the purpose of monitoring its compliance with the requirements of paragraphs (4) and (5); and</p> <p>(b) review those procedures annually and evidence that review.</p> <p>(7) A licenceholder must provide the Authority with details of —</p> <p>(a) its ICAAP;</p> <p>(b) the procedures referred to in paragraph (6)(a); and</p> |             |

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| Rule  | Application  |
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| <p>(c) any substantial amendment of it or them, within 20 business days of the approval by the directors of the process, procedures or amendment.</p> <p>(8) In this rule, in relation to a licenceholder, "<b>minimum risk-asset ratio</b>" means —</p> <p>(a) such risk-asset ratio as the Authority may direct in the case of that licenceholder; or</p> <p>(b) where no such direction is given, 8%.</p> <p>(9) In this rule, in relation to a licenceholder, "<b>minimum capital requirement</b>" means —</p> <p>(a) such CET1 ratio, Tier 1 ratio and Total capital ratio as the Authority may direct in the case of that licenceholder; or</p> <p>(b) where no such direction is given, a CET1 ratio of 8.5%, a Tier 1 ratio of 8.5% and a Total capital ratio of 10%.</p> |  |
| <p><b>2.20 Deposit taking returns — Isle of Man incorporated</b></p> <p>(1) The licenceholder must prepare deposit taking returns ("<b>set of deposit taking returns</b>") as at each quarter end.</p> <p>(2) The licenceholder must prepare an additional set of deposit taking returns as at its annual accounting date if this does not fall on a quarter-end.</p> <p>(3) The licenceholder must submit every set of deposit taking returns prepared under paragraph (1) or (2) to the Authority within one month of the date to which it relates.</p> <p>(4) Deposit taking returns must be in the format specified by the Authority, containing the information required by, and calculated in accordance with, the specifications.</p>                                      | <p><i>All Class 1 incorporated in the Island</i></p> |
| <p><b>2.21 Contents of annual financial return</b></p> <p>(1) A licenceholder's annual financial return must include (in addition to the annual financial statements mentioned in rule 2.8(2)(a)) —</p> <p>(a) a statement detailing the calculation of its large exposures capital base as at its annual reporting</p>   | <p><i>All Class 1 incorporated in the Island</i></p> |

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| Rule   | Application |
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| <p>date. This requirement ceases to apply on 1 July 2017;</p> <p>(b) a detailed Statement of Profit and Loss (if not included in the annual financial statements); and</p> <p>(c) a statement providing a reconciliation of all material differences between —</p> <p>(i) the set of deposit taking returns as at its annual reporting date; and</p> <p>(ii) the Statement of Financial Position and Statement of Profit and Loss.</p> <p>(2) The annual financial statements mentioned in rule 2.8(2)(a) must include in the notes to those financial statements —</p> <p>(a) an analysis of assets and liabilities by maturity date in time bands, separately identifying deposit liabilities and placings with deposit takers;</p> <p>(b) the gross amount of all loans and advances due from intra-group companies;</p> <p>(c) the gross amount of all loans and advances due from, and guarantee commitments entered into on behalf of —</p> <p>(i) shareholders; and</p> <p>(ii) directors and managers;</p> <p>(d) in respect of large exposures otherwise than to deposit takers, the number and total value of exposures which individually exceed 10% of the total of the large exposures capital base, loans to related parties being aggregated.</p> <p>(3) The Statement of Profit and Loss mentioned in rule 2.7(3)(a)(ii) must include (or have annexed to it) statements of —</p> <p>(a) total income for the year;</p> <p>(b) interest income and expenditure; and</p> <p>(c) the effect on the Statement of Profit and Loss of provisions for bad and doubtful debts, separately identifying amounts charged against the current</p> |             |

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| Rule   | Application  |
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| <p>year's income for amounts written off and provisions and any credit for releases of existing provisions, recoveries etc.</p>  |  |
| <p><b>2.22 Publication of annual financial statements</b></p> <p>(1) Within 4 months of its annual reporting date, a licenceholder must —</p> <p>(a) make its audited annual financial statements available for public inspection in the Island;</p> <p>(b) display a notice in its registered office and all other offices in the Island stating that —</p> <p>(i) a copy of its latest audited Statement of Financial Position together with the last auditor's report (as it appears in the audited annual financial statements) may be inspected by any person on demand; and</p> <p>(ii) copies are available to be taken away;</p> <p>(c) make its annual financial statements available for public inspection on its website. If the licenceholder does not have a website, the annual financial statements must be made available on the most appropriate website of the group.</p> <p>(2) In addition to the annual financial statements referred to in paragraph (1)(a), a licenceholder may make abridged financial statements available for inspection.</p> <p>(3) The annual financial statements in paragraph (1)(c) may take the form of abridged financial statements.</p> <p>(4) Any abridged statements made available under paragraphs (2) or (3) must contain the following information as a minimum —</p> <p>(a) a Statement of Financial Position identifying separately —</p> <p>Liabilities</p> <p>Paid up element of issued share capital</p> <p>Revenue reserves</p> | <p><i>All Class 1 incorporated in the Island.</i></p> <p><i>Paragraphs (1)(b) and (4)(h) do not apply to Class 1(2).</i></p> |

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| Rule  | Application   |
|---|---|
| <p>Subordinated loans</p> <p>Deposit liabilities</p> <p>All other liabilities</p> <p>Total liabilities</p> <p>Assets</p> <p>Money market assets, differentiating between intra-group and others</p> <p>Loans</p> <p>Investments</p> <p>Intangible assets</p> <p>Fixed assets</p> <p>All other assets</p> <p>Total assets</p> <p>(b) a note of any contingent liabilities;</p> <p>(c) the names of the directors and secretary;</p> <p>(d) the immediate and ultimate holding company of the licenceholder;</p> <p>(e) any subsidiaries of the licenceholder;</p> <p>(f) the registered office;</p> <p>(g) the auditor's report; and</p> <p>(h) a note that a copy of the full audited financial statements is available upon request (specifying any fee that will be charged).</p> |   |
| <p><b>2.23 Deposit taking returns — non-Isle of Man Incorporated</b></p> <p>(1) The licenceholder must prepare deposit taking returns ("set of deposit taking returns") as at each quarter end.</p> <p>(2) The licenceholder must prepare an additional set of deposit taking returns as at its annual accounting date if this does not fall on a quarter-end.</p> <p>(3) The licenceholder must submit every set of deposit taking returns prepared under paragraph (1) or (2) to the</p>  | <p><i>All Class 1 incorporated outside the Island</i></p> |

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| Rule   | Application   |
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| <p>Authority within one month of the date to which it relates.</p> <p>(4) Deposit taking returns must be in the format specified by the Authority, containing the information required by, and calculated in accordance with, the specifications.</p>  |   |
| <p><b>2.24 Publication of annual financial statements</b></p> <p>(1) Within 4 months of its annual reporting date, the licenceholder must —</p> <p>(a) make its audited annual financial statements available for public inspection in the Island;</p> <p>(b) display a notice in all its offices in the Island stating that —</p> <p>(i) a copy of the latest audited Statement of Financial Position of the licenceholder together with the last auditor's report (as it appears in the audited annual financial statements) may be inspected by any person on demand; and</p> <p>(ii) copies are available to be taken away;</p> <p>(c) make its annual financial statements available for public inspection on its website. If the licenceholder does not have a website, the annual financial statements must be made available on the most appropriate website of the group.</p> <p>(2) In addition to the financial statements referred to in paragraph (1)(a), a licenceholder may make abridged financial statements available for public inspection.</p> <p>(3) The annual financial statements in paragraph (1)(c) may take the form of abridged financial statements.</p> <p>(4) Paragraph (4) of rule 2.22 applies to abridged statements made available under paragraphs (2) and (3) of this rule.</p> | <p><i>All Class 1 incorporated outside the Island.</i></p> <p><i>Paragraph (1)(b) does not apply to Class 1(2).</i></p> |



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| Rule   | Application  |
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| <p><b>2.25 Solvency</b></p> <p>A licenceholder must ensure that at all times it is able to meet its liabilities as they fall due.</p>  | <p><i>All Class 2, Class 3, Class 4, Class 5 or Class 8 except those that are also Class 1</i></p>             |
| <p><b>2.26 Failure to comply with obligations</b></p> <p>(1) A licenceholder must notify the Authority as soon as it has reason to believe that it will be unable to make a payment to a creditor on the date that the payment is due.</p> <p>(2) For the purpose of this rule —</p> <p>(a) a payment under a contract is due on the date on which it is payable in accordance with the terms of the contract;</p> <p>(b) a payment under a transaction subject to the rules of an exchange or clearing house is due on the date on which it is payable under those rules.</p>   | <p><i>All Class 2, Class 3, Class 4, Class 5 or Class 8 except those that are also Class 1</i></p>             |
| <p><b>2.27 Financial commitments</b></p> <p>(1) A licenceholder must not give any guarantee, indemnity or other commitment (other than one entered into in the ordinary course of its business) without the consent of the Authority.</p> <p>(2) A licenceholder must notify the Authority as soon as it becomes aware that any guarantee, indemnity or other commitment given by the licenceholder may result in a claim notifiable under rule 2.28.</p> <p>(3) A licenceholder must notify the Authority as soon as it becomes aware of —</p> <p>(a) any guarantee, indemnity or other commitment given in respect of the licenceholder by another member of the licenceholder's group in favour of an exchange;</p> <p>(b) any contingent liability incurred by the licenceholder which might affect its ability to</p> | <p><i>All Class 2, Class 3, Class 4, Class 5, Class 8(2)(a) or 8(4) except those that are also Class 1</i></p> |

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| Rule   | Application  |
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| <p>meet any of the requirements referred to in rule 2.30; and</p> <p>(c) any change in information previously notified under paragraph (2) or this paragraph.</p>  |  |
| <p><b>2.28 Claims</b></p> <p>A licenceholder must notify the Authority as soon as it becomes aware of any claim made in writing against the licenceholder where any amount claimed or disputed is likely to exceed the lower of –</p> <p>(a) £10,000; or</p> <p>(b) where applicable, 10% of the licenceholder's minimum net tangible asset requirement (specified in column 6 of Appendix 2).</p>   | <p><i>All Class 2, Class 3, Class 4, Class 5, Class 8(2)(a) or 8(4) except those that are also Class 1</i></p> |
| <p><b>2.29 Charges</b></p> <p>(1) A licenceholder must not without the consent of the Authority –</p> <p>(a) create any charge on any of its assets; or</p> <p>(b) enter into an agreement by virtue of which such a charge may be created.</p> <p>(2) A licenceholder must –</p> <p>(a) notify the Authority as soon as a charge (other than one created with the consent of the Authority) has been registered against the licenceholder; and</p> <p>(b) at the same time state whether the charge has an adverse impact on its financial resources.</p> <p>(3) For the avoidance of doubt, references in this rule to assets of a licenceholder do not include property held by the licenceholder as trustee of an express trust.</p> | <p><i>All Class 2, Class 3, Class 4, Class 5, Class 8(2)(a) or 8(4) except those that are also Class 1</i></p> |

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| Rule   | Application  |
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| <p><b>2.30 Financial resources requirements</b></p> <p>(1) A licenceholder licensed to carry on regulated activities falling within a class, and the paragraphs of a class, specified in columns 1 and 2 of Appendix 2 must at all times comply with the following requirements –</p> <p>(a) its issued share capital (including any paid-up share premium) must not be less than the corresponding amount specified as its minimum share capital requirement in column 5 of Appendix 2;</p> <p>(b) its net tangible assets (calculated in accordance with Part A of Appendix 3) must not be less than the corresponding amount specified as its minimum net tangible asset requirement in column 6 of Appendix 2;</p> <p>(c) it must maintain liquid capital of an amount calculated in accordance with Part D of Appendix 3;</p> <p>(d) where the licenceholder is licensed to carry on Class 8(2)(a) or 8(4) regulated activity, relevant funds must not be included in the calculation of financial resources;</p> <p>(e) where the licenceholder is licensed to carry on Class 8(2)(a) or 8(4) regulated activity, any restricted funds may be included in the calculation of financial resources.</p> <p>(2) The requirements referred to in paragraph (1)(a) and (b) are subject to any qualification or exception specified in column 4 of Appendix 2.</p> <p>(3) Where the licenceholder carries on 2 or more regulated activities in respect of which different amounts are specified or calculated as mentioned in paragraph (1)(a), (b) or (c), the requirement in question shall be taken as relating to the highest amount so specified.</p> <p>(4) A licenceholder must maintain appropriate procedures and controls for the purpose of monitoring its compliance with the requirements of this rule.</p> | <p><i>All Class 2, Class 3, Class 4, Class 5, Class 8(2)(a) or 8(4) incorporated in the Island, except those that are also Class 1</i></p> |

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| Rule   | Application  |
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| <p><b>2.31 Notification of actual or potential breach</b></p> <p>(1) A licenceholder must immediately notify the Authority if at any time it has reason to believe that its net tangible assets —</p> <p>(a) are or may fall below the amount referred to in rule 2.30(1)(b); or</p> <p>(b) without prejudice to sub-paragraph (a), are or may fall below 110% of that amount.</p> <p>(2) A licenceholder must immediately notify the Authority if at any time it has reason to believe that its liquid capital —</p> <p>(a) is or may fall below the amount referred to in rule 2.30(1)(c); or</p> <p>(b) without prejudice to sub-paragraph (a), is or may fall below 110% of that amount.</p> <p>(3) When giving a notification under paragraph (1) or (2) the licenceholder must also provide the Authority with —</p> <p>(a) a full explanation of the circumstances; and</p> <p>(b) details of the steps that the licenceholder is taking or has taken to prevent a breach of rule 2.30 occurring or to remedy the breach, as the case may be.</p> | <p><i>All Class 2, Class 3, Class 4, Class 5, Class 8(2)(a) or 8(4) incorporated in the Island, except those that are also Class 1</i></p> |
| <p><b>2.32 Contents of annual financial return</b></p> <p>A licenceholder's annual financial return must be in the format specified by the Authority, must contain the information required by this rule and Appendix 3, and must be calculated in accordance with Appendix 3. The annual financial return must include (in addition to the annual financial statements mentioned in rule 2.8(2)(a)) —</p> <p>(a) a financial resources statement which has been reviewed and verified by the auditor for completeness and accuracy; and</p> <p>(b) where the Statement of Profit and Loss included in the annual financial statements is not sufficient to verify the calculations in the statement referred to in sub-paragraph (a), a detailed</p>  | <p><i>All Class 2, Class 3, Class 4, Class 5, Class 8(2)(a) or 8(4) incorporated in the Island, except those that are also Class 1</i></p> |

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| Rule   | Application   |
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| <p>unconsolidated Statement of Profit and Loss of the licenceholder, with comparative figures; and</p> <p>(c) either —</p> <p>(i) a statement that there are no differences between the items referred to in subparagraphs (a) and (b) and whichever of the following is applicable —</p> <p>(A) the interim financial returns required by rule 2.33; or</p> <p>(B) the calculations referred to in rule 2.35,</p> <p>and as a result of there being no differences, a confirmation that no reconciliation is required; or</p> <p>(ii) a reconciliation identifying the differences and the reasons for them.</p>  |   |
| <p><b>2.33 Interim financial returns</b></p> <p>(1) A licenceholder licensed to carry on activities falling within paragraphs (3) and (6) of Class 2 (investment adviser to retirement benefit schemes) must prepare an unaudited interim financial return as at the end of the period 6 months after each annual reporting date and as at the annual reporting date.</p> <p>(2) Subject to paragraph (1), a licenceholder must prepare an unaudited interim financial return as at the end of each quarter.</p> <p>(3) The licenceholder must provide an interim financial return prepared under paragraphs (1) or (2) to the Authority as soon as it becomes available, and in any case, within one month after the end of the period to which it relates.</p> <p>(4) An interim financial return must comprise a statement in monetary terms of the results of the licenceholder's transactions over the period to which it relates, including —</p> <p>(a) an unconsolidated Statement of Financial Position which shows the state of affairs of the</p> | <p><i>All Class 2 or Class 3 incorporated in the Island, except:</i></p> <p><i>(a) Class 2(3) and 2(7) and Class 3(8); or</i></p> <p><i>(b) those that are also Class 1</i></p> |

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| Rule  | Application  |
|---|--|
| <p>licenceholder as at the end of the period to which it relates; and</p> <p>(b) an unconsolidated, cumulative Statement of Profit and Loss which shows the profit or loss of the licenceholder for the financial year to date; and</p> <p>(c) a financial resources statement.</p> <p>(5) The statement referred to in paragraph (4)(c) must be in the format specified by the Authority, must contain the information required by this rule and Appendix 3, and must be calculated in accordance with Appendix 3, with any necessary modifications.</p> <p>(6) An interim financial return must be in sufficient detail to verify the calculations required by rule 2.30.</p> |  |
| <p><b>2.34 Counterparty risk requirement ("CRR")</b></p> <p>The calculation (as part of the financial resources requirements) of the licenceholder's liquid capital referred to in rule 2.30(1)(c) must include an item representing the risk that counterparties to transactions to which it is party could default before final settlement, calculated in accordance with Appendix 4.</p>   | <p><i>All Class 2(1) to 2(6) inclusive incorporated in the Island, except those that are also Class 1</i></p>  |
| <p><b>2.35 Monitoring of financial resources requirements</b></p> <p>A licenceholder must —</p> <p>(a) calculate its quarterly financial resources in accordance with rule 2.33(4) to (6);</p> <p>(b) evidence and document its compliance with the requirements of rule 2.30 at least once in each quarter, no later than one month following the period to which it relates; and</p> <p>(c) if so required by the Authority, provide it with evidence of the calculations required for that purpose.</p>  | <p><i>All Class 2(3) or (6) or (7) (or combination thereof); Class 3(8) (unless rule 2.33 applies); all Class 4 and/or 5; all Class 8(2)(a) or 8(4): if incorporated in the Island, except those that are also Class 1</i></p> |

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| Rule  | Application  |
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| <p><b>2.36 Payment Services' Returns</b></p> <p>(1) A licenceholder must submit a Quarterly Return as at the annual reporting date and every 3 months thereafter.</p> <p>(2) The Quarterly Return must be in the format and contain the information specified by the Authority.</p> <p>(3) The Quarterly Return must be submitted to the Authority within one month after the date to which it relates.</p>                           | <p><i>All Class<br/>8(2)(a) and<br/>8(4)</i></p>                               |
| <p><b>2.37 Turnover and financial resources</b></p> <p>(1) A licenceholder must notify the Authority within 5 business days of the turnover of its segregated account reaching a new band requiring additional share capital and net tangible assets as specified in Appendix 2.</p> <p>(2) A licenceholder must confirm its compliance with the higher requirement within 20 business days of the notification in paragraph (1).</p> | <p><i>All Class<br/>8(2)(a) or 8(4)<br/>incorporated in<br/>the Island</i></p> |



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## PART 3 – CLIENT MONEY, TRUST MONEY, RELEVANT FUNDS, NOMINEE BANK ACCOUNTS AND CLIENT COMPANY MONEY

| Rule   | Application                          |
|--|--------------------------------------|
| <p><b>3.1 Interpretation of “client” in Part 3 for Class 3 licenceholders</b></p> <p>Where this Part applies to a licenceholder licensed to carry on an activity falling within Class 3 it does so with any necessary modifications, as if references to a client were references to a scheme and/or participant in a scheme.</p>  | <p><i>All Class 3</i></p>            |
| <p><b>3.2 Interpretation: general</b></p> <p>In this Part —</p> <p>“<b>client</b>” includes a client of the licenceholder, and extends to —</p> <ul style="list-style-type: none"> <li>(a) a corporate trustee; or</li> <li>(b) where the licenceholder provides services to a private trust company, that private trust company,</li> </ul> <p>where trust monies belonging to (a) or (b), as trustee of a trust, are held in a client bank account of the licenceholder;</p> <p>“<b>client bank account</b>”, in relation to a licenceholder, means an account held by the licenceholder at a recognised bank which is —</p> <ul style="list-style-type: none"> <li>(a) especially created by the licenceholder for the purpose of holding client money; and</li> <li>(b) segregated from any account holding money which is not client money.</li> </ul> <p>An account is not a client bank account if —</p> <ul style="list-style-type: none"> <li>(i) in the event of a failure of the licenceholder, it may be combined with any other account; or</li> <li>(ii) there is any right of set-off or counterclaim against it in respect of any debt owed by the licenceholder;</li> </ul> | <p><i>All Class 2, 3, 4 or 5</i></p> |

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| Rule  | Application |
|---|-------------|
| <p><b>“client company bank account”</b> means a bank account in the name of a client company and does not constitute a client bank account;</p> <p><b>“client free money account”</b> means a client bank account of a Class 2 licenceholder which is used solely for holding the free money of its clients pending future investment (<b>“clients’ free money”</b>) —</p> <p>(a) where the specific bank has been —</p> <p>(i) chosen by one or more clients and this is documented in writing; or</p> <p>(ii) chosen by the licenceholder for one or more clients and the name of the bank has been notified by the licenceholder to the client(s) in writing,</p> <p>and which holds, and is intended to hold, client money of that client or those clients and of no other client; and</p> <p>(b) which is segregated from any account holding money which is not client money of that client or those clients; and</p> <p>(c) which includes in its title the words “client free money account” or acceptable abbreviation as detailed in rule 3.9;</p> <p><b>“client money”</b> means money which, for the purpose or in the course of a regulated activity to which this Part applies, a licenceholder —</p> <p>(i) holds or receives on behalf of a client; or</p> <p>(ii) owes to a client,</p> <p>but does not include monies held in a ‘client company’ bank account;</p> <p><b>“client settlement account”</b> means a client bank account of a Class 2 licenceholder which is used solely to hold the net balance required for the settlement of transactions for clients (<b>“clients’ settlement money”</b>) and which includes in its title the words “client settlement account” or acceptable abbreviation as detailed in rule 3.9;</p> |             |

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| Rule   | Application |
|--|-------------|
| <p><b>“general client bank account”</b> means a client bank account other than a specified client bank account, which includes in its title the words “client account” or an acceptable abbreviation as detailed in rule 3.9;</p> <p><b>“money”</b> means —</p> <ul style="list-style-type: none"> <li>(a) legal tender in the Island or elsewhere; or</li> <li>(b) anything which may be directly converted into legal tender,</li> </ul> <p>and includes notes and coin, cheques, drafts and other bills of exchange, and funds held in electronic form;</p> <p><b>“nominee bank account”</b> means a bank account in the name of a Class 2 or 3 licenceholder’s nominee company, and for the purposes of this Part, money held in it is client money;</p> <p><b>“recognised bank”</b> means an institution which is —</p> <ul style="list-style-type: none"> <li>(a) licensed by the Authority to carry on a regulated activity falling within Class 1(1) or 1(2);</li> <li>(b) a bank that is licensed under The Banking Supervision (Bailiwick of Guernsey) Law, 1994 as amended or is registered under The Banking Business (Jersey) Law, 1991;</li> <li>(c) a bank which is supervised by the central bank or other banking regulator of a member state of the OECD;</li> <li>(d) a credit institution established in <b>the United Kingdom, an</b> EU or <b>an</b> EEA state and duly authorised by the relevant home state regulator;</li> <li>(e) a bank supervised by the South African Reserve Bank; or</li> <li>(f) any other bank that — <ul style="list-style-type: none"> <li>(i) is subject to regulation by a national banking regulator;</li> <li>(ii) is required to provide audited accounts annually;</li> </ul> </li> </ul> |             |

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| Rule  | Application |
|---|-------------|
| <p>(iii) has minimum net assets of £5 million (or its equivalent in any other currency at the relevant time) and has had a surplus of revenue over expenditure for the last 2 financial years; and</p> <p>(iv) has an annual audit report which is not materially qualified,</p> <p>and any reference in this Part to a bank is to a recognised bank;</p> <p><b>"relevant agreement"</b> means any agreement the making or performance of which by either party constitutes a regulated activity to which this Part applies;</p> <p><b>"specified client bank account"</b> means a client bank account —</p> <p>(a) where the specific bank has been —</p> <p>(i) chosen by one or more clients (or their advisers who are independent of the licenceholder) and this choice is documented in writing; or</p> <p>(ii) chosen by the licenceholder for one or more clients and the name of the bank together with the fact that the account is a specified client bank account has been notified by the licenceholder to the client(s) in writing,</p> <p>and which holds, and is intended to hold, client money of that client or those clients and of no other client;</p> <p>(b) which is segregated from any account holding money which is not client money of that client or those clients; and</p> <p>(c) which includes in its title the words "specified client account" or an acceptable abbreviation as detailed in rule 3.9;</p> |             |

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| Rule   | Application                          |
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| <p><b>"subscription and/or redemption account"</b> means one or more specified client bank accounts which must be segregated from any account holding money which is not held in respect of the sale or redemption, as the case may be, of units in —</p> <ul style="list-style-type: none"> <li>(a) the scheme in question; or</li> <li>(b) another scheme managed or administered by the same person,</li> </ul> <p>and which includes in its title the words "client subscription and/or redemption account" or acceptable abbreviation as detailed in rule 3.9;</p> <p><b>"trust bank account"</b> means a bank account held by the trustee of a trust which —</p> <ul style="list-style-type: none"> <li>(a) holds, and is intended to hold, trust money of that trust (and no other money); and</li> <li>(b) is segregated from any account holding money which is not trust money of that trust;</li> </ul> <p><b>"trust money"</b> means money, forming part or all of the assets of a trust, which, for the purpose, or in the course, of a regulated activity to which this Part applies, a licenceholder holds or receives as, or as agent or nominee of, the trustee of that trust. Trust money held in a client bank account is client money.</p> |                                      |
| <p><b>3.3 Holding "client money"</b></p> <ul style="list-style-type: none"> <li>(1) Where, for the purpose or in the course of a regulated activity to which this Part applies and which is carried on or to be carried on for a client, a licenceholder holds or receives (in the Island or elsewhere) money which is not immediately due and payable to the licenceholder for its own account, for the purpose of this rule it holds or receives that money on behalf of the client.</li> <li>(2) Without prejudice to paragraph (1), where — <ul style="list-style-type: none"> <li>(a) a relevant agreement is in force between a licenceholder and a client; or</li> <li>(b) the licenceholder expects to enter into a relevant agreement with or for a client;</li> </ul> </li> </ul>  | <p><i>All Class 2, 3, 4 or 5</i></p> |

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| Rule   | Application                          |
|--|--------------------------------------|
| <p>(c) and the licenceholder, or an agent on its behalf, holds or receives (in the Island or elsewhere) any money —</p> <p>(i) which is not immediately due and payable on demand to the licenceholder for its own account; or</p> <p>(ii) which, although so due and payable, is held or received in respect of any obligation of the licenceholder under the agreement which has not yet been performed,</p> <p>for the purpose of this rule the licenceholder holds or receives that money on behalf of the client.</p> <p>(3) For the purpose of this rule a licenceholder owes money to a client where it is due and payable to the client by the licenceholder or an agent on its behalf, whether demanded or not.</p> <p>(4) Money ceases to be, or never becomes, client money if it is paid —</p> <p>(a) to the client; or</p> <p>(b) into a bank or other account in the name of the client (not being an account which is also in the name of the licenceholder); or</p> <p>(c) otherwise at the direction of the client.</p> |                                      |
| <p><b>3.4 General restriction on holding client money or trust money</b></p> <p>(1) A licenceholder must not hold or receive client money (including money held in a nominee bank account) or trust money except in accordance with the following provisions of this Part.</p> <p>(2) This rule applies to a branch of a licenceholder in a country or territory outside the Island except a branch in —</p> <p>(a) the United Kingdom; or</p>   | <p><i>All Class 2, 3, 4 or 5</i></p> |

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| Rule  | Application                          |
|---|--------------------------------------|
| <p>(b) a country or territory which the Authority has notified to the licenceholder for the purpose of this rule as a country offering equivalent protection,</p> <p>as it applies to an establishment of the licenceholder within the Island.</p>  |                                      |
| <p><b>3.5 Duty to hold client money separately</b></p> <p>(1) Subject to paragraph (2), a licenceholder must pay all client money into either –</p> <p>(a) a client bank account;</p> <p>(b) a nominee bank account (Class 2 and 3 licenceholders only); or</p> <p>(c) a bank account in the name of the client.</p> <p>(2) If a licenceholder is requested by a client to do so, it must pay client money of that client into a specified client bank account or inform the client that such accounts are not operated by the licenceholder.</p> <p>(3) Client money must be held on trust for the clients entitled to it.</p> <p>(4) Paragraphs (1) to (3) do not apply where –</p> <p>(a) the licenceholder pays client money to, or by the written direction of, the client entitled to it; or</p> <p>(b) client money is held or received in respect of a relevant agreement which is governed by a law other than the law of the Island, in which case the licenceholder must warn the client in writing that his money may not be protected as effectively as it would be if those paragraphs applied.</p> | <p><i>All Class 2, 3, 4 or 5</i></p> |
| <p><b>3.6 Client's Account Information</b></p> <p>(1) Prior to accepting any client money into a client bank account a licenceholder must provide the client with information, as specified by the Authority, on the nature and types of client bank accounts.</p> <p>(2) A licenceholder must retain evidence to show that it has complied with paragraph (1).</p>   | <p><i>All Class 2, 4 or 5</i></p>    |

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| <b>Rule</b>   | <b>Application</b>                   |
|---|--------------------------------------|
| <p><b>3.7 Notification of receipt of client money in certain cases</b></p> <p>(1) A licenceholder who receives client money in circumstances in which it is not authorised by the terms of its licence to receive such money must either —</p> <p>(a) immediately pay the money into a client bank account; or</p> <p>(b) return the money to the client.</p> <p>(2) The licenceholder must also, on the date of receipt or the next working day, notify the Authority of the facts, including —</p> <p>(a) the reason for the receipt of the money;</p> <p>(b) the action taken; and</p> <p>(c) where appropriate, the arrangements for paying the client money out of the client bank account.</p>  | <p><i>All Class 2, 3, 4 or 5</i></p> |
| <p><b>3.8 Account to be specified in cheques etc.</b></p> <p>(1) This rule applies where money —</p> <p>(a) is or is to be paid to a licenceholder; and</p> <p>(b) on receipt by the licenceholder is or will be client money.</p> <p>(2) The licenceholder must advise any person by whom the money is, or is to be, paid to make the relevant cheque or other instrument payable to either —</p> <p>(a) the client entitled to the money; or</p> <p>(b) a payee designated as follows —</p> <p>(i) "[licenceholder] – client account"; or</p> <p>(ii) "[licenceholder] – specified client account – [name of client(s)]";</p> <p>(3) In the case of an account in a country or territory outside the Island, a payee designated by such description in an official language of that country or territory as is equivalent to the appropriate wording in (2)(b).</p> | <p><i>All Class 2, 3, 4 or 5</i></p> |
| <p><b>3.9 Operation of client bank account</b></p>  | <p><i>All Class 2, 3, 4 or 5</i></p> |



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| Rule   | Application |
|--|-------------|
| <p>(1) The title of the client bank account must include —</p> <ul style="list-style-type: none"> <li>(a) the words "client account" (or "client a/c"); and</li> <li>(b) where the account is a specified client bank account the word "specified", "spec.", "ref" or "re", together with the name or designation of the client; or</li> <li>(c) where the account holds clients' free money or clients' settlement monies, the words "free money" or "frmony" or "settlement" or "sttlmt", as the case may be; or</li> <li>(d) where the account is a client subscription and/or redemption account, the words "cl sub a/c"; "clred a/c" or "cl sub/red a/c", as the case may be; or</li> <li>(e) in the case of an account in a country or territory outside the Island, such description in an official language of that country or territory as is equivalent to those words and abbreviations.</li> </ul> <p>(2) In the case of a specified client bank account or client free money account where the bank has been chosen by the licenceholder, the name of the bank together with the fact that the account is a specified client bank account must be notified to the client(s) within 5 business days of the account opening.</p> <p>(3) Subject to paragraph (4), the licenceholder must obtain from the bank at which the account is held an acknowledgement in writing that —</p> <ul style="list-style-type: none"> <li>(a) it understands that all money standing to the credit of all client bank accounts maintained by the licenceholder is held by the licenceholder as trustee and that the bank is not entitled to combine the account with any other account or to exercise any right of set-off or counterclaim against money in that account in respect of any debt owed to it by the licenceholder;</li> <li>(b) interest earned on each such account will be credited to the account or to an account of the same type;</li> </ul> |             |

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| Rule  | Application |
|---|-------------|
| <p>(c) the title of each such account —</p> <p>(i) is in the form requested by the licenceholder; and</p> <p>(ii) sufficiently distinguishes the account from any other account containing money belonging to the licenceholder,</p> <p>and the licenceholder must supply, or arrange for the bank to supply, the Authority with a copy of the acknowledgement.</p> <p>(4) In the case of an account in a country or territory outside the Island, the licenceholder must either —</p> <p>(a) be satisfied that the account is protected by segregation under trust or otherwise by statutory or other regulation, as effectively as it would be if held in a client bank account in the Island; or</p> <p>(b) warn the client in writing that his money may not be protected as effectively as it would be if it were so held.</p> <p>(5) Except in the case of a client settlement account, the licenceholder must not allow a client bank account or a nominee bank account to become overdrawn.</p> <p>(6) Subject to (7) and to rule 3.31, the licenceholder must not pay money which is not client money, or permit such money to be paid, into a client bank account or a nominee bank account unless it is required —</p> <p>(a) to open or maintain the account; or</p> <p>(b) to restore an amount withdrawn in error from the account.</p> <p>(7) If money paid to the licenceholder contains both client money and money which is not client money, the licenceholder must —</p> <p>(a) pay the money into a client bank account; and</p> <p>(b) as soon as the funds are cleared and the amount which is not client money is ascertained, withdraw that amount from the account.</p> |             |

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| Rule   | Application                          |
|--|--------------------------------------|
| <p>(8) The licenceholder must not withdraw money from a client bank account or a nominee bank account unless —</p> <ul style="list-style-type: none"> <li>(a) it is not client money;</li> <li>(b) it is properly required for payment to or on behalf of a client; or</li> <li>(c) it is properly transferred to another client bank account, a nominee bank account or into a bank account in the client's own name.</li> </ul> <p>(9) The licenceholder must not withdraw for its own account any interest earned on a client bank account or a nominee bank account which is due to a client under rule 3.13.</p> <p>(10) The licenceholder must not withdraw money for or towards payment of its own fees or commission unless —</p> <ul style="list-style-type: none"> <li>(a) the withdrawal is in accordance with the terms of a relevant agreement; or</li> <li>(b) the amount is agreed by the client or finally determined by a court or arbitrator.</li> </ul> <p>(11) The operation of all client bank accounts and nominee bank accounts must be subject to dual signatures.</p> |                                      |
| <p><b>3.10 Records to be kept by licenceholder</b></p> <p>(1) The licenceholder must keep proper records of client money received, paid or held by it.</p> <p>(2) The records must in particular contain —</p> <ul style="list-style-type: none"> <li>(a) a record of all receipts and payments, explaining their nature;</li> <li>(b) entries from day to day of all receipts and payments, including interest if applicable;</li> <li>(c) an up-to-date record of the balances on — <ul style="list-style-type: none"> <li>(i) all client bank accounts;</li> <li>(ii) all nominee bank accounts;</li> </ul> </li> </ul>   | <p><i>All Class 2, 3, 4 or 5</i></p> |

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| Rule   | Application                          |
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| <ul style="list-style-type: none"> <li>(iii) all accounts of the licenceholder with brokers and other persons (other than recognised banks) in which money is held which, if it were held by the licenceholder, would be client money; and</li> <li>(iv) the licenceholder's ledger accounts relating to client money received, paid or held by it; and</li> <li>(d) such further details as are reasonably necessary to demonstrate compliance with the requirements of this Part.</li> <li>(3) The records must identify the client on behalf of whom any client money is received, paid or held.</li> <li>(4) Where appropriate, the records must also — <ul style="list-style-type: none"> <li>(a) disclose with reasonable accuracy, at any time, the details of transactions in respect of which client money is received, paid or held; and</li> <li>(b) facilitate a full audit trail of money in and out of accounts referred to in paragraph (2)(c)(i), (ii) and (iii).</li> </ul> </li> <li>(5) A licenceholder must preserve any records referred to in this rule for at least 6 years.</li> </ul> |                                      |
| <p><b>3.11 Accounting for and use of client money</b></p> <ul style="list-style-type: none"> <li>(1) A licenceholder must account properly and promptly for client money.</li> <li>(2) In particular, the licenceholder must ensure that — <ul style="list-style-type: none"> <li>(a) client money and other money do not become intermingled (except in accordance with rule 3.9(6) and (7));</li> <li>(b) it can at all times be sure how much client money stands to the credit of each client;</li> <li>(c) money belonging to one client is not used for another (except in the case of an account maintained under rules 3.22(2), 3.23, 3.24, 3.25, 3.26 or 3.27); and</li> </ul> </li> </ul>  | <p><i>All Class 2, 3, 4 or 5</i></p> |

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| Rule  | Application            |
|---|------------------------|
| (d) client money is not included within the licenceholder's Statement of Financial Position.  |                        |
| <p><b>3.12 Reconciliation</b></p> <p>(1) A licenceholder must reconcile the balances of each client bank account and nominee bank account with its records at least monthly.</p> <p>(2) For the avoidance of doubt, in respect of (1) —</p> <p>(a) the reconciliation must be between the licenceholders' records and the banks' statements;</p> <p>(b) all reconciliations must be as at the same date;</p> <p>(c) the reconciliation must be completed within 20 business days;</p> <p>(d) the reconciliation must be checked promptly by a different individual;</p> <p>(e) the reconciler and checker must evidence their work;</p> <p>(f) any discrepancies discovered must be corrected within 5 business days, unless they result solely from normal timing differences;</p> <p>(g) there must be a minimum of 15 business days between each reconciliation;</p> <p>(h) the Authority must be notified promptly if the reconciliation has not been undertaken as prescribed; and</p> <p>(i) the Authority must be notified within 5 business days of discovering that a reconciliation cannot be corrected.</p> <p>(3) As at the same date and in the same manner as (2), the licenceholder must reconcile the balances in its records for each client with the total balances held in client bank accounts and nominee bank accounts.</p> | All Class 2, 3, 4 or 5 |
| <b>3.13 Interest on client money</b>  | All Class 2, 3, 4 or 5 |

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| Rule  | Application                          |
|---|--------------------------------------|
| <p>(1) Where rule 6.41 or 6.64 (client agreement or terms of business) applies —</p> <p>(a) a licenceholder must pay interest on money held in a client money bank account or a nominee bank account in accordance with the terms set out in the client agreement or terms of business referred to in that rule;</p> <p>(b) if no interest is to be paid to the client, or if negative interest applies and is to be deducted, this must be clearly set out in the client agreement or terms of business.</p> <p>(2) Where rules 6.41 or 6.64 do not apply, a client must receive written disclosure of how interest earned is to be treated.</p> |                                      |
| <p><b>3.14 Client money held on trust</b></p> <p>Client money held by a licenceholder is held on trust —</p> <p>(a) on the terms and for the purposes set out in this Part and, subject thereto, <i>pari passu</i> for the respective clients for whom it is received or held;</p> <p>(b) subject to sub-paragraph (a), <i>pari passu</i> in meeting any shortfall in valid claims by clients to client money (disregarding rules 3.15 to 3.19 for this purpose); and</p> <p>(c) after all valid claims under sub-paragraphs (a) and (b) have been met, for the licenceholder itself.</p>   | <p><i>All Class 2, 3, 4 or 5</i></p> |
| <p><b>3.15 Pooling</b></p> <p>(1) For the purpose of rule 3.14(a), in determining the entitlement of clients to client money, all client money of any currency, even though held in more than one client bank account or nominee bank account, shall be treated as pooled, in a single pool, except as provided in rules 3.16, 3.17, 3.18 and 3.19.</p>   | <p><i>All Class 2, 3, 4 or 5</i></p> |

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| Rule   | Application                          |
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| <p>(2) Where, at the time at which a default occurs, a cheque or other payable order has been paid into a client bank account or nominee bank account but has not been cleared, the amount of the order shall, when it is cleared, be pooled in accordance with rules 3.1 to 3.21.</p> <p>(3) For the purpose of this rule and rules 3.16 to 3.20 a licenceholder or bank is in default where —</p> <p>(a) a liquidator, receiver, administrator or trustee in bankruptcy has been appointed in respect of it;</p> <p>(b) any equivalent procedure has occurred in respect of it in a country or territory outside the Island; or</p> <p>(c) the Authority has directed that it shall be treated as in default for the purpose of rules 3.1 to 3.21 (in the case of a bank, either generally or in relation to the licenceholder in question).</p> <p>(4) Where a profit or loss is made in the conversion of foreign currency the profit or loss shall be attributed to the pool, rather than the individual clients affected.</p> <p>(5) Where monies are received from any compensation scheme in relation to a default, those monies must be treated in accordance with any entitlement of the compensation scheme in force at that time.</p> <p>(6) Where monies are received from a liquidator in relation to a default, those monies must be treated as pooled for the purposes of this rule and applied to the benefit of all clients affected by the default.</p> |                                      |
| <p><b>3.16 Default of a bank — specified client bank accounts</b></p> <p>(1) This rule applies where client money held by a licenceholder is insufficient to pay the claims of all clients because a bank in which client money is held is in default.</p> <p>(2) Where client money is held in a specified client bank account at the bank in default —</p> <p>(a) that money shall not be pooled with client money held in any other client bank account; and</p>  | <p><i>All Class 2, 3, 4 or 5</i></p> |

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| Rule   | Application                          |
|--|--------------------------------------|
| <p>(b) a client or clients to whose credit any amount stands in that account —</p> <p>(i) shall be entitled to claim (<i>pari passu</i> if more than one) against the money in that account in respect of that amount; but</p> <p>(ii) shall not be entitled to claim against any other client bank account (at that or any other bank) in respect of that amount.</p> <p>(3) Where client money is held in a specified client bank account at a bank other than the bank in default, that money shall not be pooled with client money held in any other client bank account (at that or any other bank).</p> <p>(4) Any previously opened account that was a "designated client bank account" under the Financial Services Rule Book 2008 shall be treated as a specified client bank account.</p>  |                                      |
| <p><b>3.17 Default of a bank — client free money account</b></p> <p>(1) This rule applies where client money held by a licenceholder is insufficient to pay the claims of all clients because a bank in which client money is held is in default.</p> <p>(2) Where client money is held in a client free money account at the bank in default —</p> <p>(a) that money shall only be pooled with client money held in any other client free money account at that or any other bank; and</p> <p>(b) a client or clients to whose credit any amount stands in that account —</p> <p>(i) shall be entitled to claim (<i>pari passu</i> if more than one) against the money in that account in respect of that amount; but</p> <p>(ii) shall not be entitled to claim against any other client bank account (at that or any other bank) in respect of that amount.</p> | <p><i>All Class 2, 3, 4 or 5</i></p> |
| <p><b>3.18 Default of a bank — client settlement account</b></p>   | <p><i>All Class 2, 3, 4 or 5</i></p> |



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| Rule  | Application                          |
|---|--------------------------------------|
| <p>(1) This rule applies where client money held by a licenceholder is insufficient to pay the claims of all clients because a bank in which client money is held is in default.</p> <p>(2) Where client money is held in a client settlement account at the bank in default —</p> <p>(a) that money shall only be pooled with client money held in any other client settlement account at that or any other bank; and</p> <p>(b) a client or clients to whose credit any amount stands in that account —</p> <p>(i) shall be entitled to claim (<i>pari passu</i> if more than one) against the money in that account in respect of that amount; but</p> <p>(ii) shall not be entitled to claim against any other client bank account (at that or any other bank) in respect of that amount.</p>   |                                      |
| <p><b>3.19 Money held in overseas bank accounts</b></p> <p>(1) Where client money held by a licenceholder is insufficient to pay the claims of all clients because a bank outside the Island in which client money is held does not recognise that money in the account is held in accordance with this Part —</p> <p>(a) all client money held in the licenceholder's client bank accounts or nominee bank accounts with that bank shall be pooled and made available to satisfy the claims of clients whose money was held or which should have been held in a client bank account or nominee bank account with that bank; and</p> <p>(b) that client money shall not be treated as pooled with client money held in the licenceholder's client bank account or accounts with any other bank.</p> | <p><i>All Class 2, 3, 4 or 5</i></p> |

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| Rule  | Application                          |
|---|--------------------------------------|
| <p>(2) Where client money held by a licenceholder is insufficient to pay the claims of all clients because a bank outside the Island in which client money is held is in default —</p> <p>(a) all client money held in the licenceholder's client bank accounts or nominee bank accounts outside the Island with that bank shall be pooled and made available to satisfy the claims of clients whose money was held or which should have been held in a client bank account or nominee bank account outside the Island with that bank; and</p> <p>(b) that client money shall not be treated as pooled with clients' money held in other client bank accounts or nominee bank accounts of the licenceholder.</p>  |                                      |
| <p><b>3.20 No withdrawal in case of default</b></p> <p>(1) In the case of default by —</p> <p>(a) a licenceholder; or</p> <p>(b) a bank at which a client bank account or nominee bank account of the licenceholder is held,</p> <p>no money may be withdrawn from any client bank account or nominee bank account of the licenceholder without the consent of the Authority.</p> <p>(2) In the case of default by a bank, paragraph (1) does not apply to withdrawals from —</p> <p>(a) a specified client bank account at another bank; or</p> <p>(b) a client bank account or nominee bank account (other than a specified client bank account), where no such account is held at the bank which is in default.</p> <p>(3) Paragraph (1) does not apply to any step taken by the licenceholder in good faith which it reasonably believes will preserve or enhance the fund of client money available despite the default.</p> | <p><i>All Class 2, 3, 4 or 5</i></p> |

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| Rule   | Application   |
|--|---|
| <p><b>3.21 Displacement of general law</b></p> <p>The duties of a licenceholder under this Part in relation to client money shall take the place of the corresponding duties which would be owed by it as a trustee under the general law, but without prejudice to the remedies available to clients.</p>   | <p><i>All Class 2, 3, 4 or 5</i></p>  |
| <p><b>3.22 Accounts for margined transactions</b></p> <ol style="list-style-type: none"> <li>(1) Rules 3.1 to 3.21 are subject to this rule.</li> <li>(2) Where margined transactions are undertaken, a licenceholder must maintain a specified client bank account or accounts — <ol style="list-style-type: none"> <li>(a) specially created for the purpose of holding margined client money; and</li> <li>(b) segregated from any account holding any other client money.</li> </ol> </li> <li>(3) Subject to paragraph (4), a licenceholder must hold any margined client money in a client bank account referred to in paragraph (2), and no other money may be held in such an account.</li> <li>(4) When a licenceholder undertakes margined transactions with or for a client under the rules of an exchange and in the types of contracts traded on that exchange, the licenceholder may, instead of paying margined client money into a client bank account, pay it to the exchange or an intermediate broker to be credited to the licenceholder's client account with the exchange and to be dealt with in accordance with its rules and regulations.</li> <li>(5) The licenceholder may withdraw money from a client bank account referred to in paragraph (2) where it is properly payable to an exchange, an intermediate broker or the licenceholder's client account with an exchange.</li> <li>(6) A licenceholder must hold in such an account initial margins calculated in accordance with paragraph (7) on each client's positions (not on the overall net position across all clients).</li> </ol> | <p><i>All Class 2 that are stockbrokers or discretionary portfolio managers</i></p> |

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| Rule   | Application |
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| <p>(7) For the purpose of paragraph (6) the initial margin to be held for any client at any time is the total amount which, under the rules of the relevant exchange, the licenceholder or intermediate broker would be required to deposit in cash or approved collateral as a fidelity deposit in respect of all that client's open positions in margined transactions at that time, irrespective of any unrealised profit or loss on such positions.</p> <p>(8) Where —</p> <p>(a) margins required by an exchange or intermediate broker in respect of any one client have not been received from the client; and</p> <p>(b) the licenceholder does not pay the required amount direct to the exchange or broker,</p> <p>the licenceholder must itself pay the required amount into the relevant client bank account.</p> <p>(9) A licenceholder must ensure that, on each business day, <b>A</b> is not less than <b>B</b> where —</p> <p>"<b>A</b>" = the total, as at the close of business on the immediately preceding business day, of —</p> <p>(a) the aggregate of the balances on all the licenceholder's client bank accounts referred to in paragraph (2);</p> <p>(b) the net aggregate of the licenceholder's equity balances with exchanges and with intermediate brokers; and</p> <p>(c) the value of approved collateral deposited with the licenceholder, whether held by it or by an intermediate broker;</p> <p>"<b>B</b>" = the aggregate of the required contributions of all the licenceholder's clients as at the close of business on the immediately preceding business day.</p> <p>(10) In this rule —</p> <p>a client's "<b>equity balance</b>" with a licenceholder at any time is the amount which —</p> |             |

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| Rule   | Application |
|--|-------------|
| <p>(a) the licenceholder would be liable to pay to the client; or</p> <p>(b) the client would be liable to pay to the licenceholder,</p> <p>in respect of the client's margined transactions if each of the open positions were liquidated at the closing or settlement prices, and</p> <p>a licenceholder's "<b>equity balance</b>" with an exchange or with an intermediate broker has a corresponding meaning;</p> <p><b>"margined client money"</b> means client money held or received for the purpose or in the course of a margined transaction;</p> <p><b>"margined transaction"</b> means a transaction effected by a licenceholder with or for a client relating to an option, future or contract for differences under the terms of which the client will or may be liable to make deposits in cash or collateral to ensure the performance of obligations which the client may have to perform when the transaction falls to be completed or upon the earlier closing out of the position;</p> <p><b>"option", "future" and "contract for differences"</b> mean investments falling within paragraphs (g), (h) and (i) respectively of the definition of "investment" in Schedule 2 to the Order;</p> <p>a client's "<b>required contribution</b>" is the greater of —</p> <p>(a) the amount of the client's initial margin at that time, calculated in accordance with paragraph (7); and</p> <p>(b) the aggregate of the client's equity balance at that time and the amount of the value of the approved collateral which the client has provided to the licenceholder.</p> |             |

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| Rule  | Application  |    |  |  |                             |   |  |                                  |  |  |   |   |  |  |  |  |  |    |   |
|---|--|----|--|--|-----------------------------|---|--|----------------------------------|--|--|---|---|--|--|--|--|--|----|---|
| <p><b>3.23 Client money requirement</b></p> <p>The client money requirement is either —</p> <ul style="list-style-type: none"><li>(a) subject to rule 3.27(1), the sum of, for all clients —<ul style="list-style-type: none"><li>(i) the individual client balances calculated in accordance with rule 3.24(1), excluding —<ul style="list-style-type: none"><li>(A) individual client balances which are negative (i.e. debtors); and</li><li>(B) clients' equity balances; and</li></ul></li><li>(ii) the total margined transaction requirement calculated in accordance with rule 3.26(1); or</li></ul></li><li>(b) the sum of —<ul style="list-style-type: none"><li>(i) for each client bank account —<ul style="list-style-type: none"><li>(A) the amount which the licenceholder's records show as held on that account; and</li><li>(B) an amount which offsets each negative net amount which the licenceholder's records show attributed to that account for an individual client; and</li></ul></li></ul></li><li>(c) the total margined transaction requirement calculated in accordance with rule 3.26(1).</li></ul> | <p><i>All Class 2 that are stockbrokers or discretionary portfolio managers</i></p>            |    |  |  |                             |   |  |                                  |  |  |   |   |  |  |  |  |  |    |   |
| <p><b>3.24 General transactions</b></p> <p>(1) The individual client balance for each client should be calculated in accordance with the following table:</p> <table><tr><th colspan="3">Individual client balance calculation</th></tr><tr><td></td><td>Free money (no trades); and</td><td>A</td></tr><tr><td></td><td>Sale proceeds due to the client:</td><td></td></tr><tr><td></td><td>(a) in respect of principal deals when the client has delivered the investments; or</td><td>B</td></tr><tr><td></td><td>(b) in respect of agency deals, when either:</td><td></td></tr><tr><td></td><td>(i) the sale proceeds have been received by the licenceholder and the client has delivered the</td><td>C1</td></tr></table>  | Individual client balance calculation  |    |  |  | Free money (no trades); and | A |  | Sale proceeds due to the client: |  |  | (a) in respect of principal deals when the client has delivered the investments; or | B |  | (b) in respect of agency deals, when either: |  |  | (i) the sale proceeds have been received by the licenceholder and the client has delivered the | C1 | <p><i>All Class 2 that are stockbrokers or discretionary portfolio managers</i></p> |
| Individual client balance calculation   |  |    |  |  |                             |   |  |                                  |  |  |   |   |  |  |  |  |  |    |   |
|   | Free money (no trades); and  | A  |  |  |                             |   |  |                                  |  |  |   |   |  |  |  |  |  |    |   |
|   | Sale proceeds due to the client:   |    |  |  |                             |   |  |                                  |  |  |   |   |  |  |  |  |  |    |   |
|   | (a) in respect of principal deals when the client has delivered the investments; or            | B  |  |  |                             |   |  |                                  |  |  |   |   |  |  |  |  |  |    |   |
|   | (b) in respect of agency deals, when either:   |    |  |  |                             |   |  |                                  |  |  |   |   |  |  |  |  |  |    |   |
|   | (i) the sale proceeds have been received by the licenceholder and the client has delivered the | C1 |  |  |                             |   |  |                                  |  |  |   |   |  |  |  |  |  |    |   |

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| Rule   |  |    | Application |
|--|--|----|-------------|
|  | investments; or  |    |             |
|  | (ii) the licenceholder holds the investments for the client; and   | C2 |             |
|  | The cost of purchases:   |    |             |
|  | (c) in respect of principal deals, paid for by the client but the licenceholder has not delivered the investments to the client; and           | D  |             |
|  | (d) in respect of agency deals, paid for by the client when either:  |    |             |
|  | (i) the licenceholder has not remitted the money to, or to the order of, the counterparty; or  | E1 |             |
|  | (ii) the investments have been received by the licenceholder but have not been delivered to the client;  | E2 |             |
| Less   |  |    |             |
|  | money owed by the client in respect of unpaid purchases by or for the client if delivery of those investments has been made to the client; and | F  |             |
|  | proceeds remitted to the client in respect of sales transactions by or for the client if the client has not delivered the investments.         | G  |             |
| Individual client balance "X" = (A+B+C1+C2+D+E1+E2)-F-G  |  | X  |             |
| (2) A licenceholder should calculate the individual client balance using the contract value of any client purchases or sales.  |  |    |             |
| (3) A licenceholder may choose to segregate investments instead of the value identified in paragraph (1) (except E1) if it ensures that the investments are held in such a manner that the licenceholder cannot use them for its own purposes. |  |    |             |
| (4) Segregation in the context of paragraph (3) can take many forms, including the holding of a safe custody investment in a nominee name and the safekeeping of certificates evidencing title in a fire resistant safe.                       |  |    |             |

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| Rule  | Application   |
|---|---|
| <p>(5) In determining the client money requirement under rule 3.23, a licenceholder need not include money held in accordance with rule 3.27(3) (delivery versus payment transaction).</p> <p>(6) In determining the client money requirement under rule 3.23, a licenceholder —</p> <ul style="list-style-type: none"> <li>(a) should include dividends received and interest earned and allocated;</li> <li>(b) may deduct outstanding fees, calls, rights and interest charges and other amounts owed by the client which are due and payable to the licenceholder;</li> <li>(c) should take into account any client money arising from reconciliation discrepancies; and</li> <li>(d) should include any unallocated client money.</li> </ul> |   |
| <p><b>3.25 Equity balance</b></p> <p>A licenceholder's equity balance is the amount which the licenceholder would be liable to pay in respect of the licenceholder's margined transactions if each of the open positions of the licenceholder's clients was liquidated at the closing or settlement prices published by the relevant exchange or other appropriate pricing source and the licenceholder's account is closed.</p>  | <p><i>All Class 2<br/>that are<br/>stockbrokers or<br/>discretionary<br/>portfolio<br/>managers</i></p> |
| <p><b>3.26 Margined transaction requirement</b></p> <p>(1) The total margined transaction requirement is —</p> <ul style="list-style-type: none"> <li>(a) the sum of each of the clients' equity balances which are positive; less</li> <li>(b) the proportion of any individual negative client equity balance which is secured by appropriate collateral; and</li> <li>(c) the net aggregation of the licenceholder's equity balance (negative balances being deducted from positive balances) on transaction accounts for customers with exchanges and counterparties.</li> </ul>  | <p><i>All Class 2<br/>that are<br/>stockbrokers or<br/>discretionary<br/>portfolio<br/>managers</i></p> |



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| Rule  | Application   |
|---|---|
| <p>(2) To meet a shortfall that has arisen in respect of the requirement in rule 3.23(a)(ii) or (b)(ii), a licenceholder may utilise its own appropriate collateral provided it is held on terms specifying when it is to be realised for the benefit of clients, it is clearly identifiable from the licenceholder's own property and the relevant terms are evidenced in writing by the licenceholder. In addition, the proceeds of the sale of that collateral should be paid into a client bank account.</p> <p>(3) If a licenceholder's total margined transaction requirement is negative, the licenceholder should treat it as zero for the purposes of calculating its client money requirement.</p> <p>(4) The terms "<b>client equity balance</b>" and "<b>licenceholder's equity balance</b>" in rule 3.25 refer to cash values and do not include non-cash collateral or other investments held in respect of a margined transaction.</p>   |   |
| <p><b>3.27 Reduced client money requirement option</b></p> <p>(1) When, in respect of a client —</p> <p>(a) there is a positive individual client balance and a negative client equity balance, a licenceholder may offset the credit against the debit and hence have a reduced individual client balance in rule 3.24(1) for that client;</p> <p>(b) there is a negative individual client balance and a positive client equity balance, a licenceholder may offset the credit against the debit and hence have a reduced individual client equity balance in rule 3.26(1) for that client.</p> <p>(2) The effect of paragraph (1) is to allow a licenceholder to offset, on a client by client basis, a negative amount with a positive amount arising out of the calculations in rules 3.24(1) and 3.26(1), and, by so doing, reduce the amount the licenceholder is required to segregate.</p> <p>(3) Money need not be treated as client money in respect of a delivery versus payment transaction through a commercial settlement system if it is intended that either —</p> | <p><i>All Class 2 that are stockbrokers or discretionary portfolio managers</i></p> |

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| Rule   | Application   |
|--|---|
| <p>(a) in respect of a client's purchase, money from a client will be due to the licenceholder within one business day upon the fulfilment of a delivery obligation; or</p> <p>(b) in respect of a client's sale, money is due to the client within one business day following the client's fulfilment of a delivery obligation, unless the delivery or payment by the licenceholder does not occur by the close of business on the third business day following the date of payment or delivery of the investments by the client.</p> |   |
| <p><b>3.28 Duty to hold money belonging to a client company separately</b></p> <p>A licenceholder must pay client company money into either —</p> <p>(a) a 'client company' bank account; or</p> <p>(b) a client bank account (if circumstances make it impractical to set up a separate account for the client company in question).</p>  | <p><i>All Class 4</i></p>   |
| <p><b>3.29 Accounts for clients' free money and settlement money</b></p> <p>(1) A licenceholder may not operate a client settlement account —</p> <p>(a) without the consent of the Authority; or</p> <p>(b) otherwise than in accordance with such conditions as the Authority may impose.</p> <p>(2) For the avoidance of doubt, a licenceholder may operate a client free money account without the consent of the Authority.</p>   | <p><i>All Class 2 that are stockbrokers or discretionary portfolio managers</i></p> |
| <p><b>3.30 Subscription and redemption accounts</b></p> <p>Where a licenceholder holds money in respect of the sale or redemption of units in a collective investment scheme, the money must be held in a subscription account and/or a redemption account, as the case may be.</p>  | <p><i>All Class 3</i></p>   |
| <p><b>3.31 Duty to hold trust money separately</b></p>   | <p><i>All Class 5</i></p>   |

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| Rule   | Application               |
|--|---------------------------|
| <p>(1) A licenceholder must pay trust money into either —</p> <ul style="list-style-type: none"> <li>(a) a trust bank account; or</li> <li>(b) if circumstances make it impractical to set up a separate account for the trust in question, a client bank account.</li> </ul> <p>(2) Where the licenceholder administers a trust or trusts which has a corporate trustee or private trust company as trustee, the licenceholder must ensure that any trust money of that corporate trustee or private trust company is paid into either —</p> <ul style="list-style-type: none"> <li>(a) a trust bank account in the name of the corporate trustee or private trust company as trustee of the trust in question; or</li> <li>(b) if circumstances make it impractical to set up a separate account for the trust in question, a client bank account of the licenceholder.</li> </ul> <p>(3) Where —</p> <ul style="list-style-type: none"> <li>(a) an employee, director or other officer of the licenceholder; or</li> <li>(b) a group company of the licenceholder,</li> </ul> <p>acts as trustee in accordance with the paragraph 5.2 of the Financial Services (Exemptions) Regulations 2011<sup>4</sup>, the licenceholder must ensure that any trust money is paid into a trust bank account in the name of the trust in question.</p> |                           |
| <p><b>3.32 Operation of trust bank account</b></p> <p>(1) The title of a trust bank account must clearly —</p> <ul style="list-style-type: none"> <li>(a) show that it is held by the trustee in his capacity as trustee; and</li> <li>(b) identify the trust to which it relates.</li> </ul> <p>(2) The operation of all trust bank accounts must be subject to dual signatures.</p>  | <p><i>All Class 5</i></p> |

<sup>4</sup> SD 0885/11

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| Rule  | Application |
|---|-------------|
| <p>(3) The requirement of paragraph (1)(a) can be met by using the term "as trustee of", and should include the word "trust", "foundation", "settlement", "charity" or similar words, abbreviations or language in the account title, to indicate that the account is held on behalf of a trust.</p>  |             |
| <p><b>3.33 Accounting for and use of trust money</b></p> <p>(1) A licenceholder must account properly and promptly for trust money.</p> <p>(2) In particular, the licenceholder must ensure that —</p> <p>(a) trust money and other money do not become intermingled (except in accordance with rule 3.31(1)(b)); and</p> <p>(b) it can at all times be sure how much trust money stands to the credit of each trust.</p> <p>(3) Rules 3.9 to 3.13 apply to trust money paid into a client bank account in accordance with rule 3.31(1)(b) as they apply to client money with the substitution, for references to a client, of references to the trust concerned or to the trustees of that trust, as the case may require.</p> | All Class 5 |
| <p><b>3.34 Reconciliation</b></p> <p>(1) A licenceholder must reconcile the balances of each trust bank account with its records with the following frequency —</p> <p>(a) if the account is a fixed term account of at least one year, at least once a year;</p> <p>(b) at such intervals as the trustee may direct in writing, providing the reconciliation is carried out at least every 12 months; or</p> <p>(c) not more than 25 business days apart, if neither (a) nor (b) apply.</p> <p>(2) For the avoidance of doubt, in respect of (1) —</p> <p>(a) the reconciliation must be between the licenceholders' records and the banks' statements;</p>  | All Class 5 |

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| Rule   | Application                                 |
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| <ul style="list-style-type: none"> <li>(b) the reconciliation must be completed within 20 business days;</li> <li>(c) the reconciliation must be checked promptly by a different individual;</li> <li>(d) the reconciler and checker must evidence their work;</li> <li>(e) any discrepancies discovered must be corrected within 5 business days, unless they result solely from normal timing differences;</li> <li>(f) the Authority must be notified promptly if the reconciliation has not been undertaken as prescribed; and</li> <li>(g) the Authority must be notified within 5 business days of discovering that a reconciliation cannot be corrected.</li> </ul>   |   |
| <p><b>3.35 Interpretation</b></p> <p>In this Rule Book, "<b>relevant funds</b>" comprise the following:</p> <ul style="list-style-type: none"> <li>(1) Subject to paragraph (2) — <ul style="list-style-type: none"> <li>(a) sums received in exchange for electronic money that has been issued;</li> <li>(b) sums received from, or for the benefit of, a payment service user for the execution of a payment transaction; and</li> <li>(c) sums received from a payment service provider for the execution of a payment transaction on behalf of a payment service user.</li> </ul> </li> <li>(2) Where — <ul style="list-style-type: none"> <li>(a) only a portion of the sums referred to in paragraph (1) is to be used for the execution of a payment transaction (with the remainder being used for non-payment services); and</li> <li>(b) the precise portion attributable to the execution of the payment transaction is variable or unknown in advance,</li> </ul> </li> </ul> | <p><i>All Class<br/>8(2)(a) or 8(4)</i></p> |

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| Rule   | Application                                 |
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| <p>the relevant funds are such amount as may be reasonably estimated, on the basis of historical data and to the satisfaction of the Authority, to be representative of the portion attributable to the execution of the payment transaction; and</p> <p>in rules 3.35 to 3.42 —</p> <p><b>"recognised bank"</b> has the same meaning as in rule 3.2 apart from that bank, where used for the relevant funds of a payment institution or issuer of electronic money, may not be a member of the same group as the payment institution or issuer of electronic money.</p>   |   |
| <p><b>3.36 Duty to safeguard relevant funds</b></p> <p>Where the relevant funds in respect of a payment transaction exceed £50, the licenceholder must safeguard such funds in accordance with rule 3.37.</p>  | <p><i>All Class<br/>8(2)(a) or 8(4)</i></p> |
| <p><b>3.37 Segregation of relevant funds from other funds held by the licenceholder</b></p> <p>(1) A licenceholder must keep relevant funds segregated from any other funds that it holds.</p> <p>(2) Where a licenceholder continues to hold the relevant funds at the end of the business day following the day on which they were received it must place them in a segregated account that it holds with a recognised bank.</p> <p>(3) A segregated account in which relevant funds are placed under paragraph (2) must —</p> <p>(a) be named in such a way as to show that it is an account which is held by the licenceholder for the purpose of safeguarding relevant funds in accordance with this rule; and</p> <p>(b) be used only for holding those funds and any monies required to open or maintain the account (<b>"restricted funds"</b>).</p> | <p><i>All Class<br/>8(2)(a) or 8(4)</i></p> |

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| Rule  | Application                                 |
|---|---|
| <p>(4) No person other than the licenceholder may have any interest in or right over the relevant funds placed in a segregated account in accordance with paragraph (2) except as provided by this rule.</p> <p>(5) A licenceholder must keep a record of all relevant funds held in accordance with paragraph (2).</p> <p>(6) A licenceholder must maintain organisational arrangements sufficient to minimise the risk of the loss or diminution of relevant funds through fraud, misuse, negligence or poor administration.</p>  |   |
| <p><b>3.38 Segregated accounts and sums received for the execution of payment transactions</b></p> <p>Any segregated account held by a licenceholder, and any sums received for the execution of payment transactions, must be used only in relation to payment transactions</p>  | <p><i>All Class<br/>8(2)(a) or 8(4)</i></p> |
| <p><b>3.39 Accounting for and use of relevant funds</b></p> <p>(1) A licenceholder must account properly and promptly for relevant funds.</p> <p>(2) In particular, a licenceholder must ensure that —</p> <p>(a) relevant funds and other money do not become intermingled (except in accordance with paragraphs (3) and (4));</p> <p>(b) it can at all times be sure how much money stands to the credit of each payment service user and electronic money holder; and</p> <p>(c) money belonging to one payment service user or electronic money holder is not used for another.</p> <p>(3) Subject to paragraph (2), a licenceholder must not pay money which is not relevant funds, or permit such money to be paid, into a segregated account unless it is required —</p> <p>(a) to open or maintain the account ("<b>restricted funds</b>"); or</p> <p>(b) to restore an amount withdrawn in error from the account.</p> | <p><i>All Class<br/>8(2)(a) or 8(4)</i></p> |

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| Rule  | Application                          |
|---|--------------------------------------|
| <p>(4) If money paid to a licenceholder contains both relevant funds and money which is not relevant funds, the licenceholder must —</p> <ul style="list-style-type: none"> <li>(a) pay the money into a segregated account; and</li> <li>(b) as soon as the funds are cleared and the amount which is not relevant funds is ascertained, withdraw that amount from the account.</li> </ul> <p>(5) The licenceholder must not withdraw money from a segregated account unless —</p> <ul style="list-style-type: none"> <li>(a) it is not relevant funds;</li> <li>(b) it is properly required for payment to or on behalf of a payment service user;</li> <li>(c) it is properly transferred to another bank account holding relevant funds or into a bank account in the payment service user's or electronic money holder's own name; or</li> <li>(d) it is restricted funds.</li> </ul> <p>(6) The licenceholder must not withdraw for its own account any interest earned on a segregated account which is due to a payment service user.</p> <p>(7) The licenceholder must not withdraw money for or towards payment of its own fees or commission unless —</p> <ul style="list-style-type: none"> <li>(a) the withdrawal is in accordance with the terms of a relevant agreement; or</li> <li>(b) the amount is agreed by the payment service user or electronic money holder or finally determined by a court or arbitrator.</li> </ul> <p>(8) The licenceholder must not allow a segregated account holding relevant funds to become overdrawn.</p> <p>(9) The licenceholder must not grant credit from relevant funds.</p> |                                      |
| <b>3.40 Reconciliation</b>  | <i>All Class<br/>8(2)(a) or 8(4)</i> |



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| Rule   | Application                                 |
|--|---|
| <p>(1) A licenceholder must, on a daily basis, reconcile the balance held on each segregated account, as recorded by the licenceholder, with the balance on that account as set out in the statement issued by the bank at which the account is held.</p> <p>(2) A reconciliation under paragraph (1) must be checked by an individual other than the person by whom it was carried out.</p> <p>(3) A licenceholder must keep a record of every reconciliation under paragraph (1) and every check under paragraph (2).</p> <p>(4) A licenceholder must correct any discrepancies discovered on a reconciliation under paragraph (1) within 5 business days unless they arise solely as a result of normal timing differences.</p> <p>(5) A licenceholder must notify the Authority, with details, within 5 business days where —</p> <p>(a) it has not carried out or is not able to carry out the reconciliation required by paragraph (1); or</p> <p>(b) it has completed the reconciliation but —</p> <p>(i) is not able to correct any discrepancy; or</p> <p>(ii) more than 3 months after completion, a discrepancy has not been corrected.</p> |   |
| <p><b>3.41 Operation of segregated account</b></p> <p>The bank at which a segregated account is held must acknowledge to the licenceholder in writing that —</p> <p>(a) it understands that, with the exception of any restricted funds, all money standing to the credit of all segregated accounts maintained by the licenceholder is held by the licenceholder as trustee and that the bank is not entitled to combine the segregated accounts with any other account or to exercise any right of set-off or counterclaim against money in that account in respect of any debt owed to it by the licenceholder;</p>   | <p><i>All Class<br/>8(2)(a) or 8(4)</i></p> |

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| Rule   | Application                                 |
|--|---|
| <p>(b) interest earned on each such account will be credited to the account or to an account of the same type;</p> <p>(c) the title of each such account —</p> <p>(i) is in the form requested by the licenceholder; and</p> <p>(ii) sufficiently distinguishes the account from any other account containing money belonging to the licenceholder,</p> <p>and the licenceholder must supply, or arrange for the bank to supply, the Authority with a copy of the acknowledgement.</p> |   |
| <p><b>3.42 Disclosure</b></p> <p>The licenceholder must notify the payment service user, or e-money holder in writing that any sums received do not constitute deposits as defined in the Order and are not covered by any compensation scheme.</p>  | <p><i>All Class<br/>8(2)(a) or 8(4)</i></p> |

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## PART 4 – CLIENTS' INVESTMENTS

| Rule   | Application  |
|--|--|
| <p><b>4.1 Interpretation of terms in this Part for Class 3 licenceholders</b></p> <p>In relation to collective investment schemes to which a licenceholder provides services —</p> <ul style="list-style-type: none"> <li>(a) references to a client include references to a collective investment scheme, or a participant in such a scheme (but so that each such scheme shall be treated as a separate client);</li> <li>(b) references to a client's investments include investments which are assets of a collective investment scheme, or a participant's unit-holding in such a scheme, as applicable;</li> <li>(c) references to safe-custody services include the custody of assets held on behalf of — <ul style="list-style-type: none"> <li>(i) a collective investment scheme; or</li> <li>(ii) a participant's unit-holding in a such a scheme; and</li> </ul> </li> <li>(d) references to an eligible custodian include — <ul style="list-style-type: none"> <li>(i) a licenceholder licensed to carry on an activity falling within paragraph (3), (4), (5) or (11) of Class 3 in relation to a collective investment scheme type for which it is permitted to act; or</li> <li>(ii) the person described in rule 4.2(1)(b) or 4.2(1)(c).</li> </ul> </li> </ul> | <p><i>Class</i><br/>3(1),3(2), 3(3),<br/>3(4), 3(5),<br/>3(11) or 3(12)</p>        |
| <p><b>4.2 Interpretation</b></p> <p>(1) In this Part —</p> <p><b>"eligible custodian"</b> means (subject to rule 4.1(d)) —</p> <ul style="list-style-type: none"> <li>(a) a licenceholder licensed to carry on safe-custody services;</li> <li>(b) the licenceholder's nominee company; or</li> </ul>  | <p><i>All Class 2,</i><br/>3(1),3(2), 3(3),<br/>3(4), 3(5),<br/>3(11) or 3(12)</p> |

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| Rule   | Application |
|--|-------------|
| <p>(c) a person carrying on business in a country or territory outside the Island —</p> <p>(i) whose business includes the provision of services which, if carried on in the Island, would be safe-custody services; and</p> <p>(ii) who the licenceholder reasonably believes is subject to regulation and supervision in relation to those services by a regulatory body or agency of government in that country;</p> <p><b>"investment"</b> means any of the following (as defined in the Order) —</p> <p>(a) a share;</p> <p>(b) a debenture;</p> <p>(c) a government security;</p> <p>(d) a warrant;</p> <p>(e) a certificate representing securities;</p> <p>(f) a unit in a collective investment scheme, including a share in, or security of, an open-ended investment company; and</p> <p>in relation only to a licenceholder licensed to carry on an activity falling within Class 3, also includes —</p> <p>(g) any asset or liability of a collective investment scheme;</p> <p><b>"registrable investment"</b> means an investment the title to which is entered in a register;</p> <p><b>"safe-custody services"</b> means (subject to rule 4.1(c)) services consisting of regulated activities falling within paragraph (5) of Class 2 (safeguarding and administering investments under a contractual relationship);</p> <p><b>"title document"</b> means —</p> <p>(a) a share certificate or stock certificate; and</p> <p>(b) any other document which is evidence of title to an investment.</p> |             |

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| Rule   | Application   |
|--|---|
| <p>(2) In this Part references to documents in the possession or under the control of a licenceholder include documents which —</p> <p>(a) are in the possession or under the control of the licenceholder's nominee company; or</p> <p>(b) at the request of the licenceholder are in the possession or under the control of any other eligible custodian.</p> <p>(3) In this Part a reference to a licenceholder's nominee company is to a wholly-owned subsidiary of the licenceholder which —</p> <p>(a) carries on no business other than —</p> <p>(i) providing safe-custody services; and/or</p> <p>(ii) operating a nominee bank account; and</p> <p>(b) acts only in accordance with the directions or instructions of the licenceholder.</p>   |   |
| <p><b>4.3 Records of transactions</b></p> <p>(1) A licenceholder must maintain records containing entries of all purchases and sales of, and other transactions relating to, an investment which the licenceholder undertakes on behalf of a client, including —</p> <p>(a) the nature, price and amount of the investment;</p> <p>(b) the identity of the client;</p> <p>(c) the nature of the transaction;</p> <p>(d) the time and date of the transaction;</p> <p>(e) the identity of any intermediary who handled the transaction; and</p> <p>(f) the name of any custodian.</p> <p>(2) The records referred to in paragraph (1) must enable investments to which they relate to be traced into and out of brokerage accounts.</p> <p>(3) A licenceholder must preserve any records referred to in this rule for at least 6 years.</p> | <p><i>All Class 2, 3(1), 3(2), 3(3), 3(4), 3(5), 3(11) or 3(12)</i></p> |

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| Rule   | Application  |
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| <p><b>4.4 Records of safe-custody investments</b></p> <p>(1) A licenceholder must maintain such records as are necessary to identify –</p> <ul style="list-style-type: none"> <li>(a) every investment in relation to which it provides safe-custody services;</li> <li>(b) the client to whom that investment belongs;</li> <li>(c) where the title to the investment is in documentary form, the location of every title document relating to the investment;</li> <li>(d) where the title to the investment is in electronic form, the form and location of any record of the title; and</li> <li>(e) where the investment is a registrable investment, the registrar and the person in whose name it is registered.</li> </ul> <p>(2) Where an investment referred to in paragraph (1)(a), or a title document relating to such an investment, is held for the licenceholder by an eligible custodian, the licenceholder must –</p> <ul style="list-style-type: none"> <li>(a) maintain such records as are necessary to enable it to ascertain which custodian is holding the investment or document; and</li> <li>(b) ensure that the custodian maintains the records referred to in paragraph (1) in relation to the investment or document.</li> </ul> <p>(3) A licenceholder must preserve any records referred to in this rule for at least 6 years.</p> | <p><i>All Class 2, 3(1),3(2), 3(3), 3(4), 3(5), 3(11) or 3(12)</i></p> |
| <p><b>4.5 Use of custodians</b></p> <p>(1) A licenceholder must not –</p> <ul style="list-style-type: none"> <li>(a) recommend to a client that a person other than the licenceholder undertake safe-custody services for the client; or</li> <li>(b) procure the client's agreement to such a person so acting,</li> </ul>  | <p><i>All Class 2, 3(1),3(2), 3(3), 3(4), 3(5), 3(11) or 3(12)</i></p> |

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| Rule   | Application |
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| <p>unless that person is an eligible custodian.</p> <p>(2) Where a licenceholder arranges for any safe-custody services to be provided by the licenceholder's nominee company, the licenceholder must ensure that the nominee company complies with rules 4.6 to 4.13.</p> <p>(3) Where a licenceholder arranges for any safe-custody services to be provided by an eligible custodian other than the licenceholder's nominee company, the licenceholder must comply with paragraphs (4) and (5).</p> <p>(4) The licenceholder must —</p> <p>(a) exercise reasonable skill, care and diligence in the selection of the custodian; and</p> <p>(b) must, so long as the arrangement is in force, satisfy itself that the custodian continues to be suitable (including obtaining confirmation that it continues to be an eligible custodian).</p> <p>(5) The licenceholder must also ensure that the custodian has acknowledged in writing to the licenceholder that —</p> <p>(a) it will not have or claim any right to sell or pledge the client's investment or any lien or right of retention over any title document relating to it;</p> <p>(b) it will not part with possession of any such title document otherwise than to the licenceholder or on the licenceholder's instructions;</p> <p>(c) it will hold any such document so that it is readily apparent that the investment to which it relates does not belong to the custodian, the licenceholder or an associate of the licenceholder or custodian;</p> <p>(d) it will, not less than once every 6 months and at other times on the request of the licenceholder, prepare and deliver to the licenceholder a statement, made up as at a date specified by the licenceholder (being a date not earlier than 4 weeks before the statement is delivered), specifying in relation to each description of investment —</p> |             |

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| Rule  | Application  |
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| <ul style="list-style-type: none"> <li>(i) the investments held by the custodian for the licenceholder;</li> <li>(ii) the title documents relating to those investments which are held by the custodian; and</li> <li>(iii) in the case of registrable investments, the amount so held in each different name or designation; and</li> <li>(e) it will not arrange for any safe-custody services to be provided on its behalf by any person other than an eligible custodian.</li> </ul>  |  |
| <p><b>4.6 Registrable investments</b></p> <ul style="list-style-type: none"> <li>(1) Where a licenceholder provides safe-custody services relating to a registrable investment of a client, it must arrange that the investment is registered — <ul style="list-style-type: none"> <li>(a) in the name of the client; or</li> <li>(b) with the consent of the client, in the name of an eligible custodian.</li> </ul> </li> <li>(2) Where the licenceholder's own investment and a client's investment are registered in the same name, the licenceholder must — <ul style="list-style-type: none"> <li>(a) ensure that the client's investment is registered in a designated account different from the account in which the licenceholder's investment is registered; and</li> <li>(b) where appropriate, hold separate certificates evidencing the title to the licenceholder's own investment and the title to the client's investment.</li> </ul> </li> </ul> | <p><i>All Class 2, 3(1),3(2), 3(3), 3(4), 3(5), 3(11) or 3(12)</i></p> |
| <p><b>4.7 Reconciliation of investments and title documents</b></p> <ul style="list-style-type: none"> <li>(1) Subject to the minimum requirements in paragraph (3), a licenceholder which provides safe-custody services in relation to a client's investments must determine the frequency of custody reconciliations. The frequency of custody reconciliations must reflect the licenceholder's assessment of the risks to which the safe custody assets</li> </ul>  | <p><i>All Class 2, 3(1),3(2), 3(3), 3(4), 3(5), 3(11) or 3(12)</i></p> |



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| Rule   | Application |
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| <p>are exposed, such as the nature, volume and complexity of the business.</p> <p>(2) The assessment of the frequency of custody reconciliations referred to in paragraph (1) must be reviewed annually and the licenceholder must maintain evidence of such review.</p> <p>(3) The minimum requirements for the frequency of custody reconciliations of a client's investments are —</p> <p>(a) where title to the investment is in electronic form and the third party records can be obtained electronically, the custody reconciliations should be as often as necessary but no less than every 25 business days;</p> <p>(b) where the investment is a registrable investment and third party records cannot be obtained electronically, the custody reconciliations should be as often as necessary but at least every 3 months or at a frequency agreed with the Authority; and</p> <p>(c) where title to the investment is in documentary form, the custody reconciliations should be as often as necessary but at least every 6 months.</p> <p>(4) The custody reconciliations referred to in paragraph (3) must comprise the following steps in respect of the client's investments —</p> <p>(a) the physical counting and inspection of all title documents relating to the investments which are in the possession, or under the control, of the licenceholder, or a check of the electronic records referred to in rule 4.4(1)(d) and relating to the investments, as the case may require;</p> <p>(b) a check of all records maintained by the licenceholder under rule 4.4 against those title documents or electronic records;</p> <p>(c) obtaining a written statement (in the form specified in rule 4.5(5)(d)) from any custodian other than the licenceholder's nominee company</p> |             |

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| Rule   | Application |
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| <p>of the investments held by it on behalf of the licenceholder; and</p> <p>(d) prompt correction of any discrepancies that are revealed.</p> <p>(5) A licenceholder must carry out the custody reconciliations required by paragraph (3)(b) and 3(c) within 25 business days of the date at which the count or check was carried out, or within such other period as agreed with the Authority.</p> <p>(6) In carrying out the custody reconciliation the licenceholder must —</p> <p>(a) in every case, reconcile the results with its own records in respect of each client;</p> <p>(b) in the case of a registrable investment, reconcile any discrepancy revealed by (a) above with the records of the registrar of the investment; and</p> <p>(c) in the case of documents held by a custodian other than the licenceholder's nominee company, reconcile the statement received with the licenceholder's own records in respect of each client.</p> <p>(7) The licenceholder must —</p> <p>(a) ensure that the counting and reconciliation of title documents required by this rule are —</p> <p>(i) carried out, or observed and reviewed, by persons who are not responsible for the origination or maintenance of the licenceholder's records;</p> <p>(ii) supervised by a responsible officer; and</p> <p>(b) retain for at least 6 years all working papers which have been created to assist in the custody reconciliation.</p> <p>(8) The licenceholder must notify the Authority within 5 business days, with details, where —</p> |             |

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| Rule  | Application   |
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| <ul style="list-style-type: none"> <li>(a) it has not carried out or is not able to carry out the custody reconciliations required by paragraph (1); or</li> <li>(b) it has completed the custody reconciliations but — <ul style="list-style-type: none"> <li>(i) is not able to correct any discrepancy; or</li> <li>(ii) more than 3 months after completion, a discrepancy has not been corrected.</li> </ul> </li> </ul>   |   |
| <p><b>4.8 Periodic statements</b></p> <ul style="list-style-type: none"> <li>(1) Unless expressly instructed to the contrary in writing by the client, a licenceholder must, every 6 months or, if the client's holding is unchanged, every year, provide to each client for whom it provides safe-custody services a statement of the investments to which those services relate.</li> <li>(2) A statement under paragraph (1) must be provided to the client within 6 weeks of the date as at which it is made.</li> <li>(3) Where the licenceholder provides safe-custody services in respect of that client's investments and also manages that client's investments, the statement must also distinguish between — <ul style="list-style-type: none"> <li>(a) investments in respect of which it provides safe-custody services and which it manages; and</li> <li>(b) investments in respect of which it provides safe-custody services but which it does not manage.</li> </ul> </li> <li>(4) The references in paragraph (3) to managing investments are to carrying on an activity falling within paragraph (4) of Class 2 in relation to those investments.</li> <li>(5) The licenceholder must immediately notify the Authority, with details, where it has not provided or is not able to provide a statement to a client within the time required by paragraph (2).</li> </ul> | <p><i>All Class 2, 3(1), 3(2), 3(3), 3(4), 3(5), 3(11) or 3(12)</i></p> |
| <p><b>4.9 Borrowing from a client</b></p>   | <p><i>All Class 2, 3(1), 3(2), 3(3),</i></p>                            |

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| Rule  | Application   |
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| A licenceholder must not borrow, or permit any director or employee or a relative or associate of a director or employee of the licenceholder to borrow, any investment from a client.  | 3(4), 3(5),<br>3(11) or 3(12)                                     |
| <p><b>4.10 Loans of investments</b></p> <p>(1) A licenceholder must not lend a client's investment, nor any title document relating to a client's investment, to any person unless —</p> <p>(a) the Authority has given its prior written consent to the lending of clients' investments by the licenceholder;</p> <p>(b) the client —</p> <p>(i) has been made aware of any effect of the transaction on his interests;</p> <p>(ii) has been recommended to seek advice on his rights in relation to the investment and his tax position; and</p> <p>(iii) has expressly agreed in writing to the loan;</p> <p>(c) the terms of the loan are set out in —</p> <p>(i) a written agreement between the licenceholder and the client; and</p> <p>(ii) a written agreement between the licenceholder and the borrower; and</p> <p>(d) the loan is authorised in writing by a key person approved for the purpose by the directors of the licenceholder.</p> <p>(2) Where a licenceholder lends such an investment or document to any person, it must maintain a record stating —</p> <p>(a) a description (including the amount and value) of the investment;</p> <p>(b) the nature of the transaction or other purpose for which the loan is made;</p> <p>(c) the remuneration (if any) payable to the licenceholder in respect of the transaction;</p> | All Class 2,<br>3(1),3(2), 3(3),<br>3(4), 3(5),<br>3(11) or 3(12) |

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| Rule  | Application   |
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| <ul style="list-style-type: none"> <li>(d) the remuneration payable to the client in respect of the transaction;</li> <li>(e) the identity of the borrower;</li> <li>(f) the nature and value of any security provided by the borrower; and</li> <li>(g) in the case of a title document — <ul style="list-style-type: none"> <li>(i) a description of the document;</li> <li>(ii) the date when the document left the possession or control of the licenceholder;</li> <li>(iii) whether the borrower confirmed receipt of the document; and</li> <li>(iv) the date when it came back into the possession or control of the licenceholder.</li> </ul> </li> <li>(3) While any loan is outstanding, the licenceholder must keep under review — <ul style="list-style-type: none"> <li>(a) the level of exposure of the parties to the transaction;</li> <li>(b) the risk of default by the borrower;</li> <li>(c) the value of any security referred to in paragraph (2)(f); and</li> <li>(d) any effect of the transaction on the interests of the client (in particular the matters referred to in paragraph (1)(b)(i)).</li> </ul> </li> </ul> |   |
| <p><b>4.11 Investments etc. held as collateral</b></p> <ul style="list-style-type: none"> <li>(1) For the purpose of this rule a licenceholder holds a client's investment, or a title document relating to a client's investment, as collateral if, with the written consent of the client, it is held as security for money which is due or may become due to the licenceholder from the client or any other person.</li> <li>(2) Where a licenceholder holds a client's investments, or title documents relating to a client's investments, some (but not all) of which are held as collateral, the investments or documents which are held as collateral</li> </ul>   | <p><i>All Class 2, 3(1), 3(2), 3(3), 3(4), 3(5), 3(11) or 3(12)</i></p> |

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| Rule   | Application  |
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| <p>must be identified in the licenceholder's records as so held and distinguished from those which are not so held.</p> <p>(3) The licenceholder must not, without the prior written consent of the client, return to the client an investment or title document other than the original investment or title document held as collateral; but this paragraph does not preclude the licenceholder returning the collateral in the form of cash if the investment matures.</p> <p>(4) The licenceholder must not, without the prior written consent of the client, use an investment or title document held as collateral for the purpose of security for —</p> <p>(a) the licenceholder's own obligations; or</p> <p>(b) the obligations of another customer or person.</p>   |  |
| <p><b>4.12 Safekeeping of clients' title documents</b></p> <p>(1) Where a title document relating to a client's investment is in the possession or under the control of a licenceholder, it must —</p> <p>(a) maintain a record of the location of the document;</p> <p>(b) take all proper steps to preserve the document, taking no less care of it than it ought to take if the document related to its own investment; and</p> <p>(c) continue to comply with sub-paragraphs (a) and (b) until the document is delivered to the client or, on the instruction of the client, to another person (other than the licenceholder's nominee company).</p> <p>(2) In particular —</p> <p>(a) the licenceholder must not part with possession of the document to any person other than the client except —</p> <p>(i) on the client's instructions;</p> <p>(ii) in accordance with the terms of any written agreement with the client; or</p> | <p><i>All Class 2, 3(1),3(2), 3(3), 3(4), 3(5), 3(11) or 3(12)</i></p> |

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| Rule  | Application   |
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| <ul style="list-style-type: none"> <li>(iii) pursuant to a requirement of a court of competent jurisdiction or other lawful demand;</li> <li>(b) the document shall be held so that it is readily apparent that the investment to which it relates does not belong to the licenceholder or to an associate of the licenceholder;</li> <li>(c) the document must be segregated from title documents relating to investments of persons other than the client;</li> <li>(d) a bearer document must be kept in locked custody with 2 or more keys or combination locks (or both) required to enter any particular stronghold, each key or combination to be held or controlled by a separate individual; and</li> <li>(e) the licenceholder must maintain a system of internal control over access to the document.</li> </ul> |   |
| <p><b>4.13 Safekeeping by other persons</b></p> <ul style="list-style-type: none"> <li>(1) A licenceholder may not, without the consent in writing of the client, arrange for a title document relating to a client's investment to be kept by a person other than the licenceholder.</li> <li>(2) Where a licenceholder arranges for a title document relating to a client's investment to be kept by a person other than the licenceholder, the licenceholder must ensure that that person complies with the requirements of rule 4.12 as though — <ul style="list-style-type: none"> <li>(a) those rules applied to that person; and</li> <li>(b) the references to the licenceholder were references to that person.</li> </ul> </li> </ul>   | <p><i>All Class 2, 3(1), 3(2), 3(3), 3(4), 3(5), 3(11) or 3(12)</i></p> |

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## PART 5 – AUDIT

| Rule   | Application  |
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| <p><b>5.1 Definition of auditor</b></p> <p>In this Rule Book, "<b>auditor</b>" includes an accountant appointed by a licenceholder where the licenceholder –</p> <ul style="list-style-type: none"> <li>(a) controls clients' assets; and</li> <li>(b) has been excepted from the requirement to be audited by the Authority.</li> </ul>   | <p><i>All Classes incorporated in the Island</i></p> |
| <p><b>5.2 Appointment of auditor</b></p> <ul style="list-style-type: none"> <li>(1) A licenceholder must have at all times an auditor that is qualified, and is not ineligible, to act as such.</li> <li>(2) For the purpose of this rule, a person is qualified to act as an auditor of a licenceholder if it – <ul style="list-style-type: none"> <li>(a) is a member of, and holds a current practising certificate issued by, one or more of the following bodies – <ul style="list-style-type: none"> <li>(i) the Institute of Chartered Accountants in England and Wales;</li> <li>(ii) the Institute of Chartered Accountants of Scotland;</li> <li>(iii) the Institute of Chartered Accountants in Ireland; or</li> <li>(iv) the Association of Chartered Certified Accountants;</li> </ul> </li> <li>(b) has a permanent place of business on the Island;</li> <li>(c) is covered by an appropriate level of professional indemnity insurance suitable to the work carried on in relation to the licenceholder; and</li> <li>(d) in the case of a licenceholder which is a company, it is not disqualified for appointment as auditor of the licenceholder by section 14D of the Companies Act 1982.</li> </ul> </li> </ul> | <p><i>All Classes incorporated in the Island</i></p> |



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| Rule   | Application |
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| <p>For the purposes of sub-paragraph (c) above, if the licenceholder is incorporated under the Companies Act 2006 and the auditor has capped liability, the liability must not be capped below the appropriate level.</p> <p>(3) For the purpose of this rule, a person is ineligible to act as an auditor of a licenceholder if —</p> <p>(a) in the case of an individual, he is —</p> <p>(i) a director, controller, officer, tied agent or employee of the licenceholder;</p> <p>(ii) a partner of, or in the employment of, any person falling within (i) above;</p> <p>(iii) a close relative of any person falling within (i) above;</p> <p>(iv) not treated as independent of the licenceholder under any code of ethics issued from time to time by the body of accountants of which he is a member; or</p> <p>(v) declared by the Authority to be ineligible to act as an auditor of the licenceholder, or of any description of licenceholders which includes the licenceholder or of licenceholders generally;</p> <p>(b) in the case of a firm —</p> <p>(i) it is declared by the Authority to be ineligible to act as an auditor of the licenceholder or, of any description of licenceholders which includes the licenceholder or of licenceholders generally; or</p> <p>(ii) the principal directly responsible in the firm for the audit of the licenceholder or for reviewing and signing off the Clients' Assets Report falls within sub-paragraph (a)(i), (ii), (iii), (iv) or (v).</p> <p>(4) For the purpose of paragraph (3) —</p> |             |

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| Rule   | Application  |
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| <ul style="list-style-type: none"> <li>(a) an individual is not to be treated as an officer or employee of a licenceholder by reason only of being auditor of that licenceholder;</li> <li>(b) "<b>close relative</b>", in relation to an individual, means a spouse, parent, step-parent, brother, sister, half-brother, half-sister, child or step-child, or a person, whether or not of the opposite sex, living with the individual in a relationship similar to that of husband and wife.</li> </ul>  |  |
| <p><b>5.3 Suitability of auditor</b></p> <ul style="list-style-type: none"> <li>(1) Before appointing a person as its auditor, a licenceholder must ensure that that person is qualified, and is not ineligible, to act as such.</li> <li>(2) A licenceholder must on request provide the Authority with evidence of the resources, knowledge, experience and competence of — <ul style="list-style-type: none"> <li>(a) its auditor; or</li> <li>(b) any person whom it intends to appoint as its auditor.</li> </ul> </li> <li>(3) If the Authority reasonably believes that a person — <ul style="list-style-type: none"> <li>(a) does not have sufficient resources, knowledge, experience or competence to perform the duties of the auditor of the licenceholder under this Part;</li> <li>(b) is otherwise incapable of performing those duties; or</li> <li>(c) is otherwise unsuitable to be the auditor of the licenceholder,</li> </ul> the Authority may declare that that person is ineligible to act as auditor of the licenceholder.</li> </ul> | <p><i>All Classes incorporated in the Island</i></p> |
| <p><b>5.4 Requirements for auditors</b></p> <ul style="list-style-type: none"> <li>(1) Where the same firm carries out the internal and external audits of a licenceholder, different partners or directors must be responsible for these audits.</li> <li>(2) In this rule —</li> </ul>   | <p><i>All Classes incorporated in the Island</i></p> |

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| Rule  | Application  |
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| <p><b>"external audit"</b> means any audit of the licenceholder for the purpose of this Part, Part I of the Companies Act 1982 or any other statutory provision;</p> <p><b>"internal audit"</b> means any audit of the licenceholder carried out by it or at its request, except an external audit.</p>   |  |
| <p><b>5.5 Engagement letter</b></p> <p>(1) Before the commencement of the appointment of an auditor, a licenceholder must obtain from the auditor an engagement letter —</p> <p>(a) containing an undertaking by the auditor to provide the licenceholder and the Authority with the reports and letters required by this Part;</p> <p>(b) defining clearly the extent of the rights and duties of the auditor; and</p> <p>(c) signed and accepted in writing by or on behalf of both the licenceholder and the auditor.</p> <p>(2) For the purpose of this Part a licenceholder is not to be treated as having an auditor unless an engagement letter complying with paragraph (1) has been obtained and is still in force.</p> <p>(3) A licenceholder must provide a copy of the engagement letter to the Authority on request.</p> | <p><i>All Classes incorporated in the Island</i></p> |
| <p><b>5.6 Audit of annual financial statements</b></p> <p>(1) A licenceholder must require that its annual financial statements are audited by its auditor in accordance with —</p> <p>(a) the International Standards on Auditing issued from time to time by the International Auditing Practices Committee; or</p> <p>(b) the International Standards on Auditing (UK and Ireland) issued from time to time by the Auditing Standards Board in the United Kingdom.</p>   | <p><i>All Classes incorporated in the Island</i></p> |

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| Rule   | Application  |
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| (2) The licenceholder must submit its audited annual financial statements to the Authority not later than 4 months after its annual reporting date.  |  |
| <p><b>5.7 Notification</b></p> <p>(1) A licenceholder must notify the Authority immediately on —</p> <ul style="list-style-type: none"> <li>(a) the appointment of an auditor; and</li> <li>(b) the removal or resignation of an auditor, and the reasons for it.</li> </ul> <p>(2) Where an auditor resigns or is removed by the licenceholder or is not reappointed at the end of its term in office, the licenceholder must provide to the Authority or arrange for the provision of a statement signed by the auditor stating either —</p> <ul style="list-style-type: none"> <li>(a) that there are no circumstances connected with its ceasing to hold office which the auditor considers should be brought to the attention of the Authority; or</li> <li>(b) the circumstances connected with its ceasing to hold office which are required to be reported to the Authority under section 17 of the Act.</li> </ul> <p>(3) A licenceholder must notify the Authority immediately where —</p> <ul style="list-style-type: none"> <li>(a) its auditor has qualified its report or has included an emphasis of matter paragraph in relation to the annual financial statements of the licenceholder; or</li> <li>(b) it has reason to believe that its auditor is likely to qualify or include an emphasis of matter paragraph in relation to that report.</li> </ul> | <p><i>All Classes incorporated in the Island</i></p> |
| <p><b>5.8 Management letter — Isle of Man incorporated</b></p> <p>(1) A licenceholder must —</p> <ul style="list-style-type: none"> <li>(a) provide the Authority with a copy of any management letter (or equivalent) which —</li> </ul>  | <p><i>All Classes incorporated in the Island</i></p> |

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| Rule  | Application  |
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| <ul style="list-style-type: none"> <li>(i) the licenceholder receives from its auditor in respect of the audit of its annual financial statement; and</li> <li>(ii) contains any recommendations to the licenceholder to remedy any weakness in its systems and internal controls; and</li> <li>(b) inform the Authority whether the licenceholder has implemented or is implementing those recommendations, and if not, its reasons for not doing so.</li> <li>(2) Where the licenceholder receives no management letter (or equivalent) from its auditor, it must provide the Authority with a copy of an auditor's letter confirming that no such management letter (or equivalent) has been or will be issued.</li> <li>(3) The licenceholder must comply with the requirements of paragraphs (1) and (2) not later than 4 months after its annual reporting date.</li> </ul> |  |
| <p><b>5.9 Rights of auditor</b></p> <ul style="list-style-type: none"> <li>(1) A licenceholder must afford its auditor — <ul style="list-style-type: none"> <li>(a) the right of access at all times to its accounting and any other records relevant to the auditor's duties; and</li> <li>(b) the right to obtain from the officers, controllers and managers of the licenceholder such information and explanations as the auditor may consider necessary in the performance of its duties.</li> </ul> </li> <li>(2) A licenceholder must permit and require its auditor to provide to the Authority such information and opinions as the Authority requests, being information or opinions relevant to the functions of the Authority.</li> </ul>   | <p><i>All Classes incorporated in the Island</i></p> |
| <p><b>5.10 Contents of audit reports</b></p>  | <p><i>All Classes incorporated in the Island</i></p> |

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| Rule   | Application   |
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| <p>(1) The auditor's report on the annual financial statements of a licenceholder must report by exception on any failure to keep proper accounting records during the financial year to which the statements relate.</p> <p>(2) Where the licenceholder is part of a group subject to a group audit, the auditor's report must be signed by the Isle of Man office of the auditor.</p>  |   |
| <p><b>5.11 Meaning of "auditor" for purposes of section 17 of Act</b></p> <p>The auditor of a permitted person for the purpose of section 17 of the Act (reports to Authority) is —</p> <p>(a) in the case of a licenceholder, any person appointed as its auditor in accordance with rules 5.1 to 5.11;</p> <p>(b) in any other case, any person by whom the accounts of or relating to the permitted person are audited (whether for the purposes of the Companies Act 1982 or otherwise); and</p> <p>(c) in any case, any accountant (not being an employee of the permitted person) who is in any way concerned in the keeping of the accounting records, or the preparation or audit of the accounts, of or relating to the permitted person.</p> | <p><i>All Classes incorporated in the Island</i></p>  |
| <p><b>5.12 Appointment of auditors — non-Isle of Man incorporated</b></p> <p>(1) A licenceholder must have at all times an auditor that is qualified, and is not ineligible, to act as such.</p> <p>(2) For the purpose of this rule, a person is qualified, and is not ineligible, to act as an auditor of a licenceholder if, and only if, it complies with whichever of the following conditions is applicable —</p> <p>(a) where the licenceholder is required to have an auditor by the law of the country or territory in which it is incorporated, it is qualified under that law to act as an auditor of the licenceholder; or</p>   | <p><i>All Classes incorporated outside the Island, except Class 8(1), 8(2)(b) or 8(3)</i></p> |

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| Rule  | Application   |
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| <p>(b) where the licenceholder is not required to have an auditor by that law, it is qualified, and is not ineligible, under rule 5.2 (except paragraph (2)(c)) to act as an auditor of a licenceholder incorporated in the Island.</p> <p>(3) A licenceholder must notify the Authority forthwith of —</p> <p>(a) the appointment of an auditor; and</p> <p>(b) the removal or resignation of an auditor, and the reasons for it.</p> <p>(4) Where the licenceholder is not required to have an auditor by the law of the country or territory in which it is incorporated, rules 5.4, 5.5, 5.7, 5.9 and 5.10 apply as if the licenceholder were incorporated in the Island.</p>   |   |
| <p><b>5.13 Management letter — non-Isle of Man incorporated</b></p> <p>(1) A licenceholder must —</p> <p>(a) provide the Authority with a copy of any management letter (or equivalent) which, in respect of operations in the Isle of Man —</p> <p>(i) the licenceholder receives from its auditor in respect of the audit of any of its annual financial statements; and</p> <p>(ii) contains any recommendations to the licenceholder to remedy any weakness in its systems and internal controls; and</p> <p>(b) inform the Authority whether the licenceholder has implemented or is implementing those recommendations, and if not, its reasons for not doing so.</p> <p>(2) Where the licenceholder receives no such management letter (or equivalent) from its auditor, it must provide the Authority with a copy of the auditor's letter confirming that no such management letter (or equivalent) has been or will be issued.</p> | <p><i>All Classes incorporated outside the Island, except Class 8(1), 8(2)(b) or 8(3)</i></p> |

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| Rule   | Application                            |
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| (3) The licenceholder must comply with the requirements of paragraphs (1) and (2) not later than 4 months after its annual reporting date.   |  |
| <p><b>5.14 Auditor's letter regarding returns — Class 1</b></p> <p>(1) In connection with the audit of a licenceholder's annual financial statements, the licenceholder must ensure that the auditor —</p> <p>(a) verifies one quarter's set of deposit taking returns, as submitted to the Authority during that period in accordance with rule 2.20 or 2.23, against the licenceholder's accounting records; and</p> <p>(b) details its findings in writing to the licenceholder.</p> <p>(2) The set of returns selected for the purpose of paragraph (1) must not be for a quarter the end of which coincides with the licenceholder's annual reporting date.</p> <p>(3) The licenceholder must provide the Authority with a copy of the auditor's letter under paragraph (1)(b).</p> <p>(4) Where the auditor's letter under paragraph (1)(b) identifies exceptions, the licenceholder must provide the Authority with its written comments on the exceptions when it submits the auditor's letter to the Authority.</p> <p>(5) The licenceholder must comply with the requirements of paragraphs (3) and (4) not later than 4 months after its annual reporting date.</p> | All Class 1                            |
| <p><b>5.15 Auditor's letter — additional requirements for Class 1</b></p> <p>(1) In addition to the information required by paragraph 1(b) of rule 5.14 and in connection with the audit of a licenceholder's annual financial statements for any accounting period, the licenceholder must provide the Authority with a letter from its auditor confirming that to the best of the auditor's knowledge and belief it has in that period complied with —</p> <p>(a) rule 2.12 (accounting records);</p> <p>(b) rule 2.18 (charges); and</p>  | All Class 1 incorporated in the Island |



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| Rule  | Application  |
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| <p>(c) rule 2.19 (capital resources).</p> <p>(2) The licenceholder must comply with the requirements of paragraph (1) not later than 4 months after the end of the period in question.</p>  |  |
| <p><b>5.16 Auditor's letter</b></p> <p>(1) The licenceholder must provide the Authority with a letter from its auditor which must —</p> <p>(a) be addressed to the Authority;</p> <p>(b) state whether in the auditor's opinion any general or specific requirements of Part 2 applicable to the annual financial statements have been complied with; and</p> <p>(c) where the licenceholder does not hold clients' assets (and therefore rule 5.18 – Clients' Assets Report does not apply), the letter must also include a statement to this effect.</p> <p>(2) The licenceholder must comply with the requirements of paragraph (1) not later than 4 months after the end of the period in question.</p> | <p><i>All Class 2, 3, 4, 5, 8(2)(a) or 8(4)</i></p>  |
| <p><b>5.17 Auditor's letter — additional requirements</b></p> <p>(1) In addition to the information required by rule 5.16, the licenceholder must provide the Authority with a letter from its auditor confirming that, in the auditor's opinion —</p> <p>(a) the reconciliation, where required by rule 2.32(c), has been prepared in accordance with that rule; and</p> <p>(b) the licenceholder's financial resources have been properly calculated in accordance with rule 2.30.</p> <p>(2) In accordance with rule 2.32(c), if no reconciliation was required, the licenceholder must provide the Authority with the auditor's statement confirming this.</p>  | <p><i>All Class 2, 3, 4, 5, 8(2)(a) or 8(4) incorporated in the Island, except those that are also Class 1</i></p> |

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| Rule   | Application  |
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| <p><b>5.18 Clients' Assets Report</b></p> <p>(1) Where the licenceholder controls clients' assets, when required by Authority (which will be annually or at a lesser frequency as specified), the licenceholder must arrange for its auditor to –</p> <p>(a) review the Clients' Assets Report prepared by the licenceholder in accordance with rule 8.23; and</p> <p>(b) complete the relevant section of the Clients' Assets Report and provide the Authority with a copy of the full report.</p> <p>(2) The licenceholder must comply with the requirements of paragraph (1) within 6 months of the licenceholder's annual reporting date. For the avoidance of doubt, this rule applies for financial years ending on or after 1 January 2017.</p> | <p><i>All Class 2, 3, 4, 5, 8(2)(a) or 8(4) where the licenceholder controls clients' assets</i></p> |

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## PART 6 – CONDUCT OF BUSINESS

| Rule   | Application  |
|--|--|
| <p><b>6.1 Skill, care and diligence</b></p> <p>A licenceholder must act with due skill, care and diligence in carrying on regulated activities.</p>  | <p><i>All Classes</i></p>                                    |
| <p><b>6.2 Responsible behaviour in dealings</b></p> <p>A licenceholder must have procedures for ensuring that any regulated activity is carried on –</p> <ul style="list-style-type: none"> <li>(a) openly and fairly;</li> <li>(b) in compliance with any applicable legislation relating to that activity in the country or territory in which it is carried on;</li> <li>(c) so far as possible, in a way that avoids any conflict of interest; and</li> <li>(d) with disclosure of any unavoidable conflict of interest to any client concerned. This applies whether any such conflict relates to the licenceholder, its officers or employees.</li> </ul>  | <p><i>All Classes</i></p>                                    |
| <p><b>6.3 Ensuring fair and reasonable behaviour</b></p> <ul style="list-style-type: none"> <li>(1) A licenceholder must have procedures requiring those seeking to obtain business on its behalf – <ul style="list-style-type: none"> <li>(a) to do so in a way which is clear, fair and not misleading;</li> <li>(b) to avoid any undue pressure;</li> <li>(c) to make clear the purpose or purposes of the contact at the initial point of communication; and</li> <li>(d) to identify themselves and the licenceholder that they represent to clients and potential clients by providing contact information in writing.</li> </ul> </li> <li>(2) The licenceholder must – <ul style="list-style-type: none"> <li>(a) not communicate with a person at an unsocial hour other than by e-mail or social media; and</li> <li>(b) have controls requiring those seeking to obtain business on its behalf not to communicate with a</li> </ul> </li> </ul> | <p><i>All Classes except Class 8(1), 8(2)(b) or 8(3)</i></p> |

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| Rule   | Application  |
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| <p>person at an unsocial hour other than by e-mail or social media,</p> <p>unless the person has previously agreed to such a communication.</p> <p>(3) For the purpose of paragraph (2), "<b>unsocial hour</b>" means —</p> <p>(a) any time on a Sunday, Good Friday or Christmas Day;</p> <p>(b) before 9.00 am or after 9.00 pm on any other day;</p> <p>(c) any other day or any other time —</p> <p>(i) where the licenceholder, or those seeking to obtain business on its behalf, knows that the person concerned does not wish to be called on that day or at that time; or</p> <p>(ii) where the licenceholder, or those seeking to obtain business on its behalf, has reason to believe that the person concerned would not wish to be called on that day or at that time (for example, because of religious observance or working patterns).</p> |  |
| <p><b>6.4 Introductions to overseas branches etc.</b></p> <p>(1) A licenceholder that introduces a client to an overseas financial business must —</p> <p>(a) disclose to the client that the business will not be regulated under the Act; and</p> <p>(b) inform the client of the system of regulation of financial services applying to the business in the country or territory where the overseas financial business is located.</p> <p>(2) In this rule "<b>overseas financial business</b>" means a person carrying on, in a country or territory outside the Island, an activity which would be a regulated activity if it were carried on in the Island.</p>  | <p><i>All Classes except Class 8(1), 8(2)(b) or 8(3)</i></p> |
| <p><b>6.5 Action likely to bring Island into disrepute</b></p>   | <p><i>All Classes</i></p>                                    |

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| Rule  | Application        |
|---|--------------------|
| <p>(1) A licenceholder must not carry on business of such a kind or in such a way as may be likely to bring the Island into disrepute or damage its standing as a financial centre.</p> <p>(2) A licenceholder must not maintain anonymous or fictitious accounts or business relationships.</p> <p>(3) If a licenceholder maintains a numbered account it must —</p> <p>(a) identify, and verify the identity of, the client; and</p> <p>(b) maintain the account in such a way as to comply fully with the requirements of the Anti-Money Laundering and Countering the Financing of Terrorism Code 2015<sup>5</sup> or any successor.</p>                |                    |
| <p><b>6.6 Integrity and fair dealing</b></p> <p>(1) A licenceholder must —</p> <p>(a) observe high standards of integrity and fair dealing in carrying on regulated activities; and</p> <p>(b) comply with any applicable code or standard which is imposed or endorsed by —</p> <p>(i) any professional body of which the licenceholder is a member;</p> <p>(ii) any exchange on which the licenceholder does business; or</p> <p>(iii) the Authority where a code or standard has been specified in writing to the licenceholder for the purpose of this rule.</p> <p>(2) Rules 6.7 to 6.11 are without prejudice to the generality of paragraph (1).</p> | <i>All Classes</i> |
| <p><b>6.7 Informed decisions</b></p> <p>A licenceholder must —</p>  | <i>All Classes</i> |

<sup>5</sup> SD 2015/0102

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| Rule  | Application  |
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| <ul style="list-style-type: none"> <li>(a) take all reasonable steps to enable its clients to take informed decisions relating to their business with the licenceholder; and</li> <li>(b) avoid misleading or deceptive representations or practices.</li> </ul>  |  |
| <p><b>6.8 Independence</b></p> <ul style="list-style-type: none"> <li>(1) A licenceholder — <ul style="list-style-type: none"> <li>(a) must not claim that it is independent or impartial if it is not; and</li> <li>(b) must ensure that any claim it makes as to its independence or impartiality adequately includes any limitation which there may be on either.</li> </ul> </li> <li>(2) Without prejudice to paragraph (1), a licenceholder must not represent itself as acting independently if it has any relationship or arrangement with any other person which — <ul style="list-style-type: none"> <li>(a) brings any distortion into the way in which it conducts its business with a client; or</li> <li>(b) results in an advantage to the licenceholder, or a disadvantage to the client, in any business done with that person.</li> </ul> </li> </ul> | <p><i>All Classes</i></p>                                    |
| <p><b>6.9 Gifts and other benefits</b></p> <p>A licenceholder must not —</p> <ul style="list-style-type: none"> <li>(a) offer or receive; or</li> <li>(b) permit any employee or agent to offer or receive, any gift or other direct or indirect benefit, if to do so might adversely influence the giving of advice by, or the exercise of discretion on the part of, the licenceholder, employee or agent.</li> </ul>   | <p><i>All Classes except Class 8(1), 8(2)(b) or 8(3)</i></p> |
| <p><b>6.10 Remuneration</b></p> <p>A licenceholder's remuneration must be related to —</p> <ul style="list-style-type: none"> <li>(a) the disclosed relationship between the licenceholder and the client; and</li> </ul>   | <p><i>All Classes except Class 8(1), 8(2)(b) or 8(3)</i></p> |

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| Rule  | Application  |
|---|--|
| (b) the services provided by the licenceholder to the client.   |  |
| <p><b>6.11 Conflicts of interest — general</b></p> <p>(1) Where a conflict of interest arises —</p> <p>(a) between the licenceholder or any relevant person and its clients; or</p> <p>(b) between one client and another,</p> <p>in the course of carrying on any regulated activities, the licenceholder must promptly notify each of the clients concerned of that fact.</p> <p>(2) For the avoidance of doubt, any borrowing by the licenceholder or a relevant person from a client amounts to a conflict of interest.</p> <p>(3) This rule is without prejudice to rules 8.9 and 8.10.</p>  | <p><i>All Classes except Class 8(1), 8(2)(b) or 8(3)</i></p> |
| <p><b>6.12 Advertisements — general</b></p> <p>(1) A licenceholder must not publish or cause or permit to be published —</p> <p>(a) any advertisement for a product or service which contains unfair, inaccurate or misleading indications of the product or service;</p> <p>(b) any advertisement which hides, diminishes or obscures information about risk, important statements or warnings;</p> <p>(c) any advertisement which might damage the reputation of the Island; or</p> <p>(d) any advertisement which makes a prediction or forecast of future income which —</p> <p>(i) is not based on and consistent with present conditions; or</p> <p>(ii) in the case of investments or structured deposits, does not include a warning that past performance is not an indicator of future performance.</p> | <p><i>All Classes</i></p>                                    |

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| Rule  | Application  |
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| <p>(2) Where a licenceholder is licensed to carry on regulated activities falling within Class 8(2)(a), 8(2)(b) or 8(4), it must not publish or cause or permit to be published any advertisement which refers to these regulated activities unless the advertisement states in a prominent position that such activities do not constitute deposit taking activities and they are not protected by a compensation scheme.</p>  |  |
| <p><b>6.13 Reference to licensing</b></p> <p>(1) A licenceholder must make clear to those with whom it has communications in the course of its business, or prospective business, the name of the licenceholder and the person by whom it is regulated.</p> <p>(2) This rule does not apply to –</p> <ul style="list-style-type: none"> <li>(a) cheques, cheque books or paying in books;</li> <li>(b) bank statements, deposit confirmations or foreign exchange confirmations;</li> <li>(c) cheque guarantee, charge, debit or credit cards or cards of a similar nature;</li> <li>(d) radio advertisements; or</li> <li>(e) references to licenceholder names only.</li> </ul> | <p><i>All Classes except Class 8(1), 8(2)(b) or 8(3)</i></p> |
| <p><b>6.14 Licenceholder's permitted activities</b></p> <p>(1) If requested by any person, a licenceholder must provide –</p> <ul style="list-style-type: none"> <li>(a) information regarding the conditions attached to its licence; and</li> <li>(b) details of any exception or modification of any rule applicable to it.</li> </ul>   | <p><i>All Classes</i></p>                                    |
| <p><b>6.15 Reference to compensation scheme (and other protection arrangements) in advertisements</b></p> <p>(1) A licenceholder must not publish or cause or permit to be published any advertisement which states or implies that any deposits or interest will be guaranteed, secured, insured or the subject of any form of protection (other</p>   | <p><i>Class 1(1) only</i></p>                                |



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| <b>Rule</b>   | <b>Application</b>  |
|---|---------------------|
| <p>than that provided by regulations under section 25 of the Act) unless it states —</p> <ul style="list-style-type: none"> <li>(a) the form of the protection;</li> <li>(b) the extent of the protection; and</li> <li>(c) the full name of the person who will be liable to meet any claim by the depositor by virtue of the arrangements conferring the protection.</li> </ul> <p>(2) A licenceholder which is not a participant in a scheme established by regulations under section 25 of the Act must not publish or cause or permit to be published any advertisement which refers to its deposit taking business or contains an invitation to make deposits unless it states in a prominent position that the licenceholder is not a participant in that scheme.</p>          |                     |
| <p><b>6.16 Reference to group ownership</b></p> <p>In any literature and advertising material that invites the making of deposits, a licenceholder must disclose the relationship between it and the wider group of which it is a part, including information relating to the financial standing of the licenceholder and the group.</p>  | <i>Class 1 only</i> |
| <p><b>6.17 Extent of advice</b></p> <p>(1) A licenceholder must not undertake regulated activities on an execution only basis for a client unless the client has requested to be treated as an execution only client —</p> <ul style="list-style-type: none"> <li>(a) in respect of a particular transaction; or</li> <li>(b) for the purposes of all transactions,</li> </ul> <p>and the licenceholder has confirmed the execution only status in writing, pointing out the consequent reduction in investor protection to the client.</p> <p>(2) A copy of this confirmation must be retained on the client file, or the transaction(s) will be considered to result from full advice and the Authority would expect all of the requirements relating to full advice to be met.</p> | <i>All Class 2</i>  |
| <p><b>6.18 Limited advice</b></p>   | <i>All Class 2</i>  |

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| Rule   | Application  |
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| <p>(1) A licenceholder must not undertake regulated activities on a limited advice basis for a client unless the client has stated that he seeks only limited advice and the licenceholder has confirmed the limited advice status in writing, pointing out the consequent reduction in investor protection to the client.</p> <p>(2) A copy of this confirmation must be retained on the client file, or the transaction(s) will be considered to result from full advice and the Authority would expect all of the requirements relating to full advice to be met.</p>   |  |
| <p><b>6.19 Restricted advice</b></p> <p>(1) A licenceholder that —</p> <p>(a) is restricted by the Authority in the range or type of investments on which it is permitted to advise; or</p> <p>(b) has chosen to advise on a restricted range of investments;</p> <p>must not undertake any regulated activity for a client unless it has confirmed its restrictions in writing.</p> <p>(2) A copy of this confirmation must be retained on the client file, or the transaction(s) will be considered to result from full advice and the Authority would expect all of the requirements relating to full advice to be met.</p> | <p><i>All Class 2</i></p>  |
| <p><b>6.20 Recommendations which may benefit licenceholder</b></p> <p>(1) A licenceholder must not recommend a transaction to a client or exercise discretion for a client if the recommendation or exercise of discretion is motivated largely by a benefit which it may bring to the licenceholder, unless the transaction is demonstrably to the client's advantage.</p> <p>(2) In this rule "<b>benefit</b>" includes commission and a volume override (that is, an extra commission for generating additional trades).</p>  | <p><i>All Class 2 except those acting on an execution only basis in compliance with rule 6.17.</i></p> |
| <p><b>6.21 Churning</b></p>  | <p><i>All Class 2 except those acting on an</i></p>  |

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| <b>Rule</b>   | <b>Application</b>  |
|---|---|
| A licenceholder must not effect a series of transactions that are each suitable when viewed in isolation, but which may be unsuitable if the recommendations or the decisions to trade are made with a frequency that is not in the best interests of the client.   | <i>execution only basis in compliance with rule 6.17.</i> |
| <p><b>6.22 Valuation of investments which are not marketable</b></p> <p>(1) This rule applies where a licenceholder manages investments on behalf of a client and the amount of any remuneration of the licenceholder is dependent upon the value of any such investments.</p> <p>(2) The valuation of any investment which is not readily marketable, or for which information for determining its current value may not be available, must be on the basis of an arm's length valuation which has been —</p> <p>(a) prepared by or confirmed as an arm's length valuation by an independent and competent person; or</p> <p>(b) agreed expressly with the client at the time that the management agreement is signed.</p> | <i>All Class 2</i>  |
| <p><b>6.23 Front running</b></p> <p>A licenceholder must not enter, or permit any person associated with the licenceholder to enter, into an investment transaction ahead of a client, if that client ought to have priority.</p>   | <i>All Class 2</i>  |
| <p><b>6.24 Fairness in allocation</b></p> <p>Where, on an allocation of stock or other investments, there is not enough to go round, the licenceholder must always —</p> <p>(a) allocate what it has fairly and uniformly; and</p> <p>(b) put itself last unless its participation in the transaction enabled every participant to get a better deal.</p>   | <i>All Class 2</i>  |
| <p><b>6.25 Distribution of transactions among clients</b></p> <p>A licenceholder must not allocate or transfer to any client any deal (or part of a deal) in an investment which it entered into as principal unless —</p>  | <i>All Class 2</i>  |

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| Rule   | Application   |
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| <ul style="list-style-type: none"> <li>(a) the allocation or transfer was unconditionally decided upon in principle before the deal was done; or</li> <li>(b) the investment has improved in value since the deal, the licenceholder is satisfied that the investment is suitable for the client and the client obtains the benefit of best execution and of the improvement in value.</li> </ul>  |   |
| <p><b>6.26 Prompt and timely execution</b></p> <ul style="list-style-type: none"> <li>(1) A licenceholder must act promptly in accordance with its instructions, unless — <ul style="list-style-type: none"> <li>(a) it has been given a discretion as to timing; and</li> <li>(b) it uses that discretion in an alert and sensible way.</li> </ul> </li> <li>(2) Instructions and decisions to buy or sell must be recorded as soon as taken, with the date and, whenever possible, the time.</li> </ul>  | <i>All Class 2</i>  |
| <p><b>6.27 Best execution</b></p> <ul style="list-style-type: none"> <li>(1) Subject to paragraph (2), a licenceholder must take all reasonable steps when executing orders, to obtain the best possible result for its clients.</li> <li>(2) Where a licenceholder effects a transaction through — <ul style="list-style-type: none"> <li>(a) another licenceholder; or</li> <li>(b) a person authorised and regulated for this activity by the Financial Conduct Authority in the United Kingdom,</li> </ul> it may rely upon that person to obtain best execution provided that the client has accepted those arrangements in writing.</li> </ul> | <i>All Class 2</i>  |
| <p><b>6.28 Fairness with research or analysis</b></p> <p>A licenceholder must not —</p> <ul style="list-style-type: none"> <li>(a) deal for itself or any person associated with it ahead of the distribution of its own or an associate's research or analysis and with advance</li> </ul>  | <i>All Class 2 except those acting on an execution only basis in compliance with rule 6.17.</i> |

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| Rule  | Application   |
|---|---|
| <p>knowledge of anything that might possibly be price sensitive in it; or</p> <p>(b) distribute research or analysis containing recommendations from which a licenceholder expects to benefit (including by way of past or future principal transactions, or because of a material interest) unless the anticipated source of benefit is disclosed; or</p> <p>(c) otherwise behave unfairly in the way in which it acts upon its own or an associate's research or analysis.</p>  |   |
| <p><b>6.29 Knowledge of client</b></p> <p>(1) A licenceholder must find out enough about a client's financial circumstances, investment objectives, attitude to risk and time horizons to enable it to act properly for him in investment matters.</p> <p>(2) A licenceholder must maintain a record on the client file of all investment business communication with the client.</p>   | <p><i>All Class 2 other than Class 2(3) and/or (7) except for those acting on an execution only basis in compliance with rule 6.17.</i></p> |
| <p><b>6.30 Knowledge of client – financial advisers</b></p> <p>(1) A licenceholder must find out enough about a client's personal and financial circumstances, investment objectives, attitude to risk and time horizons to enable it to act properly for him in investment matters.</p> <p>(2) Where a licenceholder is providing investment advice to a retail client, it must –</p> <p>(a) complete a fact-find which must be signed by the client;</p> <p>(b) provide a copy of the signed fact-find to the client; and</p> <p>(c) retain a copy of the signed fact-find on the client's file.</p> <p>(3) The fact-find must be updated prior to a licenceholder undertaking new business for a retail client and the steps</p> | <p><i>Class 2(3) and/or 2(6) and/or 2(7) except for those acting on an execution only basis in compliance with rule 6.17.</i></p>           |

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| Rule  | Application  |
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| <p>in paragraph (2)(a), (b) and (c) must be repeated during subsequent business transactions.</p> <p>(4) A licenceholder must maintain a record on the client file of all communication with the client about his financial advice.</p>   |  |
| <p><b>6.31 Vulnerable clients</b></p> <p>A licenceholder must establish and implement a policy in relation to the provision of advice to, or exercise of discretion for, vulnerable clients. This policy must include the requirement —</p> <ul style="list-style-type: none"> <li>(a) to consider the special factors regarding the client's potential vulnerability;</li> <li>(b) to ensure that any services provided to the client takes into account such vulnerability; and</li> <li>(c) that the factors in (a) and (b) are documented in the client file.</li> </ul>  | <p><i>All Class 2</i></p>  |
| <p><b>6.32 Suitability</b></p> <p>(1) A licenceholder must ensure that when —</p> <ul style="list-style-type: none"> <li>(a) making recommendations; or</li> <li>(b) exercising discretion,</li> </ul> <p>for any client, it has taken reasonable steps to inform itself of what is available on the market and —</p> <ul style="list-style-type: none"> <li>(i) any transaction undertaken is not unsuitable for the client; and</li> <li>(ii) if the client is a retail client, that it is positively suitable for him.</li> </ul> <p>(2) A licenceholder must ensure that any transaction for a client is suitable for his circumstances (including attitude to risk, time horizon for the investment, age, state of health and any vulnerability in terms of rule 6.31).</p> <p>(3) When advising or exercising discretion for a client, a licenceholder must maintain a copy of all research undertaken, details of the products it has considered, including those it has rejected as well as those</p> | <p><i>All Class 2 except those acting on an execution only basis in compliance with rule 6.17.</i></p> <p><i>For those undertaking activities on a limited advice basis, this rule applies only in relation to the extent of the information provided.</i></p> |

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| Rule   | Application |
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| recommended as being the most suitable, and the rationale for the recommendation or decision made.   |             |
| <p><b>6.33 Life policies</b></p> <p>(1) A licenceholder must not recommend to any client the acquisition of a life policy unless it is satisfied that —</p> <p>(a) it will be suitable for the client; and</p> <p>(b) it does not compare unfavourably with competing products.</p> <p>(2) A licenceholder must not recommend to any client a switch of any underlying investment in a life policy unless it —</p> <p>(a) reasonably believes that the switch will be to the client's advantage; and</p> <p>(b) can demonstrate to the Authority, if required, the basis of that belief.</p> <p>(3) Instructions from clients and decisions to acquire a life policy or switch an underlying investment must be recorded as soon as taken, with the date and, whenever possible, the time.</p> | All Class 2 |
| <p><b>6.34 Collective investment schemes</b></p> <p>(1) A licenceholder must not recommend to any client the acquisition of units in a collective investment scheme unless it is satisfied that it will be suitable for the client.</p> <p>(2) A licenceholder must not recommend to any client a switch from one sub-fund to another in a collective investment scheme unless it —</p> <p>(a) reasonably believes that the switch will be to the client's advantage; and</p> <p>(b) can demonstrate to the Authority, if required, the basis of that belief.</p> <p>(3) Instructions from clients and decisions to acquire units in a collective investment scheme or switch between sub-funds must be recorded as soon as taken, with the date and, whenever possible, the time.</p>         | All Class 2 |

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| Rule  | Application               |
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| <p><b>6.35 Description of investment advice</b></p> <p>(1) Where a licenceholder is a tied agent and provides advice on investments including life policies it must —</p> <ul style="list-style-type: none"> <li>(a) describe that advice as tied advice; and</li> <li>(b) prohibit, by the terms of employment or contract, its employees who are authorised to canvass for business from canvassing for or advising about investments or life policies from product providers other than the provider(s) to which the licenceholder is tied.</li> </ul> <p>(2) Where a licenceholder defines its investment advice as independent (whether using the word independent specifically or a synonym of it), it must assess a sufficient range of products available on the market, being sufficiently diverse with regard to type, issuers or product providers to ensure that the client's objectives can be suitably met, and that range should not be limited to —</p> <ul style="list-style-type: none"> <li>(a) products provided by the licenceholder itself or by group companies or entities having close links with the licenceholder;</li> <li>(b) products of only one product provider; or</li> <li>(c) a combination of (a) and the products of only one product provider.</li> </ul> <p>(3) Where a licenceholder is a tied agent for certain investments and independent for others, this must be clearly disclosed and paragraphs (1) and (2) complied with as appropriate.</p> | <p><i>All Class 2</i></p> |
| <p><b>6.36 Dealings by employees on own account</b></p> <p>(1) This rule applies where —</p> <ul style="list-style-type: none"> <li>(a) an employee of a licenceholder is permitted to deal on his own account; and</li> <li>(b) a conflict of interest may arise in relation to such dealings.</li> </ul> <p>(2) The licenceholder must ensure that —</p>  | <p><i>All Class 2</i></p> |



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| Rule  | Application   |
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| <ul style="list-style-type: none"> <li>(a) the employee is given a written notice (a "<b>personal account notice</b>") complying with Appendix 6; and</li> <li>(b) the employee gives the licenceholder a written undertaking to observe the requirements of the notice.</li> <li>(3) The licenceholder must establish and maintain compliance procedures and appropriate arrangements to mitigate the potential for conflicts of interest in relation to such dealings.</li> </ul>   |   |
| <p><b>6.37 Disclosure and information</b></p> <ul style="list-style-type: none"> <li>(1) A licenceholder must take all reasonable steps to ensure that a client is given sufficient information which he is able to understand to enable him to make balanced and informed investment decisions.</li> <li>(2) The client must be given sufficient time to consider recommendations made prior to the arrangement of any deals.</li> <li>(3) Where a licenceholder is providing investment advice, prior to the arrangement of any deals the client must be provided with a comprehensive reasons why letter which contains a full explanation of the benefits and risks of any recommendation.<br/>The reasons why letter must — <ul style="list-style-type: none"> <li>(a) be tailored to the client's situation;</li> <li>(b) be in plain, jargon-free English;</li> <li>(c) include — <ul style="list-style-type: none"> <li>(i) a summary of the client's financial position, including any limitations of information provided by the client;</li> <li>(ii) a balanced rationale for the recommendations made, including details of the recommended products' characteristics and risks, and why those products are suitable for the particular client;</li> </ul> </li> </ul> </li> </ul> | <p><i>All Class 2 except those acting on an execution only basis in compliance with rule 6.17.</i></p> <p><i>But, paragraphs (3) and (4) do not apply to:</i></p> <p><i>Class 2(1) to (7) inclusive;</i></p> <p><i>Class 2(2) to (7) inclusive;</i></p> <p><i>or</i></p> <p><i>Class 2(3) to (7) inclusive</i><br/><i>when acting under a discretionary mandate; or</i></p> <p><i>Class 2(3) and/or (6) and/or (7);</i></p> |

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| <ul style="list-style-type: none"> <li>(iii) product literature or illustrations where available;</li> <li>(iv) details as to whether each product has a cooling off period, and where there is no cooling off period, a statement informing the client of the risk of losing a substantial amount of his investment if he changes his mind and decides, after starting the investment, not to continue with it;</li> <li>(v) a cost benefit analysis of any switches or surrenders, or gearing and why these are in the best interests of the client; and</li> <li>(vi) whether an annual review will or will not be undertaken on the investments.</li> </ul> <p>A copy of the reasons why letter must be retained on the client's file.</p> <p>(4) Where the licenceholder will receive any commission or other remuneration, payment or benefit howsoever arising as a result of the transaction being undertaken or service being provided, the licenceholder must disclose that sum (or the formula for its calculation if the amount is unknown, together with a clear and simple example of the calculation) to the client prior to the transaction being undertaken or service being provided.</p> |  |
| <p><b>6.38 Understanding of risk</b></p> <p>(1) A licenceholder must not —</p> <ul style="list-style-type: none"> <li>(a) recommend a transaction to a client; or</li> <li>(b) exercise discretion for a client in the management of investments,</li> </ul> <p>unless it has taken reasonable steps —</p> <ul style="list-style-type: none"> <li>(c) to ascertain the nature and level of the risk which the client is willing to accept; and</li> <li>(d) to enable him to understand the nature and level of the risks involved.</li> </ul> <p>(2) In relation to retail clients, without prejudice to the generality of paragraph (1), a licenceholder must not —</p>   | <p><i>All Class 2 except those acting on an execution only basis in compliance with rule 6.17.</i></p> <p><i>For those undertaking activities on a limited advice basis, this rule applies only in relation to the extent of the information</i></p> |

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| Rule  | Application  |
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| <p>(a) advise the client to deal, or deal with or for him, in unregulated collective investment schemes, futures, options, contracts for differences or warrants, unless it has arranged for the client to receive, and the client has (by returning a signed copy) shown that he has understood, a risk disclosure statement in the form specified in —</p> <p>(i) Part 1 of Appendix 7, in the case of dealings in unregulated collective investment schemes;</p> <p>(ii) Part 2 of Appendix 7, in the case of dealings in futures, options or contracts for differences; or</p> <p>(iii) Part 3 of Appendix 7, in the case of dealings in warrants,</p> <p>or unless the client has signed a 'discretionary management agreement' that contains the disclosures contained in (i), (ii) or (iii) as applicable in accordance with rule 6.45(4); or</p> <p>(b) advise him to buy or effect in the exercise of discretion any purchase of an illiquid investment, unless it has —</p> <p>(i) informed the client of the nature and extent of the risks involved in such investments, including any difficulties in determining their value; and</p> <p>(ii) obtained his written consent.</p> | <p><i>provided by the client.</i></p>  |
| <p><b>6.39 Disclosure of product particulars</b></p> <p>A licenceholder must ensure that, before or immediately after a recommendation is made by it or on its behalf to acquire an investment, including one to which rule 6.33 or rule 6.34 applies, and before a commitment is made to acquire the investment, a client is given or sent a statement, prepared by the licenceholder or the product provider, which informs him of —</p> <p>(a) details of the investment;</p> <p>(b) premiums or other amounts payable then and in the future;</p>   | <p><i>All Class 2 except:</i></p> <p><i>those acting on an execution only basis in compliance with rule 6.17;</i></p> <p><i>or</i></p> <p><i>those acting under the terms of a discretionary</i></p> |

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| Rule   | Application                  |
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| <ul style="list-style-type: none"> <li>(c) the factors relevant to the ultimate value of the investment or benefits payable under it;</li> <li>(d) the consequences of not keeping up the payments; and</li> <li>(e) any surrender or transfer value.</li> </ul>   | <i>management agreement.</i> |
| <p><b>6.40 Disclosure of conflicts of interest</b></p> <ul style="list-style-type: none"> <li>(1) Any borrowing from a client must be disclosed to the client.</li> <li>(2) Without prejudice to paragraph (1), where the conflicts of interest policy referred to in rule 8.9 is not sufficient to ensure, with reasonable confidence, that risks of damage to the interests of its clients will be prevented, a licenceholder must clearly disclose the general nature or sources, or both, of conflicts of interest to the client before carrying on any activity on its behalf.</li> <li>(3) The disclosure required by paragraph (1) or (2) must — <ul style="list-style-type: none"> <li>(a) be in writing; and</li> <li>(b) include sufficient detail, taking into account the client's type, to enable him to take an informed decision with respect to the activity in the context of which the conflict of interest arises.</li> </ul> </li> </ul> | <i>All Class 2</i>           |
| <p><b>6.41 General need for client agreement or terms of business</b></p> <ul style="list-style-type: none"> <li>(1) Subject to paragraph (2), a licenceholder must not carry on any regulated activity for a client unless either — <ul style="list-style-type: none"> <li>(a) it has entered into a written agreement (a "<b>client agreement</b>") with the client, a copy of which has been signed by the client, relating to the services it provides; or</li> <li>(b) it has provided the client with a written terms of business, a copy of which has been signed by the client. Where the activities are to be undertaken on an execution only basis, the written terms of business must specifically refer to that type of service.</li> </ul> </li> </ul>  | <i>All Class 2</i>           |

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| <p>(2) No client agreement or terms of business are required for —</p> <p>(a) the issue of any tipsheet, broker's circular or similar publication;</p> <p>(b) transactions not involving undue risk which are made while negotiations leading to a client agreement are taking place; and</p> <p>(c) transactions made solely to complete outstanding obligations after an agreement has expired or been brought to an end.</p> <p>(3) A licenceholder must retain a signed copy of the client agreement or terms of business on file. The signature on the client agreement or terms of business may be in electronic form subject to the licenceholder having appropriate systems in place for its retention, verification and security.</p> <p>(4) In rules 6.42 to 6.46 and 6.48 references to a client agreement include, where applicable, references to terms of business.</p> |                           |
| <p><b>6.42 Retail clients and other clients</b></p> <p>(1) A licenceholder shall treat a client who is an individual as a retail client unless —</p> <p>(a) the licenceholder has undertaken an adequate assessment of the client's relevant expertise, experience and knowledge, which gives a reasonable assurance that the client is capable of understanding the risks involved in making his own investment decisions. This assessment must be evidenced in writing and retained on the client's file;</p> <p>(b) the licenceholder has informed him in writing that the level of protection afforded to him is lower than that offered to a retail client; and</p> <p>(c) the client agreement with the client states that he is not a retail client.</p> <p>(2) A licenceholder shall treat a client who is not an individual as a retail client if —</p>                      | <p><i>All Class 2</i></p> |

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| <ul style="list-style-type: none"> <li>(a) the client has requested the licenceholder in writing to treat it as a retail client; or</li> <li>(b) the client agreement with the client states that it is a retail client.</li> <li>(3) Subject to compliance with rule 6.17, where the licenceholder is undertaking a transaction for a client on an execution only basis, the client shall not be afforded the protections of a retail client for that transaction.</li> </ul>  |             |
| <p><b>6.43 Contents of client agreement or terms of business — general</b></p> <ul style="list-style-type: none"> <li>(1) A client agreement or terms of business must — <ul style="list-style-type: none"> <li>(a) set out the basis on which the licenceholder is to provide its services, including, if the licenceholder provides investment advice, whether it is a tied agent or is independent;</li> <li>(b) provide information on all relevant facts relating to the licenceholder's remuneration that are attributable to the services provided (including the remuneration of any intermediary that is payable by the client and whether any remuneration is receivable by the licenceholder); and</li> <li>(c) state that the licenceholder is regulated by the Authority in the conduct of its regulated activities.</li> </ul> </li> <li>(2) A client agreement or terms of business must — <ul style="list-style-type: none"> <li>(a) state that the client may request details of the amount of remuneration being received by the licenceholder as a result of its relationship with or transactions for the client;</li> <li>(b) state that the client has the right to request details of any relevant educational and professional qualifications, and the experience and track record, of — <ul style="list-style-type: none"> <li>(i) the licenceholder; and</li> </ul> </li> </ul> </li> </ul> | All Class 2 |

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| <ul style="list-style-type: none"> <li>(ii) any employee of the licenceholder directly engaged in providing services to the client;</li> <li>(c) state that the licenceholder will not advise a client to use the services of another person who is an associate of the licenceholder without disclosing that relationship;</li> <li>(d) despite (1)(a), where the licenceholder is a tied agent of the institution by which a financial product recommended to the client is marketed, disclose that relationship; and</li> <li>(e) where applicable, state how interest received on client money is to be dealt with, in accordance with rule 3.13, and the arrangements for crediting interest to the client bank account.</li> </ul>   |   |
| <p><b>6.44 Contents of client agreement with retail client</b></p> <ul style="list-style-type: none"> <li>(1) A client agreement with a retail client should be easy to understand, not likely to be misunderstood and not deprive the client of any rights which he would have had if the agreement or terms had not existed. It must include terms relating to the following matters, so far as applicable — <ul style="list-style-type: none"> <li>(a) the nature of the services to be provided by the licenceholder under it, including, where appropriate, the client's investment objectives and any restrictions on investments or markets in which funds may be invested;</li> <li>(b) in respect of any fees payable by the client to the licenceholder — <ul style="list-style-type: none"> <li>(i) the basis of calculation;</li> <li>(ii) the notice required for any increase of fees, which must not be less than one month;</li> <li>(iii) the method of payment (e.g. deduction from income or capital belonging to a client or billing);</li> <li>(iv) the frequency of payment; and</li> <li>(v) whether or not any fees payable are to supplement or be abated by any</li> </ul> </li> </ul> </li> </ul> | <p><i>All Class 2 except where licenceholder is acting on an execution only basis in compliance with rule 6.17.</i></p> |

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| <p>remuneration receivable by the licenceholder in connection with transactions effected by the licenceholder with or for the client;</p> <p>(c) the manner in which the instructions may be given by the client for any transaction;</p> <p>(d) the arrangements for handling and accounting for client money, specifying how the money is at all times separated from the licenceholder's money;</p> <p>(e) the arrangements for registration and identification of ownership and safe custody of documents of title and the name of any nominee company used;</p> <p>(f) the client's right to inspect copies of contract notes, vouchers and entries in books or electronic recording media relating to the clients' transactions, together with a statement that such records will be maintained for 6 years from the date of the transaction or indefinitely in the case of pension transfers, pension opt-outs or free-standing additional voluntary contributions (see rule 8.58(4));</p> <p>(g) arrangements for bringing the agreement to an end, which must include the right for the client to terminate the agreement on immediate written notice; and</p> <p>(h) a statement that a summary of the licenceholder's conflicts of interest policy under rule 8.9 will be made available on request.</p> <p>(2) Where a licenceholder is effecting margined transactions on behalf of a retail client, the agreement must include —</p> <p>(a) a warning that the licenceholder in certain circumstances may be required to obtain additional money from the client by way of margin;</p> <p>(b) where the licenceholder intends to effect contracts which are not traded on and under an</p> |             |



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| <p>exchange, the specific authority of the client to do so;</p> <p>(c) a statement of when a deposit or margin (including the initial and variation margin) may be required and the licenceholder's rights on failure to pay;</p> <p>(d) a warning that failure to meet margin calls may lead to closing out without reference; and</p> <p>(e) a statement of the circumstances in which it might be possible for a licenceholder to close out without reference to the client.</p> <p>(3) This rule is without prejudice to rule 6.43.</p>  |   |
| <p><b>6.45 Discretionary management agreement</b></p> <p>(1) A discretionary management agreement must include statements as to —</p> <p>(a) whether or not there is any restriction on —</p> <p>(i) the categories of investment in which monies may be invested; or</p> <p>(ii) the amount or the proportion of monies which may be invested in any category of investment or in any one investment,</p> <p>and, if so, what the restriction is;</p> <p>(b) the frequency with which the client is to be supplied with a statement of the money and investments held and a valuation of them, and what the basis of valuation is to be;</p> <p>(c) if the agreement is to include a measure of portfolio performance, the basis on which that performance is to be measured;</p> <p>(d) whether hedging or borrowing powers are to be used, the nature of such powers and limits upon their use; and</p> <p>(e) whether the licenceholder may lend investments to, or borrow investments from, third parties or charge investments to secure borrowings; how</p> | <p><i>All Class 2 exercising discretion</i></p> |

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| <p>such powers are to be exercised and the limits placed upon them.</p> <p>(2) The licenceholder must, at the time that a retail client signs a client agreement or as soon as practicable thereafter, provide the client with a statement showing the initial composition of the investments and their initial value (so far as it can be ascertained).</p> <p>(3) Where investment is contemplated in areas involving higher risk investments on behalf of a retail client, including —</p> <ul style="list-style-type: none"> <li>(a) writing of options and doing business in futures and contracts for differences;</li> <li>(b) other margined transactions;</li> <li>(c) illiquid investments; and</li> <li>(d) participation in underwriting securities,</li> </ul> <p>the agreement must specifically state whether such transactions are permitted and any limits on the category of investment or on the financial commitment involved.</p> <p>(4) The discretionary management agreement for a retail client may contain the disclosures contained in Parts 1, 2 and/or 3 of Appendix 7. Where such disclosures are contained in the client agreement, the retail client must acknowledge each of these disclosures by separate signature.</p> |                           |
| <p><b>6.46 Compliance with client agreement</b></p> <p>A licenceholder must comply with the terms of the client agreement in all dealings with or on behalf of a client.</p>   | <p><i>All Class 2</i></p> |
| <p><b>6.47 Periodic information</b></p> <p>(1) Subject to paragraph (2), a licenceholder which is managing investments for a client must normally account to him at least once in every 6 months as to the investment performance of the portfolio, stating —</p> <ul style="list-style-type: none"> <li>(a) the current valuations;</li> <li>(b) a suitable comparison with the movement of the market; and</li> </ul>  | <p><i>All Class 2</i></p> |

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| <p>(c) any changes in the composition of the investments.</p> <p>(2) A client may expressly waive the requirement for a biannual report in favour of an annual report, but before he does so the licenceholder must make the client aware that he is entitled to receive information every 6 months.</p>   |             |
| <p><b>6.48 Penalty on termination</b></p> <p>A licenceholder may receive an additional payment upon the termination of the agreement, provided this is clearly disclosed in the client agreement.</p>  | All Class 2 |
| <p><b>6.49 Risk warning – futures, options and contracts for differences</b></p> <p>(1) A licenceholder must ensure, before it enters into any transaction in futures, options and contracts for differences with or for a retail client, that the client receives, signs and returns to the licenceholder a risk disclosure statement in the form set out in Appendix 7.</p> <p>(2) This rule does not apply where the licenceholder is acting under the terms of a discretionary management agreement that contains disclosures in accordance with rule 6.45(4).</p>                         | All Class 2 |
| <p><b>6.50 Contracts to be on-exchange</b></p> <p>(1) A licenceholder must not undertake a margined transaction on behalf of a client through another person unless that person is either –</p> <p>(a) another licenceholder licensed to carry on that activity; or</p> <p>(b) an overseas person authorised in the country or territory in which it carries on business to undertake such transactions that is required to hold clients' money received in relation to such transactions in a segregated bank account for that purpose and in its books to credit the client accordingly.</p> | All Class 2 |

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| <p>(2) The licenceholder must take steps to ensure that the client's money is treated as client money by the person referred to in paragraph (1).</p> <p>(3) A licenceholder must not, without the express permission of the client, undertake a margined transaction for a retail client in a contract which is not traded on an exchange.</p>  |             |
| <p><b>6.51 Liability in respect of margins</b></p> <p>(1) In relation to margined transactions a licenceholder must —</p> <ul style="list-style-type: none"> <li>(a) keep daily track of the amount of margin or other requirements which must be paid for each client;</li> <li>(b) ensure that any margin payable is required to be deposited in advance in cash or approved collateral;</li> <li>(c) ensure that any deposit on a limited liability transaction is deposited promptly and in cash;</li> <li>(d) ensure that margin, whenever properly required to be paid, is deposited in cash or approved collateral; and</li> <li>(e) make the client aware of the consequences of not paying a margin.</li> </ul> <p>(2) Where a licenceholder is effecting margined transactions as a discretionary portfolio manager or stockbroker, it must ascertain from —</p> <ul style="list-style-type: none"> <li>(a) the person referred to in rule 6.50(1); or</li> <li>(b) the exchange on which the contract is traded, whether or not the licenceholder is responsible for the fulfilment of its clients' obligations.</li> </ul> <p>(3) If there is a shortfall on a margined transaction, the licenceholder must make up the difference until it obtains more cash or collateral from its client.</p> <p>(4) Where a licenceholder lends money to a client to make up such a shortfall, it must properly record the loan in its accounts.</p> | All Class 2 |

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| Rule  | Application               |
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| <p>(5) In this rule "<b>limited liability transaction</b>" means a margined transaction effected by a licenceholder with a client, the terms of which provide that the maximum liability of the client in respect of the transaction shall be limited to an amount determined before the transaction is effected.</p>   |                           |
| <p><b>6.52 Contract note etc.</b></p> <p>(1) After a transaction has been carried out for a client, a licenceholder must send or cause to be sent to the client or to his order promptly a statement of the transaction.</p> <p>(2) Paragraph (1) does not apply where —</p> <ul style="list-style-type: none"> <li>(a) the licenceholder reasonably believes that another licenceholder or the product provider will send such a note to the client;</li> <li>(b) the transaction is effected with a market counterparty (unless otherwise required by contract or custom);</li> <li>(c) the transaction relates to a life policy; or</li> <li>(d) the client has made a specific request in writing, separate from any other agreement, that statements must not be sent to him and has not revoked the request.</li> </ul> <p>(3) Paragraph (1) does not apply where the transaction is part of a series of linked transactions, but the licenceholder must send or cause to be sent to the client or to his order a statement of the transactions —</p> <ul style="list-style-type: none"> <li>(a) on completion of the series; or</li> <li>(b) at appropriate intervals not more than 3 months apart.</li> </ul> <p>(4) Paragraph (1) does not apply where —</p> <ul style="list-style-type: none"> <li>(a) the transaction involves a third party who has failed to provide information required of him; or</li> <li>(b) a transaction involves the conversion of one currency into another and that conversion has not been made,</li> </ul> | <p><i>All Class 2</i></p> |

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| Rule   | Application |
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| <p>in which case the licenceholder must send or cause to be sent to the client or to his order a statement of the essential features of the transaction as soon as practicable.</p> <p>(5) A statement required by paragraph (1), (3) or (4) must specify the essential features of the transaction including —</p> <ul style="list-style-type: none"> <li>(a) the name and address of the licenceholder;</li> <li>(b) the client's designation and account number;</li> <li>(c) the date of the transaction;</li> <li>(d) a description of the investment and size of transaction;</li> <li>(e) the nature of the transaction and unit price (and whether forward or historic price);</li> <li>(f) the total cost;</li> <li>(g) the amount of remuneration of the licenceholder;</li> <li>(h) the amount of fees, taxes or duties;</li> <li>(i) the settlement date; and</li> <li>(j) if the transaction involves converting one currency into another, the exchange rate.</li> </ul> <p>(6) Where —</p> <ul style="list-style-type: none"> <li>(a) the transaction relates to units in a collective investment scheme; and</li> <li>(b) deductions for charges and expenses are not made uniformly throughout the life of an investment but are loaded disproportionately on the early years,</li> </ul> <p>the amount of any deductions must be expressed either in cash terms or as a percentage of the unit price.</p> <p>(7) Upon exercise of an option, the following items must be included in the statement required by paragraph (1), (3) or (4) —</p> <ul style="list-style-type: none"> <li>(a) the profit or loss to the client arising out of the exercise of the option; and</li> </ul> |             |

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| Rule   | Application |
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| (b) the fees, commissions and expenses payable by the client, if any, in connection with the transaction.  |             |
| <p><b>6.53 Interests of scheme to be paramount</b></p> <p>(1) Where a licenceholder carries on any activity relating to a relevant scheme, the interests of the scheme must be the licenceholder's paramount consideration.</p> <p>(2) A licenceholder must —</p> <p>(a) where practicable, avoid any conflict of interest arising in relation to a relevant scheme; and</p> <p>(b) where a conflict arises, address that conflict through internal rules of confidentiality by —</p> <p>(i) declining to act;</p> <p>(ii) disclosing the nature of the conflict to the governing body of the scheme; or</p> <p>(iii) where appropriate, seeking that body's written confirmation that the licenceholder may continue to provide services to the scheme.</p> <p>(3) When entering into financial, banking or other transactions on behalf of a relevant scheme, the licenceholder must —</p> <p>(a) act in the best interests of the scheme;</p> <p>(b) ensure transactions are allocated fairly and in a timely manner; and</p> <p>(c) not effect a series of transactions that are each in the best interests of the scheme when viewed in isolation, but which may not be in the best interests of the scheme taking into account the cumulative effect of, or frequency of, the transactions.</p> <p>(4) Where the licenceholder provides services in respect of more than one scheme, the licenceholder should ensure that all schemes are dealt with fairly and no scheme is given unfair advantage.</p> | All Class 3 |

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| Rule  | Application |
|---|-------------|
| <p><b>6.54 Observance of terms of scheme particulars</b></p> <p>In relation to a relevant scheme, a licenceholder must take all reasonable steps to comply with every statement in the most recently published offering document, explanatory memorandum or other documentation describing how it will —</p> <ul style="list-style-type: none"> <li>(a) operate the scheme; and</li> <li>(b) comply with the duties imposed on the licenceholder by or under the Act.</li> </ul>  | All Class 3 |
| <p><b>6.55 Valuation of investments</b></p> <ul style="list-style-type: none"> <li>(1) This rule — <ul style="list-style-type: none"> <li>(a) applies where the licenceholder has responsibility for the calculation of net asset valuations of a relevant scheme; but</li> <li>(b) does not apply in relation to activities falling within paragraphs (11) or (12) of Class 3.</li> </ul> </li> <li>(2) Where a licenceholder is responsible for valuation of the assets of a relevant scheme, it must ensure that all the property of that scheme is valued in accordance with the methodology and specifications set out in the scheme's offering document and any applicable legislation including that — <ul style="list-style-type: none"> <li>(a) the assets are fairly and accurately valued at specified intervals; and</li> <li>(b) the valuation methods are consistently applied.</li> </ul> </li> <li>(3) Any changes to the valuation methods in paragraph (2) must be — <ul style="list-style-type: none"> <li>(a) agreed by the governing body; and</li> <li>(b) in line with the valuation specifications for the scheme.</li> </ul> </li> <li>(4) The valuation of any investment which is not readily marketable, or for which information for determining its current value may not be available, must be either —</li> </ul> | All Class 3 |



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| Rule  | Application |
|---|-------------|
| <ul style="list-style-type: none"> <li>(a) calculated in line with the licenceholder's documented policies and procedures in relation to the valuation of schemes; or</li> <li>(b) prepared by or confirmed as an arm's length valuation by an independent and competent person.</li> <li>(5) The licenceholder must ensure that the method of valuation under paragraphs (2) and (4) is appropriate.</li> <li>(6) The licenceholder must notify the Authority promptly if a scheme is not being valued in accordance with paragraphs (2) or (4).</li> </ul>  |             |
| <p><b>6.56 Participants to be treated fairly</b></p> <ul style="list-style-type: none"> <li>(1) In carrying on its activities a licenceholder must ensure that — <ul style="list-style-type: none"> <li>(a) all participants in a relevant scheme are treated fairly in accordance with the terms of the scheme; and</li> <li>(b) no participant is given unfair advantage or priority.</li> </ul> </li> <li>(2) Where a licenceholder is in possession of information that may be material to the prospects of a relevant scheme, it must, subject to any legal requirements and any duty of confidentiality, ensure that all participants are treated fairly when communicating such information.</li> <li>(3) A licenceholder must not give itself, or permit any person associated with it to be given, an unfair advantage or priority.</li> </ul> | All Class 3 |
| <p><b>6.57 Material interests</b></p> <p>Subject to any legal requirements and any duty of confidentiality, the licenceholder should, within a reasonable time, notify the governing body of a relevant scheme of any matter —</p> <ul style="list-style-type: none"> <li>(a) of which it becomes aware; and</li> </ul>   | All Class 3 |

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| <b>Rule</b>   | <b>Application</b>                        |
|---|---|
| (b) the disclosure of which might reasonably be expected to be in the material interests of the scheme.   |   |
| <b>6.58 Forecasts of future income</b><br>(1) Where a licenceholder makes or publishes a prediction or forecast of future income from a relevant scheme, it must be based on and consistent with present conditions.<br>(2) The licenceholder must be able to justify the prediction or forecast to the Authority if required to do so.   | <i>Class 3 except Class 3(11) or (12)</i> |
| <b>6.59 Information to be supplied by tied agents</b><br>A licenceholder must ensure that its tied agents, when communicating with a client, adequately inform the client about the licenceholder and the agent's relationship with it.   | <i>All Class 3</i>                        |
| <b>6.60 Requirement for written functionary agreement</b><br>A licenceholder must not carry on any regulated activity falling within Class 3 for any person (other than a participant) except in accordance with an agreement in writing which sets out the terms on which its services are to be provided.   | <i>All Class 3</i>                        |
| <b>6.61 Services for overseas schemes</b><br>(1) A licenceholder must notify the Authority within 10 business days of —<br>(a) entering into an agreement to provide services; and<br>(b) ceasing to provide services,<br>which are regulated activities falling within paragraphs (1) and (2) of Class 3 to any collective investment scheme established in a country or territory outside the Island.<br>(2) A licenceholder must notify the Authority within 10 business days of any material changes to the information provided under paragraph (1). | <i>All Class 3</i>                        |
| <b>6.62 Services to overseas managers or administrators of schemes</b>  | <i>All Class 3</i>                        |

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| Rule   | Application |
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| <p>(1) A licenceholder must notify the Authority not less than 20 business days in advance of —</p> <p>(a) entering into an agreement to provide administration services; and</p> <p>(b) ceasing to provide services,</p> <p>to the manager or administrator of a collective investment scheme, where that manager or administrator is located outside the Island.</p> <p>(2) A licenceholder must notify the Authority within 10 business days of any material changes to the information provided under paragraph (1).</p>   |             |
| <p><b>6.63 Contract note etc.</b></p> <p>(1) After a transaction has been carried out for a client, a licenceholder must send or cause to be sent to the client or to its order promptly a statement of the transaction.</p> <p>(2) Paragraph (1) does not apply where the transaction is part of a series of linked transactions, but the licenceholder must send or cause to be sent to the client or to its order a statement of the transactions —</p> <p>(a) on completion of the series; or</p> <p>(b) at appropriate intervals not more than 3 months apart.</p> <p>(3) A statement required by paragraph (1) or (2) must specify the essential features of the transaction including, if applicable, —</p> <p>(a) the name and address of the licenceholder;</p> <p>(b) the client's designation and account number;</p> <p>(c) the date of the transaction;</p> <p>(d) a description of the investment and size of transaction;</p> <p>(e) the nature of the transaction and unit price (and whether forward or historic price);</p> <p>(f) the total cost;</p> <p>(g) the amount of remuneration of the licenceholder;</p> | All Class 3 |

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| Rule  | Application                                   |
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| <ul style="list-style-type: none"> <li>(h) the amount of fees, taxes or duties;</li> <li>(i) the settlement date; and</li> <li>(j) if the transaction involves converting one currency into another, the exchange rate.</li> </ul> <p>(4) Where —</p> <ul style="list-style-type: none"> <li>(a) the transaction relates to units in a collective investment scheme; and</li> <li>(b) deductions for charges and expenses are not made uniformly throughout the life of an investment but are loaded disproportionately on the early years,</li> </ul> <p>the amount of any deductions must be expressed either in cash terms or as a percentage of the unit price.</p> <p>(5) In this rule, references to a “<b>client</b>” include a collective investment scheme and a participant in a collective investment scheme, as applicable.</p>   |   |
| <p><b>6.64 Client agreement or terms of business</b></p> <ul style="list-style-type: none"> <li>(1) A licenceholder must not carry on any regulated activity for a client unless either — <ul style="list-style-type: none"> <li>(a) it has entered into a written agreement (a “<b>client agreement</b>”) with the client relating to the services it provides; or</li> <li>(b) it has notified the client in writing of its terms of business relating to those services.</li> </ul> </li> <li>(2) A client agreement or terms of business must set out — <ul style="list-style-type: none"> <li>(a) any fees to be charged or the basis of calculation of any fees to be charged, or both;</li> <li>(b) the method by which such fees are to be collected (e.g. deduction from monies belonging to a client or billing);</li> <li>(c) the method by which increases in fees are notified to the client;</li> <li>(d) the conditions for the termination of services by the licenceholder, including, if applicable, the</li> </ul> </li> </ul> | <p><i>All Class 4, 5, 8(2)(a) or 8(4)</i></p> |

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| Rule   | Application |
|--|-------------|
| <p>provisions for the refund of any fees due to the client as a result of the termination of services;</p> <p>(e) how interest received on client money and relevant funds is to be dealt with, in accordance with rule 3.13; and</p> <p>(f) whether or not the licenceholder may receive remuneration from third parties in connection with a transaction effected by the licenceholder with or for the client and, where this is the case, the nature of the remuneration.</p> <p>(3) For licenceholders licensed to carry on regulated activities falling within Class 8(2)(a) or 8(4) the client agreement or terms of business must also —</p> <p>(a) set out the base currency for monies held in any client bank account or segregated account;</p> <p>(b) set out any applicable charges for converting money into another currency;</p> <p>(c) clearly and prominently state the conditions of redemption; and</p> <p>(d) contain a statement that any sums received do not constitute deposits as defined in the Order, and are not covered by any compensation scheme.</p> <p>(4) A licenceholder must retain —</p> <p>(a) a copy of the client agreement, signed by the client; or</p> <p>(b) evidence of a notification under paragraph (1)(b).</p> |             |
| <p><b>6.65 Nominee shareholders or members</b></p> <p>Where a licenceholder acts or arranges for another person to act as a nominee shareholder or nominee member of a company, the licenceholder must —</p> <p>(a) ensure that in all such cases a written nominee agreement or such other trust instrument as may be appropriate exists; and</p> <p>(b) retain a copy of the agreement or instrument in its records.</p>   | All Class 4 |

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| Rule  | Application               |
|---|---------------------------|
| <p><b>6.66 Resignation of licenceholder – Class 4</b></p> <p>(1) If a licenceholder intends, without the consent of a client, to cease carrying on relevant activities for or on behalf of that client, it must notify in writing –</p> <ul style="list-style-type: none"> <li>(a) the client; and</li> <li>(b) where the client is a company, the directors, the shareholders and, if different, the beneficial owners of the client.</li> </ul> <p>(2) Where a licenceholder ceases to carry on regulated activities for or on behalf of a client company for any reason, it must –</p> <ul style="list-style-type: none"> <li>(a) preserve that company's records in a readily realisable format until they are handed over to the company, another licenceholder or another person who is to provide those or similar services; and</li> <li>(b) co-operate with the company, licenceholder or other person to ensure a smooth and timely transition.</li> </ul> <p>(3) Where –</p> <ul style="list-style-type: none"> <li>(a) a licenceholder ceases to carry on relevant activities for or on behalf of a client company; and</li> <li>(b) the company is struck off the register under section 273 or dissolved under section 273A of the Companies Act 1931,</li> </ul> <p>the licenceholder must retain those records for at least 13 years after the date a notice was published under section 273(5) or section 273A(3) of the Companies Act 1931.</p> <p>(4) Where –</p> <ul style="list-style-type: none"> <li>(a) a licenceholder ceases to carry on relevant activities for or on behalf of a client company which was incorporated under the Companies Act 2006; and</li> <li>(b) the company is struck off the register under section 183 or dissolved under sections 186 or 190 of the Companies Act 2006,</li> </ul> | <p><i>All Class 4</i></p> |

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| Rule  | Application                              |
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| <p>the licenceholder must retain those records for at least 18 years after the date a notice was published under section 183(4) of the Companies Act 2006.</p> <p>(5) Where —</p> <p>(a) a licenceholder ceases to carry on relevant activities for or on behalf of a foundation established under the Foundations Act 2011; and</p> <p>(b) the foundation is wound up and dissolved,</p> <p>the licenceholder must retain those records for at least 10 years.</p> <p>(6) In this rule “<b>relevant activities</b>” means regulated activities falling within Class 4.</p>   |  |
| <p><b>6.67 Compliance by clients</b></p> <p>A licenceholder must take reasonable steps to ensure that any company, foundation or partnership for which it carries on any regulated activity complies with such statutory obligations as are applicable to that activity.</p>  | <p><i>All Class 4</i></p>                |
| <p><b>6.68 Resignation of licenceholder — Class 5</b></p> <p>If a licenceholder ceases to carry on regulated activities in relation to a trust, or ceases to carry on the regulated activity of being an enforcer of a foundation established under the Foundations Act 2011, it must take whatever steps are appropriate and necessary —</p> <p>(a) to facilitate the transfer of that business to another licenceholder or another person who is to provide those or similar services; and</p> <p>(b) to secure the appointment of a replacement trustee, protector or enforcer, as the case may be,</p> <p>and co-operate with the new trustee, protector or enforcer to ensure a smooth transition.</p> | <p><i>All Class 5</i></p>                |
| <p><b>6.69 Agents</b></p> <p>(1) The licenceholder may not provide payment services through an agent unless the agent is —</p>  | <p><i>Class 8(2)(a) or 8(4) only</i></p> |

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| Rule  | Application                              |
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| <ul style="list-style-type: none"> <li>(a) a payment institution licensed to carry on activities falling within Class 8(2); or</li> <li>(b) an acceptable agent.</li> </ul> <p>(2) An agent must not be treated as acceptable until it has —</p> <ul style="list-style-type: none"> <li>(a) been assessed as being acceptable by the licenceholder; and</li> <li>(b) entered into written terms of business with that licenceholder.</li> </ul> <p>(3) When assessing whether an agent is acceptable under paragraph (2) the licenceholder must satisfy itself that the agent —</p> <ul style="list-style-type: none"> <li>(a) holds all necessary regulatory permissions in each jurisdiction in or from which it provides its services as agent; and</li> <li>(b) can demonstrate appropriate competence in relation to this business.</li> </ul> <p>(4) The licenceholder must ensure that any agents acting on its behalf inform payment service users of the agency arrangement.</p> <p>(5) The licenceholder must notify the Authority, not less than 20 business days in advance, of the appointment of any new agencies or changes in existing agencies.</p> <p>(6) An e-money issuer —</p> <ul style="list-style-type: none"> <li>(a) may distribute or redeem electronic money through an agent;</li> <li>(b) must not issue electronic money through a distributor, agent or any other entity acting on its behalf.</li> </ul> |  |
| <p><b>6.70 Issue and redemption of e-money</b></p> <p>(1) An e-money issuer must —</p> <ul style="list-style-type: none"> <li>(a) on receipt of funds, issue without delay electronic money at par value; and</li> <li>(b) at the request of the electronic money holder, redeem —</li> </ul>   | <p><i>Class 8(2)(a) or 8(4) only</i></p> |



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| Rule  | Application                                  |
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| <ul style="list-style-type: none"> <li>(i) at any time; and</li> <li>(ii) at par value,</li> </ul> <p>the monetary value of the electronic money held.</p> <p>(2) An e-money issuer must ensure —</p> <ul style="list-style-type: none"> <li>(a) that the client agreement clearly and prominently states the conditions of redemption, including any fees relating to redemption; and</li> <li>(b) that the electronic money holder is informed of those conditions before being bound by the client agreement.</li> </ul>   |  |
| <p><b>6.71 Prohibition of interest in respect of e-money</b></p> <p>An e-money issuer must not award —</p> <ul style="list-style-type: none"> <li>(a) interest in respect of the holding of electronic money; or</li> <li>(b) any other benefit related to the length of time during which an electronic money holder holds electronic money.</li> </ul>  | <p><i>Class 8(2)(a) or 8(4) only</i></p>     |
| <p><b>6.72 Provision of statistical information</b></p> <p>A licenceholder must provide to the Authority such statistical information relating to its activities by such date and in such form as the Authority may reasonably require.</p>   | <p><i>All Class 1, 2, 3, 4, 5, or 8,</i></p> |
| <p><b>6.73 Structured deposits — disclosure of product particulars</b></p> <p>(1) Prior to a depositor making a structured deposit, a licenceholder must ensure that the depositor is provided with information which informs him of —</p> <ul style="list-style-type: none"> <li>(a) the key characteristics of the structured deposit, including as a minimum — <ul style="list-style-type: none"> <li>(i) its term;</li> <li>(ii) any fees or charges, including any financial penalty payable for accessing capital in advance of the end of the deposit's term;</li> <li>(iii) the risks of the structured deposit;</li> </ul> </li> </ul> | <p><i>Class 1</i></p>                        |

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| Rule   | Application |
|--|-------------|
| <ul style="list-style-type: none"> <li>(iv) information on the index, financial instrument, commodity or exchange rate ('the underlying') upon which its interest or premium is calculated;</li> <li>(v) if the structured deposit uses averaging or cliquets, the benefits and disadvantages of such;</li> <li>(vi) if the structured deposit has a maximum potential rate of return for the term of the deposit, what the maximum return is and the fact that the potential annualised return is lower;</li> <li>(b) that fact that, where a structured deposit's return at the end of its term is zero, the depositor's real rate of return may be negative.</li> <li>(2) The information required at (1) may be contained within marketing material, or as an addendum thereto, but must be provided free of charge and in clear plain language.</li> <li>(3) Evidence of the provision of the information required at (1) must be retained by the licenceholder.</li> </ul> |             |
| <p><b>6.74 Structured deposits – depositor interaction</b></p> <ul style="list-style-type: none"> <li>(1) Where a licenceholder offers structured deposits, it must establish and implement a policy in relation to the interaction of its employees or other individuals who may sell or otherwise have direct interaction with potential makers of structured deposits. This policy must include requirements – <ul style="list-style-type: none"> <li>(a) that only employees who are competent to do so, after being provided with training on structured deposit particulars, are able to respond to queries regarding structured deposits;</li> <li>(b) that any employee interaction in relation to structured deposits includes that individual providing the information required by rule 6.73 and, if queries are raised, the provision of an</li> </ul> </li> </ul>   | Class 1     |

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| Rule  | Application |
|---|-------------|
| <p>explanation of those key characteristics by an employee trained as required by (a);</p> <p>(c) that where an employee reasonably believes that the potential depositor does not understand the structured deposit and its risks, they must warn the potential depositor of that fact and suggest an alternative type of deposit is made (if any); and</p> <p>(d) that where structured deposits are marketed or otherwise distributed by third parties on behalf of the licenceholder, the licenceholder must, in the spirit of (a) to (c), consider the regulatory status (if any), experience and track record of such third parties.</p> <p>(2) Evidence of the training at (1)(a), and where applicable considerations at (1)(d), must be retained by the licenceholder.</p> |             |

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## PART 7 – ADMINISTRATION

| Rule   | Application                                   |
|--|---|
| <p><b>7.1 Change of name or address</b></p> <p>A licenceholder must notify the Authority, not less than 20 business days in advance, of a change in –</p> <ul style="list-style-type: none"> <li>(a) its name;</li> <li>(b) any business name;</li> <li>(c) its principal place of business;</li> <li>(d) any permanent place of its business, normally open to the public, in the Island; or</li> <li>(e) its registered office.</li> </ul>   | <i>All Classes</i>                            |
| <p><b>7.2 Registration of business name</b></p> <p>A licenceholder must notify the Authority, not less than 20 business days in advance of the registration of any business name, including the rationale for such registration.</p>   | <i>All Classes</i>                            |
| <p><b>7.3 Ownership and structure matters – Isle of Man incorporated</b></p> <p>(1) A licenceholder must obtain the prior consent of the Authority, before –</p> <ul style="list-style-type: none"> <li>(a) re-registering as a company incorporated under the Companies Act 2006;</li> <li>(b) re-domiciling to another jurisdiction;</li> <li>(c) re-domiciling a subsidiary to another jurisdiction;</li> <li>(d) acquiring or establishing a trading subsidiary, branch or representative office in the Island or elsewhere;</li> <li>(e) any person acquires a controlling interest in the licenceholder; or</li> <li>(f) any change takes place to an existing controlling interest in the licenceholder which would take that controlling interest – <ul style="list-style-type: none"> <li>(i) from 50% or less to over 50%; or</li> </ul> </li> </ul> | <i>All Classes incorporated in the Island</i> |

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| Rule  | Application |
|---|-------------|
| <p>(ii) from 75% or less to over 75%.</p> <p>(2) A licenceholder must notify the Authority of —</p> <p>(a) any change to an existing controlling interest in the licenceholder which is not covered by paragraph (1)(f);</p> <p>(b) the sale or disposal of, or an agreement to sell or dispose of, the whole or any part of the licenceholder's business;</p> <p>(c) any change in the ownership structure between it and its ultimate parent company or, any material change in its ultimate ownership;</p> <p>(d) the closure, sale or winding up of a trading subsidiary, branch or representative office in the Island or elsewhere;</p> <p>(e) any subsidiary that is a —</p> <p>(i) nominee company;</p> <p>(ii) corporate officer or corporate trustee;</p> <p>(iii) protector;</p> <p>(iv) enforcer; or</p> <p>(v) non-trading body corporate (apart from a shelf company),</p> <p>that is formed, activated from dormancy, wound up, or ceased, unless (1)(d) applies; and</p> <p>(f) if (1)(e) or (1)(f) do not apply, any transfer of 5% or more of its voting shares, or any other transfer of its voting shares which has a material effect on the immediate or ultimate control of the licenceholder.</p> <p>(3) A notification in (2)(a) to (d) must be made not less than 20 business days before a transaction takes place or as may be otherwise agreed in writing by the Authority. A notification in (2)(e) must be made within 20 business days of the event.</p> <p>(4) The notification required in (2)(f) must be made —</p> |             |

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| Rule  | Application   |
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| <p>(a) where the shares are quoted on an exchange, within 5 business days of the licenceholder becoming aware of the transfer; or</p> <p>(b) in all other cases, 20 business days before the transfer is registered.</p> <p>(5) Where a licenceholder ("A") is acquiring clients of another licenceholder ("B"), B must notify its clients of the proposed transfer and the options available to them. Such notification must include that the clients may move to a different service provider, and must be given at least 20 business days in advance of the transfer.</p> <p>(6) Where a licenceholder has acquired clients from another licenceholder, it must —</p> <p>(a) review those clients' circumstances, to ensure that its obligations under Part 6 are met; and</p> <p>(b) issue new client agreements or terms of business whichever is appropriate.</p> <p>Such action must be taken within 20 business days of the acquisition, or such other date as may be agreed in writing by the Authority.</p> |   |
| <p><b>7.4 Ownership and structure matters — non-Isle of Man incorporated</b></p> <p>(1) A licenceholder must obtain the prior consent of the Authority before —</p> <p>(a) re-registering as a company incorporated under the Companies Act 2006;</p> <p>(b) re-domiciling to another jurisdiction;</p> <p>(c) any person acquires a controlling interest in the licenceholder; or</p> <p>(d) any change takes place to an existing controlling interest in the licenceholder which would take that controlling interest —</p> <p>(i) from 50% or less to over 50%; or</p> <p>(ii) from 75% or less to over 75%.</p> <p>(2) A licenceholder must notify the Authority —</p>   | <p><i>All Classes incorporated outside the Island</i></p> |

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| Rule  | Application |
|---|-------------|
| <p>(a) of any change to an existing controlling interest in the licenceholder which is not covered by paragraph (1)(d);</p> <p>(b) of the sale or disposal of, or an agreement to sell or dispose of, the whole or any part of the licenceholder's business;</p> <p>(c) of any change in the ownership structure between it and its ultimate parent company or, any material change in its ultimate ownership; or</p> <p>(d) before re-domiciling a subsidiary to another jurisdiction.</p> <p>Such notification must be made not less than 20 business days before a transaction takes place or as may be otherwise agreed in writing by the Authority.</p> <p>(3) If (1)(c) or (1)(d) do not apply, a licenceholder must notify the Authority of any transfer of 5% or more of its voting shares, or any other transfer of its voting shares which has a material effect on the immediate or ultimate control of the licenceholder. Such notification must be made —</p> <p>(a) where the shares are quoted on an exchange, within 5 business days after the licenceholder becomes aware of the transfer; or</p> <p>(b) in all other cases, 20 business days before the transfer is registered.</p> <p>(4) Where a licenceholder ("A") is acquiring clients of another licenceholder ("B"), B must notify its clients of the proposed transfer and the options available to them. Such notification must include that the clients may switch to a different service provider, and must be made at least 20 business days in advance of the transfer.</p> <p>(5) Where a licenceholder has acquired clients from another licenceholder, it must —</p> <p>(a) review those clients' circumstances, to ensure that its obligations under Part 6 are met; and</p> <p>(b) issue new client agreements or terms of business whichever is appropriate.</p> |             |

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| Rule   | Application  |
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| Such action must be taken within 20 business days of the acquisition, or such other date as may be agreed in writing by the Authority.   |  |
| <p><b>7.5 Merger, takeover and purchase notification requirements</b></p> <p>(1) A licenceholder must notify the Authority of —</p> <ul style="list-style-type: none"> <li>(a) a merger of its business with another business;</li> <li>(b) a takeover or acquisition by the licenceholder of another business; or</li> <li>(c) a purchase by the licenceholder of the assets or liabilities of another business;</li> </ul> <p>(2) A notification under paragraph (1) must be made not less than 20 business days before a transaction takes place or as may be otherwise agreed in writing by the Authority.</p> | <i>All Classes except Class 1</i>  |
| <p><b>7.6 Merger, takeover and purchase consent requirements</b></p> <p>A licenceholder must obtain the prior consent of the Authority, before it —</p> <ul style="list-style-type: none"> <li>(a) merges its business with another business;</li> <li>(b) takes over or acquires another business; or</li> <li>(c) purchases the assets or liabilities of another business.</li> </ul>  | <i>All Class 1</i>   |
| <p><b>7.7 Further ownership and structure matters — Isle of Man incorporated</b></p> <p>(1) A licenceholder must obtain the prior consent of the Authority, before taking any step towards reducing or altering the nature of —</p> <ul style="list-style-type: none"> <li>(a) its issued share capital; or</li> <li>(b) its loan capital.</li> </ul> <p>(2) A licenceholder must notify the Authority not less than 10 business days before increasing its issued share capital.</p> <p>(3) A licenceholder must notify the Authority not less than 20 business days before taking any steps towards</p>          | <i>All Classes incorporated in the Island, except Class 8(1), 8(2)(b) or 8(3),</i> |



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| Rule   | Application   |
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| <p>altering the rights or obligations of its shareholders or debenture holders.</p> <p>(4) Unless a subscription for shares is made by a Class 4 or Class 5 licenceholder in the course of such regulated activity, a licenceholder must notify the Authority before subscribing for, or acquiring, or entering into a contract to subscribe for or acquire, 10% or more of the issued share capital of a company. Such notification must be made not less than 20 business days before a transaction takes place or as may be otherwise agreed in writing by the Authority.</p> <p>(5) A licenceholder must notify the Authority within 5 business days of becoming aware of any proposed pledge of, offer of options over, or options granted, in respect of any shares in the capital of the licenceholder.</p>   |   |
| <p><b>7.8 Further ownership and structure matters — non-Isle of Man incorporated</b></p> <p>(1) A licenceholder must notify the Authority not less than 10 business days before increasing its issued share capital.</p> <p>(2) A licenceholder must notify the Authority not less than 20 business days before taking any steps towards altering the rights or obligations of its shareholders or debenture holders.</p> <p>(3) Unless a subscription for shares is made by a Class 4 or Class 5 licenceholder in the course of such regulated activity, a licenceholder must notify the Authority before subscribing for, or acquiring, or entering into a contract to subscribe for or acquire, 10% or more of the issued share capital of a company. Such notification must be made not less than 20 business days before a transaction takes place or as may be otherwise agreed in writing by the Authority.</p> <p>(4) A licenceholder must notify the Authority within 5 business days of becoming aware of any proposed pledge of, offer of options over, or options granted, in respect of any shares in the capital of the licenceholder.</p> | <p><i>All Classes incorporated outside the Island, except Class 8(1), 8(2)(b) or 8(3)</i></p> |

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| Rule  | Application               |
|---|---------------------------|
| <p><b>7.9 New appointments and departures from office</b></p> <p>(1) In relation to any licenceholder, this rule applies to the following offices and positions —</p> <p><del>(a) — Isle of Man resident officer;</del></p> <p>(a) <del>compliance officer</del> <b>Head of compliance;</b></p> <p>(b) MLRO;</p> <p>(c) DMLRO; and</p> <p>(d) any other key person.</p> <p>(2) In relation to a licenceholder incorporated in the Island, this rule also applies to the following offices and positions —</p> <p>(a) a controller who is an individual; <b>and</b></p> <p>(b) a director; <b>and</b></p> <p><del>(c) — a secretary;</del></p> <p>(3) Subject to <b>(4) and</b> rule 7.10, a licenceholder must notify the Authority at least 20 business days in advance of —</p> <p>(a) an appointment or intended appointment to any office or position to which this rule applies; and</p> <p>(b) the title and responsibilities of the office or position.</p> <p><b>(4) Despite the notification period at (3), if the appointment is to an office or position which is a "notified only" appointment a licenceholder must notify the Authority within 10 business days following the date of the appointment.</b></p> <p><b>(5) (4)</b> A licenceholder must notify the Authority of any departure or intended departure from an office or position to which this rule applies, giving reason for departure, within 10 business days of the giving of notice or other event giving rise to the departure.</p> <p><b>(6) (5) For the avoidance of doubt, references A reference</b> in this rule to <b>—</b></p> <p><b>"an appointment"</b> include an appointment of an existing officer or employee of a licenceholder; <b>and</b></p> | <p><i>All Classes</i></p> |

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| Rule  | Application |
|---|-------------|
| <p>(b) a "notified only" appointment, means any one or more of the appointments specified by the Authority as notified only (set out in the second column of the table at Appendix 2 of the Regulatory Guidance – Fitness and Propriety).ss</p>   |             |
| <p><b>7.10 Appointments in exceptional circumstances</b></p> <p>A licenceholder may appoint an individual ("the appointee") to carry out the office and position of a person fulfilling the roles identified in rule 7.9(1) or 7.9(2) ("the officer") without the notification required by rule 7.9 provided that the following conditions are met –</p> <ul style="list-style-type: none"> <li>(a) the absence of the officer is due to exceptional circumstances;</li> <li>(b) the role is not fulfilled by any one or more appointees for longer than 12 weeks in any rolling consecutive 12 month period;</li> <li>(c) the licenceholder notifies the Authority within 5 business days of the appointment of – <ul style="list-style-type: none"> <li>(i) the name of the appointee undertaking the role;</li> <li>(ii) the title and responsibilities of the vacant office or position;</li> <li>(iii) the exceptional circumstances giving rise to the appointment;</li> </ul> </li> <li>(d) the licenceholder has assessed that the appointee has the relevant skills and experience to carry out the function. This assessment must be documented in writing and made available to the Authority on request;</li> <li>(e) the licenceholder's responsible officers must provide adequate oversight of the appointee and the function while the appointee undertakes the role; and</li> <li>(f) the licenceholder notifies the Authority within 5 business days of the appointee ceasing to undertake the role.</li> </ul> | All Classes |

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| Rule   | Application |
|--|-------------|
| <p><b>7.11 References</b></p> <p>(1) If a licenceholder ("A") –</p> <ul style="list-style-type: none"> <li>(a) is considering appointing a person to perform any of the roles detailed in rule 7.9;</li> <li>(b) requests another licenceholder ("B"), as a current or former employer of that person, for a reference or other information in connection with that appointment; and</li> <li>(c) indicates to B the purpose of the request,</li> </ul> <p>B must, as soon as reasonably practicable, provide to A all relevant facts of which it is aware.</p> <p>(2) When providing the information to A under paragraph (1), B must have regard to the purpose of the request and in particular to –</p> <ul style="list-style-type: none"> <li>(a) any issues in relation to that person's fit and proper status;</li> <li>(b) any relevant outstanding or upheld complaints against that person;</li> <li>(c) any outstanding liabilities of that person from commission payments; and</li> <li>(d) if relevant, the persistency of any life policies sold by that person.</li> </ul> | All Classes |
| <p><b>7.12 Fitness and propriety</b></p> <p>(1) A licenceholder must take reasonable steps to ensure that all individuals (whether or not employed by the licenceholder) who perform any regulated activity in the course of their employment, or under any contract, with the licenceholder are fit and proper for the tasks they perform.</p> <p>(2) A licenceholder must notify the Authority promptly if it becomes aware of any significant matters that may affect an assessment of the fitness or propriety of any of its directors, controllers or key persons.</p>  | All Classes |
| <p><b>7.13 Staff disciplinary action</b></p>   | All Classes |

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| Rule  | Application               |
|---|---------------------------|
| <p>(1) A licenceholder must notify the Authority within 10 business days of the discovery of an event which may lead to a final warning being given to, or other serious disciplinary action being taken against, any of its employees.</p> <p>(2) With respect to the events described in paragraph (1) –</p> <ul style="list-style-type: none"> <li>(a) the notification must specify the event;</li> <li>(b) the notification must also specify the name of any employee who is a key person;</li> <li>(c) following an investigation which results in the licenceholder giving a final warning to, or taking any other serious disciplinary action against, an employee who is not a key person, the licenceholder must disclose the name of that employee to the Authority.</li> </ul> <p>(3) A licenceholder must notify the Authority within 5 business days after it gives any final warning to, or takes any other serious disciplinary action against, any of its key persons, supplying full details of the action including copies of any notices or written warnings given by the licenceholder to the key person.</p> <p>(4) The licenceholder must provide the individual concerned with a copy of any notification under this rule.</p> <p>(5) The requirements of paragraphs (1) to (3) have effect notwithstanding any agreement imposing an obligation of confidentiality.</p> <p>(6) For the purpose of this rule “<b>serious disciplinary action</b>” is to be interpreted in accordance with the licenceholder’s internal human resources policy.</p> |                           |
| <p><b>7.14 Disqualification as a director etc.</b></p> <p>A licenceholder must notify the Authority as soon as it becomes aware of any disqualification or any application for disqualification relating to the licenceholder or any of its key persons under –</p> <ul style="list-style-type: none"> <li>(a) sections 4, 5 or 9 of the Company Officers (Disqualification) Act 2009; or</li> </ul>  | <p><i>All Classes</i></p> |

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| Rule   | Application |
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| (b) any equivalent provision having effect in a country or territory outside the Island.   |             |
| <p><b>7.15 Service of notice etc.</b></p> <p>(1) A licenceholder must notify the Authority as soon as it becomes aware of any action specified in paragraph (2) against —</p> <p>(a) the licenceholder; or</p> <p>(b) an associated company of the licenceholder.</p> <p>(2) The actions referred to in paragraph (1) are the service by a constable or member of HM Attorney General's Chambers of any notice, summons, order or warrant (a "<b>request</b>") made under any criminal statute in the Isle of Man for the purposes of obtaining evidence for a criminal investigation or criminal proceedings, including a confiscation investigation or confiscation proceedings either in the Island or elsewhere.</p> <p>(3) A licenceholder authorised to carry on regulated activities falling within Class 2, Class 3, Class 4 or Class 5 must also notify the Authority as soon as it becomes aware of any request made in respect of any person for or on behalf of whom the licenceholder carries on any regulated activity.</p> <p>(4) A licenceholder authorised to carry on regulated activities falling within Class 3, Class 4 or Class 5 must also notify the Authority as soon as it becomes aware of any request made in respect of any person for or on behalf of whom the licenceholder used to carry on any regulated activity at any time in the 6 years prior to the date of the request.</p> <p>(5) Any notification given under this rule must specify —</p> <p>(a) the name of the body serving the request;</p> <p>(b) the person to whom the request relates; and</p> <p>(c) in the case of (3) and (4) only, the elements of regulated activity provided by the licenceholder to the person to whom the request relates.</p> | All Classes |
| <b>7.16 Criminal proceedings and convictions</b>   | All Classes |

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| Rule  | Application               |
|---|---------------------------|
| <p>(1) A licenceholder must notify the Authority as soon as it becomes aware of the bringing of any criminal proceedings against, or the conviction of —</p> <ul style="list-style-type: none"> <li>(a) the licenceholder or any associated company; or</li> <li>(b) any officer or employee of the licenceholder or any associated company,</li> </ul> <p>for an offence to which this rule applies.</p> <p>(2) This rule applies to —</p> <ul style="list-style-type: none"> <li>(a) an offence which is or, if committed in the Island, would be triable on information;</li> <li>(b) an offence relating to a regulated activity or an activity which, if carried on in the Island, would be a regulated activity;</li> <li>(c) an offence under the Companies Acts 1931 to 2004 or the Companies Act 2006, or any legislation having similar effect in any country or territory outside the Island;</li> <li>(d) an offence relating to the formation, management or administration of companies in any country or territory;</li> <li>(e) an offence under the Purpose Trusts Act 1996 or any legislation having similar effect in any country or territory outside the Island;</li> <li>(f) an offence relating to trusts in any country or territory;</li> <li>(g) an offence relating to insolvency;</li> <li>(h) an offence involving fraud or dishonesty; or</li> <li>(i) an offence under the Foundations Act 2011 or any legislation having similar effect in any country or territory outside the Island.</li> </ul> <p>(3) Nothing in this rule requires a licenceholder to disclose any matter subject to legal professional privilege.</p> |                           |
| <p><b>7.17 Surrender of licence</b></p> <p>(1) Where a licenceholder intends voluntarily to surrender its licence, it must notify the Authority of —</p>  | <p><i>All Classes</i></p> |

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| Rule  | Application        |
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| <ul style="list-style-type: none"> <li>(a) its intention to do so; and</li> <li>(b) the arrangements it proposes to make to dispose of its business.</li> </ul> <p>(2) A notification under paragraph (1) must be given not less than 30 business days before the surrender of the licence.</p> <p>(3) If the requisite amount of notice under paragraph (2) is not given, the surrender will not take effect until 30 business days after the notice was received by the Authority, unless the Authority determines otherwise.</p>   |                    |
| <p><b>7.18 Cessation of regulated activities</b></p> <p>(1) Where a licenceholder intends voluntarily to cease carrying on a regulated activity of any description, it must notify the Authority of —</p> <ul style="list-style-type: none"> <li>(a) its intention to do so; and</li> <li>(b) the arrangements it proposes to make to for the safeguarding of its clients' deposits or other assets.</li> </ul> <p>(2) A notification under paragraph (1) must be given —</p> <ul style="list-style-type: none"> <li>(a) if practicable, not less than 20 business days before the event; or</li> <li>(b) otherwise, as soon as practicable.</li> </ul> | <i>All Classes</i> |
| <p><b>7.19 Bankruptcy, winding up, etc.</b></p> <p>A licenceholder must notify the Authority as soon as it becomes aware of any of the following (whether occurring in the Island or elsewhere) —</p> <ul style="list-style-type: none"> <li>(a) the commencement of proceedings for the winding up of the licenceholder or a wholly-owned subsidiary of the licenceholder;</li> <li>(b) the appointment of a receiver, liquidator, provisional liquidator, administrator or trustee in bankruptcy of the licenceholder or a wholly-owned subsidiary of the licenceholder;</li> </ul>   | <i>All Classes</i> |



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| Rule  | Application   |
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| <ul style="list-style-type: none"> <li>(c) the making of any composition or arrangement with creditors of the licenceholder or a wholly-owned subsidiary of the licenceholder;</li> <li>(d) the appointment of an inspector by a statutory or other regulatory authority to investigate the affairs of the licenceholder or a wholly-owned subsidiary of the licenceholder.</li> </ul>  |   |
| <p><b>7.20 Voluntary winding up</b></p> <ul style="list-style-type: none"> <li>(1) A licenceholder must notify the Authority of the intention of its directors to make a declaration of solvency in accordance with section 218 of the Companies Act 1931 not less than 5 business days before the declaration is signed.</li> <li>(2) This rule also applies in respect of any wholly-owned subsidiaries of the licenceholder.</li> </ul>  | <p><i>All Classes incorporated in the Island</i></p>                      |
| <p><b>7.21 Legal proceedings — deposit takers</b></p> <ul style="list-style-type: none"> <li>(1) A licenceholder must notify the Authority as soon as it becomes aware of any actual or intended legal proceedings, of whatever nature and regardless of whether in relation to any type of regulated activity or another matter, taken, or to be taken, by or against it, or any wholly owned subsidiary of the licenceholder, where the amount claimed or disputed is likely to exceed — <ul style="list-style-type: none"> <li>(a) £500,000 or its equivalent in another currency; or</li> <li>(b) in the case of a licenceholder incorporated in the Island, 5% of the licenceholder's large exposures capital base,</li> </ul> whichever is the lower.</li> <li>(2) Nothing in this rule requires a licenceholder to disclose any matter subject to legal professional privilege.</li> </ul> | <p><i>Class 1 only</i></p>  |
| <p><b>7.22 Legal proceedings — investment businesses, CIS service, corporate service and trust service providers, payment institutions and e-money issuers</b></p>  | <p><i>All Class 2, 3, 4, 5, 8(2)(a), 8(4), except: those that are</i></p> |

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| Rule  | Application                     |
|---|---------------------------------|
| <p>(1) A licenceholder must notify the Authority as soon as it becomes aware of any actual or intended legal proceedings, of whatever nature and regardless of whether in relation to any type of regulated activity or another matter, taken, or to be taken, by or against it, or any wholly-owned subsidiary of the licenceholder, where the amount claimed or disputed is likely to exceed —</p> <p>(a) £100,000 or its equivalent in another currency; or</p> <p>(b) in the case of a licenceholder incorporated in the Island, 10% of the licenceholder's minimum net tangible asset requirement,</p> <p>whichever is the lower.</p> <p>(2) Nothing in this rule requires a licenceholder to disclose any matter subject to legal professional privilege.</p>   | <p><i>also Class 1</i></p>      |
| <p><b>7.23 Criminal proceedings against client — corporate service and trust service providers</b></p> <p>(1) A licenceholder must notify the Authority and, where possible, provide a brief summary of the case as soon as it becomes aware of the bringing of any criminal proceedings against a client for, or the conviction of a client of, an offence which is or, if committed in the Island would be, triable on information.</p> <p>(2) In this rule "<b>client</b>" means —</p> <p>(a) in the case of a licenceholder licensed to carry on regulated activities falling within Class 4 —</p> <p>(i) a company which is a client of the licenceholder;</p> <p>(ii) any officer of such a company; or</p> <p>(iii) a beneficial owner of such a company; or</p> <p>(b) in the case of a licenceholder licensed to carry on regulated activities falling within Class 5, a trustee or settlor of any trust for which it provides services or a founder of any foundation established under the Foundations Act 2011 for which it is an enforcer.</p> | <p><i>All Class 4 and 5</i></p> |

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| <b>Rule</b>   | <b><i>Application</i></b> |
|---|---------------------------|
| <b>7.24 Notification of default — deposit takers</b><br><br>The licenceholder must notify the Authority immediately if an event occurs which would give rise to a claim under a scheme established by Regulations under section 25 of the Act (compensation schemes). | <i>Class 1(1) only</i>    |

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## PART 8 – RISK MANAGEMENT AND INTERNAL CONTROL

| Rule   | Application        |
|--|--------------------|
| <p><b>8.1 Interpretation</b></p> <p>In rules 8.1 to 8.32, in relation to any licenceholder, “<b>the regulatory requirements</b>” means the requirements of –</p> <ul style="list-style-type: none"> <li>(a) the conditions of the licenceholder’s licence;</li> <li>(b) any direction issued to the licenceholder under section 14 of the Act; and</li> <li>(c) the following, so far as applicable to the licenceholder – <ul style="list-style-type: none"> <li>(i) any provision of the Act;</li> <li>(ii) this Rule Book;</li> <li>(iii) any other Rule Book under section 18 of the Act;</li> <li>(iv) the Anti-Money Laundering and Countering the Financing of Terrorism Code 2015, or any successor;</li> <li>(v) any other relevant code of practice under section 157(1) of the Proceeds of Crime Act 2008 or section 68 of the Terrorism and Other Crime (Financial Restrictions) Act 2014;</li> <li>(vi) any other provision having effect under or by virtue of the Act;</li> <li>(vii) any statutory provision referred to in section 43 of the Act;</li> <li>(viii) any provision of the Payment Services Act 2015 and any provision having effect under or by virtue of that Act; and</li> <li>(ix) the Collective Investment Schemes Act 2008.</li> </ul> </li> </ul> | <i>All Classes</i> |
| <b>8.2 Corporate governance</b>  | <i>All Classes</i> |

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| Rule   | Application               |
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| <ul style="list-style-type: none"> <li>(1) The responsible officers of a licenceholder must ensure the good governance of the licenceholder and compliance with the regulatory requirements.</li> <li>(2) A licenceholder must have in place arrangements for effective corporate governance which are appropriate to its size and the nature of its business.</li> </ul>  |                           |
| <p><b>8.3 Management controls</b></p> <ul style="list-style-type: none"> <li>(1) A licenceholder must — <ul style="list-style-type: none"> <li>(a) organise and control its internal affairs in a responsible manner; and</li> <li>(b) promote high ethical standards in the conduct of its regulated activities.</li> </ul> </li> <li>(2) The responsible officers of a licenceholder must establish and maintain appropriate internal and operational controls, systems, policies and procedures relating to all aspects of its business to ensure — <ul style="list-style-type: none"> <li>(a) effective communication between the licenceholder and its clients;</li> <li>(b) appropriate segregation of key duties and functions;</li> <li>(c) the fair treatment of clients;</li> <li>(d) the safeguarding of assets belonging to clients for which the licenceholder is responsible. For the avoidance of doubt, in this rule “<b>assets</b>” includes money, property and investments;</li> <li>(e) effective maintenance of accounting and other records and the reliability of this information;</li> <li>(f) appropriate safeguards to prevent and detect any abuse of the licenceholder’s services for money laundering, financial crime, the financing of terrorism, or the proliferation of weapons of mass destruction;</li> <li>(g) appropriate safeguards to prevent and detect market manipulation or market abuse;</li> </ul> </li> </ul> | <p><i>All Classes</i></p> |

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| <p>(h) appropriate safeguards to protect data from loss or misuse; and</p> <p>(i) effective systems and controls and depth of resources to adequately deal with the risk profile of all clients especially those connected with a higher risk jurisdiction or where structures are established for clients in those higher risk jurisdictions.</p> <p>(3) A licenceholder must review the controls required by this rule annually, or more frequently if appropriate. These reviews should be documented.</p> <p>(4) Where the licenceholder employs staff or is responsible for regulated activities conducted by others it must —</p> <p>(a) make adequate arrangements to ensure that those persons are suitable, adequately trained, properly supervised and do not exceed the licenceholder's licence permissions or any limitations placed on those persons;</p> <p>(b) document the roles and responsibilities of, or limitations placed on, such persons; and</p> <p>(c) not permit an individual to provide financial advice unless that individual holds a relevant qualification as specified by the Authority.</p> <p>(5) A licenceholder must ensure that the persons to whom this rule applies carry out their duties in a diligent and proper manner in accordance with the systems, controls, policies and procedures referred to in paragraph (2).</p> <p>(6) The persons to whom paragraph (5) applies are —</p> <p>(a) the licenceholder's key persons; and</p> <p>(b) any other individual, whether or not employed by the licenceholder, who performs any regulated activity in the course of his employment, or under any contract, with the licenceholder.</p> <p>(7) Without prejudice to rule 6.2, 6.11 and 8.9, a licenceholder must put in place arrangements for copies of all material correspondence from the licenceholder to the Authority, and all material correspondence and</p> |             |

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| Rule   | Application   |
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| reports on a licenceholder from the Authority to be promptly supplied to its responsible officers.   |   |
| <p><b>8.4 Compliance with obligations</b></p> <p>A licenceholder must comply with the regulatory requirements and have regard to any code or set of standards promulgated by any authority or body other than the Authority having responsibility in the public interest for the supervision or regulation of the licenceholder's activities, except to the extent that it is inconsistent with the regulatory requirements.</p>   | <i>All Classes</i>                                    |
| <p><b>8.5 Continuing professional development ("CPD")</b></p> <p>(1) In respect of all of its directors and key persons, a licenceholder must ensure that —</p> <p>(a) those persons undertake a minimum of 25 hours relevant CPD requirements per annum; or —</p> <p>(b) where the individual is a member of a professional body and that body's CPD requirement is higher than 25 hours per annum, they comply the CPD requirements of their professional body.</p> <p>(2) Despite (1), a licenceholder that is licensed to carry on activities falling within Class 2 must ensure that investment advice to retail clients is only provided by individuals that undertake a minimum of 35 hours relevant CPD per annum.</p> <p>(3) The licenceholder must maintain records to evidence the CPD compliance of all individuals to whom (1) and (2) apply.</p> <p>(4) A licenceholder that is licensed to carry on activities falling within Class 2 must ensure that investment advice to retail clients is only provided by individuals that hold an 'Isle of Man Statement of Professional Standing' issued in the previous 12 months by a professional body accredited by the Authority.</p> <p>(5) A licenceholder to which (4) applies must retain the 'Isle of Man Statement of Professional Standing' with the individual's training record.</p> | <i>All Classes except Class 8(1), 8(2)(b) or 8(3)</i> |

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| Rule  | Application  |
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| <p><b>8.6 Risk management</b></p> <p>(1) A licenceholder must by its responsible officers —</p> <ul style="list-style-type: none"> <li>(a) establish and maintain comprehensive policies, appropriate to the nature and scale of its business and, where appropriate, its position in the group, for managing the risks specified in paragraph (2); and</li> <li>(b) review those policies annually and evidence that review.</li> </ul> <p>(2) The risks referred to in paragraph (1)(a) are —</p> <ul style="list-style-type: none"> <li>(a) all material risks associated with the licenceholder, including financial, legal, regulatory and other risks posed by a group company, which may affect the licenceholder;</li> <li>(b) all operational risks associated with the licenceholder's activities;</li> <li>(c) in the case of a licenceholder conducting regulated activities falling within Class 4 or Class 5, material regulatory and other risks to the licenceholder associated with the activities of its clients; and</li> <li>(d) any other risks which the Authority has, by notice in writing to the licenceholder, specified as additional risks for the purpose of this rule.</li> </ul> <p>(3) A notice under paragraph (2)(d) —</p> <ul style="list-style-type: none"> <li>(a) shall remain in force until it is withdrawn by the Authority by a further notice in writing to the licenceholder; and</li> <li>(b) may specify actions to be taken for the purpose of measuring, monitoring and controlling the additional risks,</li> </ul> <p>and the licenceholder must take such action as is specified under sub-paragraph (b).</p> <p>(4) The policies referred to in paragraph (1)(a) must include —</p> | <p><i>All Classes except Class 8(1), 8(2)(b) or 8(3)</i></p> |



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| Rule   | Application                                   |
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| <ul style="list-style-type: none"> <li>(a) clear arrangements for —               <ul style="list-style-type: none"> <li>(i) delegating (where delegation is appropriate) and separating functions which involve committing the licenceholder, paying away its funds, and accounting for its assets and liabilities;</li> <li>(ii) reconciliation of those processes;</li> <li>(iii) safeguarding its assets; and</li> <li>(iv) appropriate independent internal audit and compliance procedures to test adherence to the regulatory requirements;</li> </ul> </li> <li>(b) appropriate procedures and controls for the purpose of identifying, measuring, monitoring and controlling the risks specified in paragraph (2); and</li> <li>(c) regular consideration of those risks by the responsible officers.</li> <li>(5) The licenceholder must —               <ul style="list-style-type: none"> <li>(a) ensure that the policies referred to in paragraph (1)(a) are complied with;</li> <li>(b) maintain appropriate procedures and controls for the purpose of monitoring its compliance with those policies; and</li> <li>(c) monitor the risks specified in paragraph (2) on a frequent and timely basis.</li> </ul> </li> </ul> |   |
| <p><b>8.7 Remuneration policy</b></p> <ul style="list-style-type: none"> <li>(1) A licenceholder must establish, implement and maintain an effective remuneration policy which must be —               <ul style="list-style-type: none"> <li>(a) in writing; and</li> <li>(b) appropriate to its size and organisation and the nature, scale and complexity of its business.</li> </ul> </li> <li>(2) The policy must —               <ul style="list-style-type: none"> <li>(a) address the risk of inappropriate remuneration undermining the interests of clients;</li> </ul> </li> </ul>  | <p><i>Class 1, 2, 3(6), 3(7), or 3(8)</i></p> |

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| Rule   | Application               |
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| <ul style="list-style-type: none"> <li>(b) avoid conflicts of interest caused by the misalignment of incentives; and</li> <li>(c) contain measures for the proper management of incentive schemes so as to avoid the encouragement of improper or imprudent behaviour.</li> </ul> <p>(3) A licenceholder must —</p> <ul style="list-style-type: none"> <li>(a) ensure that the policy is complied with; and</li> <li>(b) maintain appropriate procedures and controls for the purpose of monitoring its compliance with the policy.</li> </ul>   |                           |
| <p><b>8.8 Whistleblowing policy</b></p> <p>(1) A licenceholder must establish, implement and maintain an effective whistleblowing policy to encourage the reporting of any improper or unlawful behaviour. The policy must be —</p> <ul style="list-style-type: none"> <li>(a) in writing; and</li> <li>(b) appropriate to the licenceholder's size and organisation and the nature, scale and complexity of its business.</li> </ul> <p>(2) The whistleblowing policy must —</p> <ul style="list-style-type: none"> <li>(a) define the scope of improper or unlawful behaviour covered by it, including but not limited to — <ul style="list-style-type: none"> <li>(i) failure to comply with the licenceholder's legal or regulatory requirements;</li> <li>(ii) financial malpractice or fraud;</li> <li>(iii) criminal activity;</li> <li>(iv) improper conduct or unethical behaviour; and</li> <li>(v) attempts to conceal any financial malpractice or fraud;</li> </ul> </li> <li>(b) set out an internal reporting structure to enable the licenceholder's responsible officers, key staff and all employees to raise concerns internally but</li> </ul> | <p><i>All Classes</i></p> |

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| <p>outside of the normal management reporting structure; and include provisions requiring persons to whom it applies to raise their concerns directly with the Authority if they feel that they have not been adequately addressed internally;</p> <p>(c) state how, and ensure that, matters so reported are considered objectively and that appropriate and timely actions are taken;</p> <p>(d) adequately and appropriately protect the whistleblower from any negative repercussions arising from reporting in good faith their concerns, including, but not limited to ensuring confidentiality; and</p> <p>(e) be communicated effectively to all persons to whom it applies.</p> <p>(3) A licenceholder must —</p> <p>(a) ensure that the policy is complied with; and</p> <p>(b) maintain appropriate procedures and controls for the purpose of monitoring its compliance with the policy.</p> |  |
| <p><b>8.9 Conflicts of interest policy</b></p> <p>(1) A licenceholder must establish, implement and maintain an effective conflicts of interest policy which must be —</p> <p>(a) in writing; and</p> <p>(b) appropriate to its size and organisation and the nature, scale and complexity of its business.</p> <p>(2) Where the licenceholder is a member of a group, the policy must also take into account any circumstances of which it is or should be aware and which may give rise to a conflict of interest arising as a result of the structure and business activities of other members of the group.</p> <p>(3) Where the licenceholder's functions have been delegated (whether or not to a member of the same group) the policy must also take into account any circumstances of which it is or should be aware and which may give rise</p>   | <p><i>All Classes except Class 8(1), 8(2)(b) or 8(3)</i></p> |

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| <p>to a conflict of interest arising as a result of the delegation.</p> <p>(4) The policy must —</p> <p>(a) identify, with reference to the specific activities of the licenceholder, the circumstances which constitute or may give rise to a conflict of interest entailing a material risk of damage to the interests of one or more of its clients; and</p> <p>(b) specify procedures to be followed and measures to be adopted in order to manage such conflicts.</p> <p>(5) The procedures and measures referred to in paragraph (4)(b) must —</p> <p>(a) ensure that any relevant persons engaged in activities involving a conflict of interest of the kind specified in paragraph (4)(a) carry on those activities at a level of independence appropriate to —</p> <p>(i) the size and activities of the licenceholder and (where appropriate) of the group to which it belongs; and</p> <p>(ii) the materiality of the risk of damage to the interests of clients; and</p> <p>(b) include such of the following as are necessary and appropriate for the licenceholder to ensure the requisite degree of independence —</p> <p>(i) effective procedures to prevent or control the exchange of information between relevant persons who are engaged in activities involving a risk of a conflict of interest, where the exchange of that information may harm the interests of one or more clients;</p> <p>(ii) the separate supervision of relevant persons whose principal functions involve carrying out activities on behalf of, or providing services to, clients whose interests may conflict, or who otherwise represent different interests that may</p> |             |

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| <p>conflict, including those of the licenceholder;</p> <p>(iii) the removal of any direct link between the remuneration of relevant persons principally engaged in one activity and the remuneration of, or revenues generated by, different relevant persons principally engaged in another activity, where a conflict of interest may arise in relation to those activities;</p> <p>(iv) measures to prevent or limit any person from exercising inappropriate influence over the way in which a relevant person carries on regulated activities;</p> <p>(v) measures to prevent or control the simultaneous or sequential involvement of a relevant person in separate activities where such involvement may impair the proper management of conflicts of interest.</p>                                       |  |
| <p><b>8.10 Conflicts of interest register</b></p> <p>(1) A licenceholder must maintain a register of conflicts of interest.</p> <p>(2) The register referred to in paragraph (1) —</p> <p>(a) may be in summary form, provided that a full record of each conflict of interest and the measures adopted to manage it is also held;</p> <p>(b) must contain the following information relating to each conflict of interest —</p> <p>(i) a description of the regulated activity in relation to which the conflict arises;</p> <p>(ii) the name of the client, or the description of clients, whose interests are at a material risk of damage by reason of the conflict;</p> <p>(iii) the nature of the conflict;</p> <p>(iv) if the conflict arises by reason of the involvement of an officer, employee or</p> | <p><i>All Classes except Class 8(1), 8(2)(b) or 8(3)</i></p> |

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| <p>           tied agent of the licenceholder or of a person employed by them (in the latter case, the name of the person concerned);<br/>           (v) the measures adopted to manage the conflict;<br/>           (vi) the date when the conflict was first identified; and<br/>           (vii) if the conflict has ceased, the date when it ceased and the grounds for considering that it has ceased.<br/>           (3) The information relating to a conflict of interest must be kept on the register until at least 6 years after the date mentioned in paragraph (2)(b)(vii).         </p>   |  |
| <p><b>8.11 Business plan</b></p> <p>(1) A licenceholder must have a documented business plan.</p> <p>(2) A licenceholder must operate in accordance with its business plan.</p> <p>(3) Where —</p> <p>(a) any matter to be notified by a licenceholder to the Authority under rule 8.13 involves a material change in its activities as set out in its business plan; or</p> <p>(b) the licenceholder ceases to carry on any description of regulated activity,</p> <p>the licenceholder must, before or as soon as practicable after the change takes place —</p> <p>(i) draw up a fresh business plan incorporating any necessary amendments to take account of that change; and</p> <p>(ii) provide the Authority with a copy of the plan.</p> <p>(4) References in this rule to a licenceholder's business plan are to —</p> <p>(a) the statement most recently provided under paragraph (3)(b)(ii); or</p> | <p><i>All Classes except Class 8(1), 8(2)(b) or 8(3)</i></p> |

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| (b) if none has been so provided, the statement submitted to the Authority with the licenceholder's application for a licence.   |  |
| <p><b>8.12 Contractual arrangements for management and administration</b></p> <p>(1) There must be a written agreement between the licenceholder and the person to which it provides management or administration services.</p> <p>(2) A copy of the agreement must be provided to the Authority on request.</p>   | <p><i>Class 3(9) and Class 7</i></p>                         |
| <p><b>8.13 Changes to activities, services or products</b></p> <p>A licenceholder must notify the Authority, not less than 20 business days in advance —</p> <p>(a) of any cessation of or change to any regulated activities which it carries on;</p> <p>(b) of any material cessation of, or material addition or change to, the services or products which it offers (whether or not their provision constitutes a regulated activity);</p> <p>(c) of any material cessation of, or material addition or change to the sectors or jurisdictions in or to which it provides services or products (whether or not their provision constitutes a regulated activity); and</p> <p>(d) of any activities other than activities regulated by the Authority that it commences, materially changes or ceases undertaking.</p> | <p><i>All Classes</i></p>                                    |
| <p><b>8.14 Business resumption and contingency arrangements</b></p> <p>(1) A licenceholder must —</p> <p>(a) establish and maintain business resumption and contingency arrangements which are appropriate to the nature and scale of its business; and</p> <p>(b) test the business resumption arrangements at appropriate intervals.</p>   | <p><i>All Classes except Class 8(1), 8(2)(b) or 8(3)</i></p> |

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| <p>(2) Without prejudice to (1), the arrangements must address disruption that may be caused by the consequences of financial turbulence and any restricted access to payment and settlement systems. The licenceholder must review the arrangements at appropriate intervals and evidence that review.</p>   |  |
| <p><b>8.15 Business continuity</b></p> <p>A licenceholder must –</p> <ul style="list-style-type: none"> <li>(a) establish and maintain arrangements for safeguarding the interests of its clients, appropriate to the size and organisation and the nature, scale and complexity of its business, in the event of – <ul style="list-style-type: none"> <li>(i) the death, incapacity or sickness; and</li> <li>(ii) holidays and other periods of absence, of the individuals responsible for controlling or carrying on its activities;</li> </ul> </li> <li>(b) cover the arrangements referred to in (a) with a disaster recovery plan, which may include the appointment of a locum in accordance with (c) or (d);</li> <li>(c) seek the Authority's prior consent in writing to appoint an individual as a locum to a financial adviser, who – <ul style="list-style-type: none"> <li>(i) must be a key person of a licenceholder that is licensed to carry on regulated activities of the same class as the licenceholder appointing the locum;</li> <li>(ii) must hold the relevant qualification to undertake the role as locum;</li> <li>(iii) must, where applicable, comply with 8.5(2); and</li> <li>(iv) shall be deemed to be a key person of the licenceholder whilst acting as the locum; or</li> </ul> </li> </ul> | <p><i>All Classes except Class 8(1), 8(2)(b) or 8(3)</i></p> |



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| <ul style="list-style-type: none"> <li>(d) seek the Authority's prior consent in writing to appoint a locum, in circumstances other than those described in (c), in which case the locum must be a licenceholder that is licensed to carry on regulated activities of the same class as the licenceholder appointing the locum; and</li> <li>(e) notify the Authority of any substantial changes to the arrangements for safe-guarding clients' interests, disaster recovery plan, or locum arrangements.</li> </ul>  |  |
| <p><b>8.16 Delegation of function including outsourcing</b></p> <ul style="list-style-type: none"> <li>(1) A licenceholder may not, without the consent in writing of the Authority — <ul style="list-style-type: none"> <li>(a) delegate any material management or business function to another person (whether or not that person is another company within the same group as the licenceholder);</li> <li>(b) make any material change to any such delegation.</li> </ul> </li> <li>(2) Any such delegation shall not affect the ultimate responsibility of the licenceholder for the delegated functions.</li> <li>(3) The licenceholder must ensure that — <ul style="list-style-type: none"> <li>(a) any material delegation or outsourcing arrangement is notified to the Authority at least 20 business days before it becomes operational;</li> <li>(b) it maintains records relating to all delegated or outsourced functions (whether or not material) and that the Authority has access to all such records;</li> <li>(c) in the event of a breakdown of a delegation or outsourcing arrangement, the licenceholder is able to carry out or assume control of the relevant functions.</li> </ul> </li> <li>(4) Any delegation or outsourcing arrangement must be evidenced by a written agreement between the parties setting out clearly —</li> </ul> | <p><i>All Classes except Class 8(1), 8(2)(b) or 8(3)</i></p> |

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| <ul style="list-style-type: none"> <li>(a) their respective responsibilities and duties, including the monitoring of the delegated or outsourced function by the licenceholder; and</li> <li>(b) the provisions for terminating the delegation or outsourcing arrangement.</li> </ul>  |                    |
| <p><b>8.17 Breaches of regulatory requirements</b></p> <ul style="list-style-type: none"> <li>(1) A licenceholder must notify the Authority as soon as it becomes aware of a material breach by the licenceholder of any of the regulatory requirements.</li> <li>(2) Where a licenceholder gives a notification under paragraph (1), it must also inform the Authority of the steps which it proposes to take to remedy the situation.</li> <li>(3) A licenceholder must maintain a register of all breaches.</li> </ul>  | <i>All Classes</i> |
| <p><b>8.18 Fraud or dishonesty</b></p> <ul style="list-style-type: none"> <li>(1) A licenceholder must notify the Authority as soon as — <ul style="list-style-type: none"> <li>(a) it has reason to believe that a controller, director or employee of the licenceholder has been engaged in activities involving fraud or other dishonesty; or</li> <li>(b) it becomes aware of any circumstances which may amount to fraud or serious mismanagement in the conduct of its business; or</li> <li>(c) it becomes aware of any fraud by a client or third party that could be material to the licenceholder's safety and soundness or reputation.</li> </ul> </li> <li>(2) A notification under (1)(a) or (b), must — <ul style="list-style-type: none"> <li>(a) specify the event;</li> <li>(b) specify the name of any employee who is a controller, director or key person; and</li> <li>(c) following an investigation which results in the licenceholder concluding that an employee who is not a key person has been engaged in activities involving fraud or other dishonesty, the licenceholder must disclose the name of that employee to the Authority.</li> </ul> </li> </ul> | <i>All Classes</i> |

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| <p><b>8.19 Investigation of member's conduct by professional body</b></p> <p>A licenceholder must notify the Authority as soon as it becomes aware of any action of the following kinds taken against a controller, director or key person by a professional body of which that person is a member —</p> <ul style="list-style-type: none"> <li>(a) an inquiry into that person's professional conduct;</li> <li>(b) the termination of that person's membership;</li> <li>(c) any disciplinary action against him; or</li> <li>(d) any censure of his conduct.</li> </ul>  | All Classes |
| <p><b>8.20 Matters to be notified — general</b></p> <ul style="list-style-type: none"> <li>(1) Without prejudice to the specific requirements of any other rule, a licenceholder must notify the Authority of any relevant material change affecting its business, systems, controllers, responsible officers and key persons.</li> <li>(2) A licenceholder must notify the Authority as soon as it becomes aware that any of the following has occurred, whether within or outside the Island — <ul style="list-style-type: none"> <li>(a) the breakdown of administrative or control procedures relevant to any of the licenceholder's business (including breakdowns of computer systems or other accounting problems resulting, or likely to result in, failure to maintain proper records) or other material failures or weaknesses in systems and procedures;</li> <li>(b) any event which makes it impracticable for a licenceholder to comply with any of the regulatory requirements;</li> <li>(c) the appointment of inspectors by a statutory or other regulatory authority to investigate the affairs of the licenceholder or any associated company;</li> <li>(d) the imposition of disciplinary measures or sanctions on the licenceholder or any associated</li> </ul> </li> </ul> | All Classes |

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| <p>company, in relation to its business, by any statutory or other regulatory authority;</p> <p>(e) any event which may constitute market manipulation or market abuse by the licenceholder or any controller, director, key person or employee;</p> <p>(f) an application by the licenceholder or its immediate parent or subsidiary for authorisation to carry on an activity in any country or territory outside the Island which, if carried on in the Island, would be a regulated activity;</p> <p>(g) the refusal of any application mentioned in sub-paragraph (f);</p> <p>(h) the revocation of any such authorisation of the licenceholder or an associated company as is mentioned in sub-paragraph (f);</p> <p>(i) the material loss of consumer or other data; or</p> <p>(j) an appeal made by the licenceholder to a tribunal against any decision or action taken by the Authority.</p> <p>(3) Where a licenceholder gives a notification under paragraph (2)(a) or (b), it must also inform the Authority of the steps which it proposes to take to remedy the situation.</p> |  |
| <p><b>8.21 <del>Compliance officer</del>Head of compliance and MLRO</b></p> <p>(1) A licenceholder must appoint the following officers —</p> <p>(a) a <del>Compliance officer</del>Head of compliance with responsibility for overseeing the licenceholder's compliance with the regulatory requirements, including those relating to anti-money laundering and countering the financing of terrorism;</p> <p>(b) a MLRO; and</p> <p>(c) a DMLRO to cover for any absence of the MLRO.</p> <p>(2) The same individual may be appointed as <del>Compliance officer</del>Head of compliance and as MLRO or DMLRO.</p>   | <p><i>All Classes<br/>except Class<br/>8(1), 8(2)(b) or<br/>8(3)</i></p> |

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| Rule  | Application                               |
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| <p>(3) A <b>Compliance officer/Head of compliance</b> must —</p> <ul style="list-style-type: none"> <li>(a) have appropriate independence and direct access to the licenceholder's responsible officers;</li> <li>(b) have unfettered access to all business lines and support departments;</li> <li>(c) have appropriate status within the licenceholder to ensure that the responsible officers react appropriately to recommendations;</li> <li>(d) have sufficient time and resources to discharge properly the responsibilities of the position; and</li> <li>(e) be resident in the Island.</li> </ul> <p>(4) A MLRO, or the DMLRO when deputising for the MLRO, must have —</p> <ul style="list-style-type: none"> <li>(a) unfettered access to all business lines and support departments; and</li> <li>(b) sufficient time and resources to discharge properly the responsibilities of the position.</li> </ul>  |   |
| <p><b>8.22 Specified roles for certain Class 8s</b></p> <p>(1) A licenceholder must appoint the following officers —</p> <ul style="list-style-type: none"> <li>(a) a MLRO; and</li> <li>(b) a DMLRO to cover for any absence of the MLRO.</li> </ul> <p>(2) A MLRO, or the DMLRO when deputising for the MLRO, must have —</p> <ul style="list-style-type: none"> <li>(a) unfettered access to all business lines and support departments; and</li> <li>(b) sufficient time and resources to discharge properly the responsibilities of the position.</li> </ul> <p>(3) A licenceholder must nominate an individual who is responsible for overseeing the licenceholder's compliance with the regulatory requirements, including those relating to anti-money laundering and countering the financing of terrorism and for ensuring that its business is effectively controlled on a day-to-day basis. This individual may also be the MLRO or DMLRO and must be —</p> | <p><i>Class 8(1), 8(2)(b) or 8(3)</i></p> |

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| Rule   | Application  |
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| <ul style="list-style-type: none"> <li>(a) a director or key person; and</li> <li>(b) resident in the Island.</li> </ul>   |  |
| <p><b>8.23 Functions of <del>Compliance officer</del>Head of compliance</b></p> <ul style="list-style-type: none"> <li>(1) A <del>Compliance officer</del>Head of compliance is responsible, in relation to the regulatory requirements, for ensuring that — <ul style="list-style-type: none"> <li>(a) the licenceholder has robust and documented arrangements appropriate to the nature and size of the business for compliance with those requirements;</li> <li>(b) the operational performance of those arrangements is suitably monitored;</li> <li>(c) prompt action is taken to remedy any deficiencies in arrangements; and</li> <li>(d) the registers required by rules 8.10, 8.17 and 8.32 are maintained.</li> </ul> </li> <li>(2) Where the licenceholder controls clients' assets, the <del>Compliance officer</del>Head of compliance is responsible for ensuring that — <ul style="list-style-type: none"> <li>(a) a Clients' Assets Report is prepared annually, in accordance with the procedures specified by the Authority;</li> <li>(b) the Clients' Assets Report is prepared by a different individual to the person responsible for undertaking reconciliations required by Parts 3 and 4 of this Rule Book; and</li> <li>(c) for the avoidance of doubt, the Authority must be notified of any material exceptions identified within the Clients' Assets Report, together with details of any action proposed, or taken, to rectify such exceptions in accordance with rule 8.17.</li> </ul> </li> </ul> | <p><i>All Classes except Class 8(1), 8(2)(b) or 8(3)</i></p>                       |
| <p><b>8.24 Directors</b></p> <ul style="list-style-type: none"> <li>(1) A licenceholder must have at least 2 directors.</li> <li>(2) All directors of a licenceholder must be natural persons.</li> </ul>  | <p><i>All Classes incorporated in the Island except Class 8(1), 8(2)(b) or</i></p> |

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| Rule   | Application  |
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| (3) At least 2 directors of a licenceholder must be resident in the Isle of Man.   | 8(3)   |
| <p><b>8.25 Isle of Man resident officers</b></p> <p>(1) A licenceholder must appoint at least 2, but no more than 3, Isle of Man resident officers who are —</p> <p>(a) key persons;</p> <p>(b) resident in the Island; and</p> <p>(c) notified to the Authority as performing that role, not less than 20 <b>business</b> days in advance of appointment in that role.</p> <p>(2) The Isle of Man resident officers shall have joint responsibility for overseeing the licenceholder's proper conduct and ensuring that its business is effectively controlled on a day-to-day basis.</p> | <p><i>All Classes incorporated outside the Island except</i></p> <p><i>Class 8(1), 8(2)(b) or 8(3)</i></p> |
| <p><b><del>8.26 This rule has been removed</del></b></p> <p><b><del>8.26 — Company secretary</del></b></p> <p><del>The secretary of a licenceholder incorporated under the Companies Act 1931 must be an individual who is —</del></p> <p><del>(a) — Qualified in accordance with section 19(4) of the Companies Act 1982; and</del></p> <p><del>(b) — approved by the Authority as suitable, by virtue of his knowledge and experience, to be secretary of the licenceholder.</del></p>   | <p><del><i>All Classes except Class 8(1), 8(2)(b) or 8(3)</i></del></p>                                    |
| <p><b>8.27 Systems and controls for record keeping</b></p> <p>(1) A licenceholder must establish and maintain procedures to ensure that sufficient information is recorded and retained about the conduct of its business and its compliance with the regulatory requirements.</p> <p>(2) A licenceholder must establish and maintain adequate systems and controls over its general records, having regard to its size and the nature and complexity of its activities.</p> <p>(3) The systems and controls referred to in paragraph (2) must be —</p>                                    | <p><i>All Classes</i></p>  |

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| Rule   | Application |
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| <ul style="list-style-type: none"> <li>(a) such as to enable the licenceholder to comply with the regulatory requirements; and</li> <li>(b) adequately and correctly documented.</li> <li>(4) A licenceholder must — <ul style="list-style-type: none"> <li>(a) maintain records relating to its business transactions, financial position, internal organisation and risk management systems such as to demonstrate to the Authority that it complies with the regulatory requirements; and</li> <li>(b) keep those records for at least 6 years after it ceases to hold a licence.</li> </ul> </li> </ul>  |             |
| <p><b>8.28 Clients' records</b></p> <ul style="list-style-type: none"> <li>(1) A licenceholder must keep and maintain proper records to show and explain transactions effected by it on behalf of its clients.</li> <li>(2) Those records must be — <ul style="list-style-type: none"> <li>(a) kept in English;</li> <li>(b) kept up-to-date;</li> <li>(c) in such a form as to demonstrate compliance with the regulatory requirements; and</li> <li>(d) kept for at least 6 years after the transaction.</li> </ul> </li> <li>(3) Where a licenceholder is a stockbroker, discretionary portfolio manager, or asset manager or investment adviser to a collective investment scheme, the records must include recordings of telephone conversations or electronic communications relating to the receipt, transmission and execution of client orders, even if those conversations or communications do not result in the conclusion of such transactions. Such records must be easily retrievable.</li> </ul> | All Classes |
| <p><b>8.29 Records kept by third parties</b></p> <p>For the purpose of rules 8.27 and 8.28 a licenceholder may accept and rely on records supplied by a third party so long as those records —</p>   | All Classes |



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| Rule  | Application                                    |
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| <ul style="list-style-type: none"> <li>(a) are capable of being supplied in a timely manner and for at least 6 years after the transaction; and</li> <li>(b) are capable of being, and are, reconciled with records created by the licenceholder.</li> </ul>  |  |
| <p><b>8.30 Relations with regulators</b></p> <p>A licenceholder must —</p> <ul style="list-style-type: none"> <li>(a) co-operate in an open and honest manner with the Authority and any other regulatory body to which it is accountable; and</li> <li>(b) keep them promptly informed of anything relevant to the exercise of their regulatory functions.</li> </ul>  | All Classes                                    |
| <p><b>8.31 Annual Regulatory Return</b></p> <ul style="list-style-type: none"> <li>(1) A licenceholder must make a return (an “<b>Annual Regulatory Return</b>”) to the Authority within 4 months of the licenceholder’s annual reporting date.</li> <li>(2) The return must state the position as at the annual reporting date.</li> <li>(3) The return must contain the information specified by the Authority.</li> <li>(4) The following additional information must be submitted to the Authority within 4 months of the licenceholder’s annual reporting date as part of the Annual Regulatory Return — <ul style="list-style-type: none"> <li>(a) a group structure chart showing the name and jurisdiction of all companies and / or trusts within the group. A condensed version may be accepted for large groups, subject to the agreement of the Authority;</li> <li>(b) a copy of the management and staff structure of the licenceholder in the Isle of Man and of its subsidiaries and, in the case of a licenceholder incorporated in the Isle of Man, any overseas branches. The structure must show “Key Persons” and their responsibilities.</li> </ul> </li> </ul> | All Classes except Class 8(1), 8(2)(b) or 8(3) |

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| Rule  | Application  |
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| (5) Where a letter of comfort is in place to support professional indemnity insurance, a copy of the latest audited financial statements of the entity providing the letter must be submitted to the Authority annually.  |  |
| <p><b>8.32 Complaints</b></p> <p>(1) If a licenceholder receives a complaint about its regulated activities, either by telephone, in writing or face to face, it must ensure, that —</p> <p>(a) the complaint is recorded in a complaints register;</p> <p>(b) an acknowledgment of the complaint is provided to the complainant within 7 days of receipt. The acknowledgement may be in writing, or in another form of communication agreed with the complainant, but must be evidenced. If the complaint is not resolved at that time to the satisfaction of the customer, the acknowledgment must include —</p> <p>(i) a summary of the complaint;</p> <p>(ii) details of the licenceholder's complaints-handling procedures;</p> <p>(iii) details of the Financial Services Ombudsman Scheme whenever applicable; and</p> <p>(iv) whenever appropriate, a request for further details in writing, with supporting evidence;</p> <p>(c) the complaint is brought to the attention of an officer or employee of the licenceholder who is not conflicted and —</p> <p>(i) has appropriate authority to deal with the complaint; and</p> <p>(ii) holds the appropriate level of qualification to provide financial advice if reviewing a complaint about the provision of financial advice;</p> | <p><i>All Classes<br/>except Class<br/>8(1), 8(2)(b) or<br/>8(3)</i></p> |

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| Rule  | Application |
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| <ul style="list-style-type: none"> <li>(d) the complaint is investigated promptly and thoroughly;</li> <li>(e) appropriate action is taken and recorded; and</li> <li>(f) within 8 weeks of receipt of the complaint, the complainant is notified in writing of the outcome of the investigation and of any action taken. Where the investigation has not been completed, the licenceholder must notify the Authority of the reason.</li> </ul> <p>(2) A licenceholder must —</p> <ul style="list-style-type: none"> <li>(a) have documented procedures that comply with paragraph (1) for dealing with complaints;</li> <li>(b) make those procedures readily accessible on request; and</li> <li>(c) ensure that any remedial action needed is taken promptly (including, whenever appropriate, correcting any failures or weaknesses in its systems and procedures and carrying out training of its staff).</li> </ul> <p>(3) The register referred to in paragraph (1)(a) —</p> <ul style="list-style-type: none"> <li>(a) must contain the information detailed in (3)(b) but may be in summary form, provided that a full record of the complaint and action taken in relation to the complaint is also held;</li> <li>(b) must contain the following information relating to each complaint — <ul style="list-style-type: none"> <li>(i) the name of the complainant;</li> <li>(ii) the date when the complaint was received;</li> <li>(iii) the date when the complaint was reported to the person with authority to deal with complaints;</li> <li>(iv) the nature of the complaint;</li> <li>(v) whether the complaint involves a breach of the regulatory requirements;</li> </ul> </li> </ul> |             |

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| Rule  | Application        |
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| <ul style="list-style-type: none"> <li>(vi) how and when the complaint was investigated;</li> <li>(vii) the action taken to resolve the complaint;</li> <li>(viii) the date the complaint is considered closed; and</li> <li>(ix) whether the licenceholder's professional indemnity insurers were informed, if applicable.</li> </ul>  |                    |
| <p><b>8.33 Risk management policies</b></p> <ul style="list-style-type: none"> <li>(1) A licenceholder must provide the Authority with a copy of the policies referred to in rule 8.6(1)(a), and any substantial amendment of those policies, within 20 business days of the approval by the responsible officers of the policies or amendment.</li> <li>(2) A licenceholder must notify the Authority, within 4 months after the end of its financial year, that during the financial year the responsible officers reviewed and approved the policies referred to in rule 8.6(1)(a) and were satisfied that they were up-to-date and appropriate.</li> </ul>  | <i>All Class 1</i> |
| <p><b>8.34 Internal audit</b></p> <ul style="list-style-type: none"> <li>(1) In addition to the requirements of rule 8.6, a licenceholder must — <ul style="list-style-type: none"> <li>(a) have an internal audit function; or</li> <li>(b) be subject to its group's internal audit function.</li> </ul> </li> <li>(2) The internal audit function must — <ul style="list-style-type: none"> <li>(a) have appropriate independence and be adequately resourced in terms of time, training and experience;</li> <li>(b) report directly to the licenceholder's responsible officers or audit committee;</li> <li>(c) have appropriate status within the licenceholder to ensure that responsible officers react appropriately to recommendations;</li> </ul> </li> </ul> | <i>All Class 1</i> |

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| Rule  | Application  |
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| <ul style="list-style-type: none"> <li>(d) have unfettered access to all staff, records and data;</li> <li>(e) assess whether existing policies, processes and internal controls are effective and appropriate for the licenceholder's activities;</li> <li>(f) ascertain whether these policies and processes are complied with;</li> <li>(g) adopt an appropriate methodology that identifies material risks;</li> <li>(h) prepare an audit plan, which must be reviewed annually and approved by the responsible officers or audit committee; and</li> <li>(i) be informed promptly of any material changes to the licenceholder's risk management strategy, policies or processes.</li> </ul> |  |
| <p><b>8.35 Corporate governance</b></p> <ul style="list-style-type: none"> <li>(1) The directors of a licenceholder must ensure that its regulated activities are managed and controlled from the Island.</li> <li>(2) At least one director of a licenceholder must be of independent non-executive status.</li> </ul>   | <p><i>All Class 1 incorporated in the Island</i></p> |
| <p><b>8.36 Credit risk policy</b></p> <ul style="list-style-type: none"> <li>(1) A licenceholder must by its directors — <ul style="list-style-type: none"> <li>(a) establish and maintain a credit risk policy which is appropriate to the nature and scale of its business; and</li> <li>(b) review that policy annually and evidence that review.</li> </ul> </li> <li>(2) A licenceholder must provide the Authority with a copy of the policy, and any substantial amendment of that policy, within 20 business days of the approval by its directors of the policy or amendment.</li> <li>(3) The policy must include —</li> </ul>  | <p><i>All Class 1 incorporated in the Island</i></p> |

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| Rule  | Application  |
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| <ul style="list-style-type: none"> <li>(a) criteria for and limits on different types of lending (including country risk/geographical, economic and individual sectors);</li> <li>(b) provisions in respect of connected and related party lending, including overall limits, identification, separation of function and monitoring;</li> <li>(c) provisions in respect of sanctioning limits and authorisation procedures;</li> <li>(d) provisions as to permissible forms of security;</li> <li>(e) approval, monitoring and control procedures;</li> <li>(f) arrears and provisioning procedures;</li> <li>(g) provisions and classification criteria in respect of off Statement of Financial Position exposures;</li> <li>(h) specific provisions for different categories of problem loans; and</li> <li>(i) restrictions preventing the reclassification of problem loans by increasing lending to enable interest to be paid.</li> </ul> <p>(4) A licenceholder must —</p> <ul style="list-style-type: none"> <li>(a) ensure that the policy is complied with; and</li> <li>(b) maintain appropriate procedures and controls for the purpose of monitoring its compliance with the policy.</li> </ul> |  |
| <p><b>8.37 Credit risk management and reporting</b></p> <ul style="list-style-type: none"> <li>(1) A licenceholder must monitor its credit risk exposures, including those matters in rule 8.36 on an on-going basis, and report to its Board regularly on this topic.</li> <li>(2) A licenceholder's Board must evidence its regular consideration of major credit exposures, higher risk exposures and problem assets.</li> <li>(3) In respect of significant exposures a licenceholder must —</li> </ul>   | <p><i>All Class 1 incorporated in the Island</i></p> |

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| Rule   | Application  |
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| <ul style="list-style-type: none"> <li>(a) carry out valuation, classification and provisioning separately for each individual loan; and</li> <li>(b) set an appropriate threshold for significant exposures and review that threshold regularly.</li> </ul>   |  |
| <p><b>8.38 Large exposures policy</b></p> <ul style="list-style-type: none"> <li>(1) A licenceholder must by its directors — <ul style="list-style-type: none"> <li>(a) establish and maintain a large exposures policy which is appropriate to the nature and scale of its business; and</li> <li>(b) review that policy annually and evidence that review.</li> </ul> </li> <li>(2) A licenceholder must provide the Authority with a copy of the policy, and any substantial amendment of that policy, within 20 business days of the approval by the directors of the policy or amendment.</li> <li>(3) The policy must include — <ul style="list-style-type: none"> <li>(a) exposure limits for customers, counterparties, countries and economic sectors;</li> <li>(b) sanctioning limits and authorisation procedures;</li> <li>(c) permissible forms of security or collateral;</li> <li>(d) procedures where exposures are to a guarantor;</li> <li>(e) monitoring and control procedures; and</li> <li>(f) a regulatory reporting policy.</li> </ul> </li> <li>(4) A licenceholder must — <ul style="list-style-type: none"> <li>(a) ensure that the policy is complied with; and</li> <li>(b) maintain appropriate procedures and controls for the purpose of monitoring its compliance with the policy.</li> </ul> </li> </ul> | <p><i>All Class 1 incorporated in the Island</i></p> |
| <p><b>8.39 Large exposure management</b></p> <ul style="list-style-type: none"> <li>(1) A licenceholder must — <ul style="list-style-type: none"> <li>(a) not incur an exposure which (including accrued interest) exceeds 25% of its large exposures</li> </ul> </li> </ul>   | <p><i>All Class 1 incorporated in the Island</i></p> |

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| Rule  | Application |
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| <p>capital base ("LECB"), unless the exposure is an exempt exposure; or</p> <p>(b) not incur large exposures, excluding exempt exposures, exceeding in the aggregate 800% of its LECB.</p> <p>(2) A licenceholder must maintain appropriate procedures and controls for the purpose of monitoring its large exposures on a daily basis.</p> <p>(3) A licenceholder must obtain the Authority's consent in writing before entering into an exposure falling within rule 8.41(g), and at least annually thereafter —</p> <p>(a) assess the level and nature of that exempt exposure; and</p> <p>(b) provide evidence of that assessment to the Authority.</p> <p>(4) A licenceholder must —</p> <p>(a) notify the Authority before entering into an exempt exposure, except —</p> <p>(i) an exposure falling within either or both rule 8.41(a) or 8.41(b); or</p> <p>(ii) an exposure which requires the Authority's consent under rule 8.39(3); or</p> <p>(iii) where the Authority has directed that the exposure need not be notified;</p> <p>(b) notify the Authority immediately when the total of its large exposures, excluding exempt exposures, exceeds or is likely to exceed 300% of its LECB;</p> <p>(c) notify the Authority immediately of any breach of —</p> <p>(i) the limit in paragraph (1)(a) or (b); or</p> <p>(ii) any other counterparty limit agreed with the Authority for the purpose of this sub-paragraph;</p> |             |



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| <p>(d) until 1 July 2017, notify the Authority immediately if its adjusted capital base falls below its current LECB.</p> <p>(5) A licenceholder must report to the Authority as at each quarter-end, within one month of the quarter-end —</p> <p>(a) its 10 largest exposures to banks and other credit institutions;</p> <p>(b) its 10 largest exposures other than those within (a); and</p> <p>(c) where not reported under (a) or (b), all exposures (including exempt exposures) which have equalled or exceeded 10% of its LECB during that quarter. For this purpose no account shall be taken of —</p> <p>(i) collateral allowed under rule 8.40(3); or</p> <p>(ii) any provision for bad and doubtful debts.</p>   |  |
| <p><b>8.40 Calculation of exposures</b></p> <p>(1) A licenceholder must calculate any exposure as the gross amount at risk (subject to paragraphs (2) and (3)) from —</p> <p>(a) claims, including —</p> <p>(i) actual and potential claims which would arise from the drawing down in full of undrawn advised facilities (revocable or irrevocable, conditional or unconditional) which the licenceholder has committed itself to provide; and</p> <p>(ii) claims which the licenceholder has committed itself to purchase or underwrite;</p> <p>(b) contingent liabilities, including —</p> <p>(i) those which arise in the normal course of business; and</p> <p>(ii) those which would arise from the drawing down in full of undrawn advised facilities (whether revocable or irrevocable, conditional or unconditional) which the</p> | <p><i>All Class 1 incorporated in the Island</i></p> |

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| <p>licenceholder has committed itself to provide; and</p> <p>(c) assets, including those which the licenceholder has committed itself to purchase or underwrite —</p> <p>(i) whose value depends wholly or mainly on a counterparty performing its obligations; or</p> <p>(ii) whose value otherwise depends on a counterparty's financial soundness but which do not represent a claim on the counterparty.</p> <p>(2) Except as provided in rule 8.39(5), in calculating an exposure a specific provision made against a loan should be set off against the gross amount of the exposure.</p> <p>(3) Except as provided in rule 8.39(5), a licenceholder is permitted to recognise collateral for the purpose of the calculation of the value of an exposure, provided that —</p> <p>(a) the collateral complies with the eligibility requirements and other minimum requirements for the purposes of calculating the risk-weighted exposure amounts under the standardised approach using the financial collateral simple method; or</p> <p>(b) the collateral complies with the eligibility requirements and other minimum requirements for the purposes of calculating the risk-weighted exposure amounts under the standardised approach using the financial collateral comprehensive method.</p> <p>(4) If a third party has provided an express unconditional and irrevocable guarantee in respect of an exposure, a licenceholder may report the exposure as being to the guarantor.</p> <p>(5) A licenceholder must not net its claims and obligations in calculating its exposure to a counterparty unless —</p> |             |

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| Rule   | Application  |
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| <ul style="list-style-type: none"> <li>(a) there is a legally enforceable contract allowing the licenceholder to set off any claim against the counterparty; and</li> <li>(b) it notified the Authority before it entered into the contract.</li> </ul>  |  |
| <p><b>8.41 Exempt exposures</b></p> <p>The following exposures are exempt exposures —</p> <ul style="list-style-type: none"> <li>(a) exposures of under 3 months to credit institutions not related to the licenceholder which receive (unsecured) a 20% risk weighting under the standardised approach, provided that — <ul style="list-style-type: none"> <li>(i) the exposure does not exceed 500% of a licenceholder's LECB;</li> <li>(ii) the placing is not subject to any form of charge or pledge; and</li> <li>(iii) the exposure is part of a licenceholder's normal treasury operations;</li> </ul> </li> <li>(b) exposures of more than 3 months but less than 12 months to credit institutions not related to the licenceholder which receive (unsecured) a risk weighting of 50% or less under the standardised approach, provided that — <ul style="list-style-type: none"> <li>(i) the exposure does not exceed 200% of a licenceholder's LECB if the exposure is to a credit institution which receives (unsecured) a risk weighting of 20% under the standardised approach;</li> <li>(ii) the exposure does not exceed 100% of a licenceholder's LECB if the exposure is to a credit institution which receives (unsecured) a risk weighting of 50% under the standardised approach;</li> <li>(iii) the placing is not subject to any form of charge or pledge; and</li> <li>(iv) the exposure is part of a licenceholder's normal treasury operations.</li> </ul> </li> </ul> | <p><i>All Class 1 incorporated in the Island</i></p> |

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| Rule  | Application |
|---|-------------|
| <p>For the purpose of the limits specified in subparagraphs (a) and (b) the maximum exposure to an individual counterparty or group of closely related counterparties must not exceed in aggregate the lower of 500% of a licenceholder's LECB or £100m;</p> <p>(c) exposures to central governments (including public sector entities), central banks, international organisations or multilateral development banks which receive (unsecured) a 0% risk weighting under the standardised approach;</p> <p>(d) exposures carrying the explicit guarantees of central governments (including public sector entities), central banks, international organisations or multilateral development banks where unsecured claims on the entity providing the guarantee would receive a 0% risk weighting under the standardised approach;</p> <p>(e) exposures to central banks not falling within subparagraph (c) which are in the form of required minimum reserves or statutory liquidity requirements held at those central banks which are denominated and funded in their national currency;</p> <p>(f) exposures secured by collateral in the form of cash deposits (including certificates of deposit issued by the lending bank) held by the lender, provided that –</p> <p>(i) the legal title of the lender is fully protected;</p> <p>(ii) only the portion of an exposure which is fully secured by cash deposits or certificates of deposit over which a licenceholder has a full right of set-off is exempt for this purpose;</p> <p>(iii) if the security is in a different currency from the exposure, the amount of the collateral includes a margin to cover possible fluctuations in value;</p> |             |

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| Rule   | Application |
|--|-------------|
| <ul style="list-style-type: none"> <li>(iv) an individual exposure (before the application of collateral) does not exceed 100% of the licenceholder's LECB;</li> <li>(g) exposures to other group companies which are credit institutions provided that — <ul style="list-style-type: none"> <li>(i) the group company is the parent, or a wholly owned subsidiary of the parent;</li> <li>(ii) the group company is managing surplus liquidity across the group or takes on a treasury role on behalf of the group;</li> <li>(iii) both the group company and the licenceholder are included within the scope of consolidated supervision for the group by a competent authority;</li> <li>(iv) there is no current or foreseen material practical or legal impediment to the repayment of liabilities from the group company to the licenceholder;</li> </ul> </li> <li>(h) exposures with parental guarantees provided that — <ul style="list-style-type: none"> <li>(i) the guarantee is from a group company which is the parent, or a wholly owned subsidiary of the parent, and is a credit institution;</li> <li>(ii) an individual exposure covered by the guarantee does not exceed 10% of the guarantor's capital resources and that the aggregate of all individual exposures covered by the guarantee does not exceed 25% of the guarantor's capital resources;</li> <li>(iii) an individual exposure covered by the guarantee does not exceed 100% of the licenceholder's LECB;</li> </ul> </li> <li>(i) exposures arising from undrawn credit facilities which may be cancelled unconditionally at any time without notice, provided that an agreement has been concluded with the counterparty under which the facility may be drawn only if such</li> </ul> |             |

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| Rule  | Application  |
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| drawing will not cause the standard limit of 25% of a licenceholder's LECB to be exceeded.  |  |
| <p><b>8.42 Arrears and provisions policy for bad and doubtful debts</b></p> <p>(1) A licenceholder must by its directors —</p> <p>(a) establish and maintain a policy on arrears and provisions for bad and doubtful debts which is appropriate to the nature and scale of its business; and</p> <p>(b) review that policy annually and evidence that review.</p> <p>(2) A licenceholder must provide the Authority with a copy of the policy, and any substantial amendment of that policy, within 20 business days of the approval by the directors of the policy or amendment.</p> <p>(3) A licenceholder must —</p> <p>(a) ensure that the policy is complied with; and</p> <p>(b) maintain appropriate procedures and controls for the purpose of monitoring its compliance with the policy.</p> <p>(4) A licenceholder must —</p> <p>(a) hold an adequate level of provisions for specific bad and doubtful debts; and</p> <p>(b) report to the Authority its arrears and provisions for bad and doubtful debts —</p> <p>(i) as at each quarter-end, within one month of the quarter-end; or</p> <p>(ii) at such other intervals as may be required by the Authority, within one month of the reporting date.</p> | <p><i>All Class 1 incorporated in the Island</i></p> |
| <p><b>8.43 Liquidity policy</b></p> <p>(1) A licenceholder must by its directors —</p> <p>(a) establish and maintain a prudent liquidity policy (including specific limits for liquidity and taking</p>   | <p><i>All Class 1 incorporated in the Island</i></p> |

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| Rule   | Application  |
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| <p>into account both on-balance sheet and off-balance sheet commitments) which is appropriate to the nature and scale of its business; and</p> <p>(b) review that policy annually and evidence that review.</p> <p>(2) A licenceholder must provide the Authority with a copy of the policy, and any substantial amendment of that policy, within 20 business days of the approval by the directors of the policy or amendment.</p> <p>(3) A licenceholder must —</p> <p>(a) ensure that the policy is complied with; and</p> <p>(b) maintain appropriate procedures and controls for the purpose of monitoring its compliance with the policy.</p> <p>(4) A licenceholder must —</p> <p>(a) establish and maintain an appropriate liquidity contingency plan, which considers alternative sources of funding; and</p> <p>(b) provide the Authority with a copy of the plan.</p> |  |
| <p><b>8.44 Liquidity management</b></p> <p>(1) A licenceholder must —</p> <p>(a) maintain liquidity at the minimum level specified in paragraph (2);</p> <p>(b) measure and monitor liquidity on at least a daily basis, by calculation of mismatch positions;</p> <p>(c) undertake appropriate stress testing of its liquidity position on at least an annual basis; and</p> <p>(d) regularly assess its capacity to sell assets.</p> <p>(2) The level of liquidity referred to in paragraph (1)(a) is within —</p> <p>(a) such mismatch limits as the Authority may direct; or</p>   | <p><i>All Class 1 incorporated in the Island</i></p> |

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| Rule  | Application  |
|---|--|
| <p>(b) if no such direction is given, the mismatch limit for both sight to 8 days and sight to one month is 0%.</p> <p>(3) A licenceholder must —</p> <p>(a) notify the Authority immediately of any breach of paragraph (1)(a);</p> <p>(b) remedy any such breach and take action to prevent future breaches as soon as possible; and</p> <p>(c) report its liquidity positions to the Authority as at each quarter-end, within one month of the quarter-end.</p>  |  |
| <p><b>8.45 Foreign exchange risk</b></p> <p>(1) A licenceholder must establish and maintain a prudent foreign exchange risk management policy (including specific limits of risk) which is appropriate to the nature and scale of its business.</p> <p>(2) The Board of the licenceholder must review the policy annually, or more frequently if appropriate and evidence that review.</p> <p>(3) A licenceholder must provide the Authority with a copy of the policy, and any substantial amendment of that policy, within 20 business days of the approval by the directors of the policy or amendment.</p> <p>(4) A licenceholder must —</p> <p>(a) ensure that the policy is complied with; and</p> <p>(b) maintain appropriate procedures and controls for the purpose of monitoring its compliance with the policy.</p> <p>(5) A licenceholder must maintain appropriate procedures and controls for the purpose of measuring and monitoring its foreign exchange risks on a frequent and timely basis.</p> <p>(6) A licenceholder must report its foreign exchange risk positions to the Authority as at each quarter-end, within one month of the quarter-end.</p> | <p><i>All Class 1 incorporated in the Island</i></p> |



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| Rule  | Application  |
|---|--|
| <p><b>8.46 Interest rate risk</b></p> <ul style="list-style-type: none"> <li>(1) A licenceholder must establish and maintain a prudent interest rate risk management policy (including specific limits of risk) which is appropriate to the nature and scale of its business.</li> <li>(2) The Board of the licenceholder must review the policy annually, or more frequently if appropriate and evidence that review.</li> <li>(3) A licenceholder must provide the Authority with a copy of the policy, and any substantial amendment of that policy, within 20 business days of the approval by the directors of the policy or amendment.</li> <li>(4) A licenceholder must — <ul style="list-style-type: none"> <li>(a) ensure that the policy is complied with; and</li> <li>(b) maintain appropriate procedures and controls for the purpose of monitoring its compliance with the policy.</li> </ul> </li> <li>(5) A licenceholder must — <ul style="list-style-type: none"> <li>(a) maintain appropriate procedures and controls for the purpose of measuring and monitoring its interest rate risks on a frequent and timely basis; and</li> <li>(b) measure vulnerability to loss resulting from both increases and decreases in interest rates.</li> </ul> </li> <li>(6) A licenceholder must report its interest rate risk positions to the Authority as at each quarter-end, within one month of the quarter-end.</li> </ul> | <p><i>All Class 1 incorporated in the Island</i></p> |
| <p><b>8.47 Annual review of certain policies</b></p> <p>A licenceholder must notify the Authority, within 4 months after the end of its financial year, that during the financial year the directors reviewed and approved each of the following and were satisfied that they were up-to-date and appropriate —</p> <ul style="list-style-type: none"> <li>(a) its credit risk policy under rule 8.36;</li> <li>(b) its large exposures policy under rule 8.38;</li> </ul>  | <p><i>All Class 1 incorporated in the Island</i></p> |

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| Rule  | Application   |
|---|---|
| <ul style="list-style-type: none"> <li>(c) its policy on arrears and provisions for bad and doubtful debts under rule 8.42;</li> <li>(d) its liquidity policy under rule 8.43;</li> <li>(e) its foreign exchange risk management policy under rule 8.45; and</li> <li>(f) its interest rate risk management policy under rule 8.46.</li> </ul>  |   |
| <p><b>8.48 Capital charge for operational risk</b></p> <ul style="list-style-type: none"> <li>(1) A licenceholder must notify the Authority of its capital charge for operational risk, in the form specified by the Authority, as at each quarter-end.</li> <li>(2) A notification under paragraph (1) must be given within one month of the quarter-end.</li> </ul>   | <p><i>All Class 1 incorporated in the Island</i></p>      |
| <p><b>8.49 Credit risk policy</b></p> <ul style="list-style-type: none"> <li>(1) A licenceholder must — <ul style="list-style-type: none"> <li>(a) establish and maintain a credit risk policy which is appropriate to the nature and scale of its business; and</li> <li>(b) review that policy annually and evidence that review.</li> </ul> </li> <li>(2) A licenceholder must provide the Authority with a copy of the policy, and any substantial amendment of that policy, within 20 business days of the adoption of the policy or amendment.</li> <li>(3) The policy must include — <ul style="list-style-type: none"> <li>(a) criteria for and limits on different types of lending (including country risk/geographical, economic and individual sectors);</li> <li>(b) limits on connected and related party lending, including overall limits, identification, separation of function, monitoring and reporting to the Board;</li> <li>(c) provisions in respect of sanctioning limits and authorisation procedures;</li> </ul> </li> </ul> | <p><i>All Class 1 incorporated outside the Island</i></p> |

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| Rule  | Application   |
|---|---|
| <ul style="list-style-type: none"> <li>(d) provisions as to permissible forms of security or collateral;</li> <li>(e) approval, monitoring and control procedures;</li> <li>(f) arrears and provisioning procedures;</li> <li>(g) provisions and classification criteria in respect of off-balance sheet exposures;</li> <li>(h) specific provisions for different categories of problem loans; and</li> <li>(i) restrictions preventing the reclassification of problem loans by increasing lending to enable interest to be paid.</li> </ul> <p>(4) A licenceholder must –</p> <ul style="list-style-type: none"> <li>(a) ensure that the policy is complied with; and</li> <li>(b) maintain appropriate procedures and controls for the purpose of monitoring its compliance with the policy.</li> </ul> |   |
| <p><b>8.50 Credit risk management and reporting</b></p> <ul style="list-style-type: none"> <li>(1) A licenceholder must monitor its credit risk exposures, including those matters in rule 8.49 on an on-going basis, and report to its responsible officers regularly on this topic.</li> <li>(2) A licenceholder's responsible officers must evidence their regular consideration of major credit exposures, higher risk exposures and problem assets.</li> </ul>   | <p><i>All Class 1 incorporated outside the Island</i></p> |
| <p><b>8.51 Large exposures</b></p> <ul style="list-style-type: none"> <li>(1) A licenceholder must report to the Authority as at each quarter-end, within one month of the quarter-end – <ul style="list-style-type: none"> <li>(a) the 10 largest exposures to banks and other credit institutions; and</li> <li>(b) the 10 largest exposures other than those within sub-paragraph (a),</li> </ul> which relate to its operations in or from the Island.</li> <li>(2) A licenceholder must have and comply with documented controls and procedures in accordance with</li> </ul>  | <p><i>All Class 1 incorporated outside the Island</i></p> |

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| Rule   | Application   |
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| the large exposures policy of its head office or parent company.   |   |
| <p><b>8.52 Arrears and provisions policy for bad and doubtful debts</b></p> <p>(1) A licenceholder must —</p> <p>(a) establish and maintain a policy on arrears and provisions for bad and doubtful debts which is appropriate to the nature and scale of its business; and</p> <p>(b) review that policy annually and evidence that review.</p> <p>(2) A licenceholder must provide the Authority with a copy of the policy, and any substantial amendment of that policy, within 20 business days of the adoption of the policy or amendment.</p> <p>(3) A licenceholder must —</p> <p>(a) ensure that the policy is complied with; and</p> <p>(b) maintain appropriate procedures and controls for the purpose of monitoring its compliance with the policy.</p> <p>(4) A licenceholder must —</p> <p>(a) hold an adequate level of provisions for specific bad and doubtful debts; and</p> <p>(b) report to the Authority its arrears and provisions for bad and doubtful debts as at each quarter-end, within one month of the quarter-end.</p> | <p><i>All Class 1 incorporated outside the Island</i></p> |
| <p><b>8.53 Liquidity policy</b></p> <p>(1) A licenceholder must —</p> <p>(a) establish and maintain a prudent liquidity policy (including specific limits for liquidity, and taking into account both on-balance sheet and off-balance sheet commitments) which is appropriate to the nature and scale of its business; and</p>  | <p><i>All Class 1 incorporated outside the Island</i></p> |

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| Rule  | Application   |
|---|---|
| <ul style="list-style-type: none"> <li>(b) review that policy annually or more frequently if appropriate and evidence that review.</li> <li>(2) A licenceholder must provide the Authority with a copy of the policy, and any substantial amendment of that policy, within 20 business days of the adoption of the policy or amendment.</li> <li>(3) A licenceholder must — <ul style="list-style-type: none"> <li>(a) ensure that the policy is complied with; and</li> <li>(b) maintain appropriate procedures and controls for the purpose of monitoring its compliance with the policy.</li> </ul> </li> <li>(4) A licenceholder must — <ul style="list-style-type: none"> <li>(a) establish and maintain an appropriate liquidity contingency plan, which considers alternative sources of funding; and</li> <li>(b) provide the Authority with a copy of the plan.</li> </ul> </li> </ul> |   |
| <p><b>8.54 Liquidity management</b></p> <ul style="list-style-type: none"> <li>(1) A licenceholder must measure and monitor its liquidity, on at least a daily basis, by calculation of mismatch positions.</li> <li>(2) A licenceholder must report its liquidity positions to the Authority as at each quarter-end, within one month of the quarter-end.</li> <li>(3) A licenceholder must — <ul style="list-style-type: none"> <li>(a) undertake appropriate stress testing of its liquidity position on at least an annual basis; and</li> <li>(b) regularly assess its capacity to sell assets.</li> </ul> </li> </ul>   | <p><i>All Class 1 incorporated outside the Island</i></p> |
| <p><b>8.55 Foreign exchange risk</b></p> <ul style="list-style-type: none"> <li>(1) A licenceholder must — <ul style="list-style-type: none"> <li>(a) establish and maintain a prudent foreign exchange risk management policy (including specific limits of risk) which is appropriate to the nature and scale of its business; and</li> </ul> </li> </ul>   | <p><i>All Class 1 incorporated outside the Island</i></p> |

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| Rule  | Application   |
|---|---|
| <p>(b) review that policy annually, or more frequently if appropriate and evidence that review.</p> <p>(2) A licenceholder must provide the Authority with a copy of the policy, and any substantial amendment of that policy, within 20 business days of the adoption of the policy or amendment.</p> <p>(3) A licenceholder must maintain appropriate procedures and controls for the purpose of measuring and monitoring its foreign exchange risks on a frequent and timely basis.</p>  |   |
| <p><b>8.56 Interest rate risk</b></p> <p>(1) A licenceholder must —</p> <p>(a) establish and maintain a prudent interest rate risk management policy (including specific limits of risk) which is appropriate to the nature and scale of its business; and</p> <p>(b) review that policy annually, or more frequently if appropriate and evidence that review.</p> <p>(2) A licenceholder must provide the Authority with a copy of the policy, and any substantial amendment of that policy, within 20 business days of the adoption of the policy or amendment.</p> <p>(3) A licenceholder must —</p> <p>(a) maintain appropriate procedures and controls for the purpose of measuring and monitoring its interest rate risks on a frequent and timely basis; and</p> <p>(b) measure vulnerability to loss resulting from both increases and decreases in interest rates.</p> | <p><i>All Class 1 incorporated outside the Island</i></p>                               |
| <p><b>8.57 Professional indemnity insurance</b></p> <p>(1) Despite the minimum or maximum requirements contained in paragraph <del>(2)</del>(3), a licenceholder must maintain continuous professional indemnity insurance which is appropriate to the nature and scale of its business. For the avoidance of doubt, this may be higher</p>   | <p><i>All Class 2, 3, 4, 5, 8(2)(a) or 8(4), except those that are also Class 1</i></p> |

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| Rule   | Application  |   |  |  |                             |                                    |                          |  |  |                         |                                |  |                         |
|--|--|---|--|--|-----------------------------|------------------------------------|--------------------------|--|--|-------------------------|--------------------------------|--|-------------------------|
| <p>than the regulatory maximum cover set out in paragraph 2(3).</p> <p>(2) Where a licenceholder is also licensed to carry on Class 7 regulated activity, the activity relating to the managed entity should be taken into consideration when calculating whether the level of professional indemnity insurance is appropriate to the nature and scale of its business. Where the managed entity has a different insurer to that of the licenceholder, both insurers should be made aware of the details of the cover in place.</p> <p>(3) A licenceholder must maintain the minimum level of cover specified in the Table below. Where a licenceholder carries on 2 or more regulated activities, in respect of which different minimum levels of cover are required, the higher minimum amount must be maintained. Subject to paragraph (1), a licenceholder is not required to maintain a level of cover higher than the regulatory maximum detailed in the tables, but the cover must always meet the level and scope specified for the class of regulated activity for which a licence is held.</p> |  |   |  |  |                             |                                    |                          |  |  |                         |                                |  |                         |
| <p style="text-align: center;"><b>Table</b></p> <table><tr><th colspan="3">Professional Indemnity Insurance Levels</th></tr><tr><th>Class of regulated activity</th><th>Minimum cover to be the greater of</th><th>Regulatory maximum cover</th></tr><tr><td>Class 2(3) and 2(7) only, where there is a licence restriction limiting advice to regulated products</td><td>£1 million in aggregate or 3 times the annual turnover (excluding dividends received) in the licenceholder’s previous year ending on its annual reporting date</td><td>£5 million in aggregate</td></tr><tr><td>Other Class 2(3) and 2(7) only</td><td>£1.5 million in aggregate or 3 times the annual turnover (excluding dividends received) in the licenceholder’s previous year ending on its annual reporting date</td><td>£5 million in aggregate</td></tr></table>  |  | Professional Indemnity Insurance Levels |  |  | Class of regulated activity | Minimum cover to be the greater of | Regulatory maximum cover | Class 2(3) and 2(7) only, where there is a licence restriction limiting advice to regulated products | £1 million in aggregate or 3 times the annual turnover (excluding dividends received) in the licenceholder’s previous year ending on its annual reporting date | £5 million in aggregate | Other Class 2(3) and 2(7) only | £1.5 million in aggregate or 3 times the annual turnover (excluding dividends received) in the licenceholder’s previous year ending on its annual reporting date | £5 million in aggregate |
| Professional Indemnity Insurance Levels  |  |   |  |  |                             |                                    |                          |  |  |                         |                                |  |                         |
| Class of regulated activity  | Minimum cover to be the greater of   | Regulatory maximum cover                |  |  |                             |                                    |                          |  |  |                         |                                |  |                         |
| Class 2(3) and 2(7) only, where there is a licence restriction limiting advice to regulated products   | £1 million in aggregate or 3 times the annual turnover (excluding dividends received) in the licenceholder’s previous year ending on its annual reporting date   | £5 million in aggregate                 |  |  |                             |                                    |                          |  |  |                         |                                |  |                         |
| Other Class 2(3) and 2(7) only   | £1.5 million in aggregate or 3 times the annual turnover (excluding dividends received) in the licenceholder’s previous year ending on its annual reporting date | £5 million in aggregate                 |  |  |                             |                                    |                          |  |  |                         |                                |  |                         |

## SCHEDULE

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| Rule  |  |                          | Application |
|---|--|--------------------------|-------------|
| Class 3(8) only or Class 3(13) only                                   | £1.5 million in aggregate or 3 times the annual turnover (excluding dividends received) in the licenceholder’s previous year ending on its annual reporting date         | £5 million in aggregate  |             |
| Other Classes 2 or 3  | £1.5 million in aggregate or 10% of assets under control, management, custody or similar arrangement as at the licenceholder’s last annual reporting date                | £10 million in aggregate |             |
| Class 4   | £1.5 million in aggregate or 3 times the total fees/ commissions received from Class 4 activity in the licenceholder’s previous year ending on its annual reporting date | £10 million in aggregate |             |
| Class 5   | £2 million in aggregate or 3 times the total fees/ commissions received from Class 5 activity in the licenceholder’s previous year ending on its annual reporting date   | £10 million in aggregate |             |
| Class 8(2)(a) and 8(4) only   | £2 million in aggregate or 3 times the total fees/ commissions received from Class 8 activity in the licenceholder’s previous year ending on its annual reporting date   | £10 million in aggregate |             |
| Professional Indemnity Insurance Scope                                |  |                          |             |
| The policy must extend to —<br>i. the activities of any subsidiaries; |  |                          |             |



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| Rule  | Application |
|---|-------------|
| <ul style="list-style-type: none"> <li>ii. breach of duty by reason of negligent act, error and omission;</li> <li>iii. libel or slander (to include former employees);</li> <li>iv. dishonest or fraudulent acts or omissions by current and former employees;</li> <li>v. legal liability incurred by reason of loss of documents;</li> <li>vi. liabilities which the licenceholder might incur in any jurisdiction in which it carries on business;</li> <li>vii. (for Class 2 and Class 3 licenceholders only) awards made by a statutory ombudsman scheme; and</li> <li>viii. (for Class 4 and Class 5 licenceholders only) liabilities of the licenceholder's staff who, in the course of their duties to the licenceholder, perform functions in their own names.</li> </ul> <p>(4) Within 20 business days of each renewal of the licenceholder's professional indemnity insurance, the licenceholder must submit a PII confirmation, in the form specified by the Authority. The PII confirmation must –</p> <ul style="list-style-type: none"> <li>(a) include declarations that the cover meets the requirements of paragraph <del>(2)</del>(3);</li> <li>(b) include any other relevant matters required by the Authority; and</li> <li>(c) be signed by both the licenceholder and its insurer or insurance broker.</li> </ul> <p>(5) Where a licenceholder obtains an extension of its professional indemnity insurance, it must provide confirmation of the extension within 20 business days of the extension.</p> <p>(6) No account shall be taken of insurance provided by an insurer which has been notified by the Authority to the licenceholder as being unsatisfactory for the purpose of this rule.</p> <p>(7) A licenceholder must notify the Authority as soon as practicable of –</p> <ul style="list-style-type: none"> <li>(a) any claim exceeding £10,000 on its professional indemnity insurance; and</li> </ul> |             |

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| Rule   | Application |
|--|-------------|
| <p>(b) any change in the professional indemnity insurance previously notified to the Authority.</p> <p>(8) The Authority may require a licenceholder that intends to cease carrying on any or all regulated activities, or sell or otherwise transfer the business or the company to a third party to hold "run-off" professional indemnity insurance cover in respect of claims arising from past acts or omissions.</p>  |             |
| <p><b>8.58 Retention of client records</b></p> <p>(1) Subject to paragraphs (3) and (4), a licenceholder must keep —</p> <p>(a) the records which it is required by this Part to make;</p> <p>(b) copies of the statements which it is required by rule 6.52 (contract note etc.) to provide; and</p> <p>(c) any working papers which are created to assist in the preparation of the financial returns required to be prepared under Part 2,</p> <p>for at least 6 years after the date on which they are made or provided.</p> <p>(2) The documents referred to in paragraph (1) must be kept either —</p> <p>(a) at a place where the licenceholder carries on business; or</p> <p>(b) in such a manner that they can be produced at such a place within 24 hours of demand.</p> <p>(3) In the case of a transaction which relates to long-term insurance or pure protection contracts, a licenceholder must keep the records referred to in paragraph (1) for the duration of the contract in question.</p> <p>(4) In the case of pension transfers, pension opt-outs or free-standing additional voluntary contributions a licenceholder must keep the records referred to in paragraph (1) indefinitely.</p> | All Class 2 |
| <p><b>8.59 Inspection of records</b></p>   | All Class 2 |

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| Rule  | Application  |
|---|--|
| <p>(1) Subject to paragraph (2), a licenceholder must allow each of its clients during business hours to inspect, either personally or by his agent, any entry in a record kept by it of matters relating to the client —</p> <p>(a) as soon as practicable; and</p> <p>(b) in any event, not more than 10 business days after it receives a request to carry out such an inspection.</p> <p>(2) Paragraph (1) applies to records which do not relate exclusively to the client subject to any prohibition or limitation imposed by or under the Data Protection Act 2002.</p>  |  |
| <p><b>8.60 Pricing errors</b></p> <p>(1) A licenceholder must notify the Authority as soon as it becomes aware of any pricing error in relation to a collective investment scheme, where the error is more than 0.5% of the price of the unit.</p> <p>(2) Where a licenceholder makes a notification under paragraph (1), it must also inform the Authority of the steps which it proposes to take to remedy the error and prevent a repetition of the error.</p> <p>(3) A licenceholder must maintain a register of all pricing errors in relation to a collective investment scheme.</p> <p>(4) A licenceholder must report to the Authority, within 15 business days after the quarter-end, all pricing errors in relation to a collective investment scheme which occurred or were discovered during that calendar quarter.</p> | <p><i>All Class 3(1), 3(2), 3(3), 3(4), 3(11) or 3(12)</i></p> |
| <p><b>8.61 Notification of suspension or liquidation of a scheme</b></p> <p>A licenceholder must notify the Authority as soon as it becomes aware that any collective investment scheme for which it acts has been suspended in relation to subscriptions and/or redemptions or put into liquidation.</p>   | <p><i>All Class 3</i></p>                                      |
| <p><b>8.62 Provision of officers</b></p>  | <p><i>All Class 4</i></p>                                      |

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| Rule  | Application                                 |
|---|---|
| <p>(1) Where a licenceholder carries on a regulated activity falling within paragraph (8) of Class 4 (providing officer of company) it must take reasonable steps to ensure that the person concerned —</p> <p>(a) is a suitable and competent person to undertake the office in question; and</p> <p>(b) understands the duties and responsibilities of the office.</p> <p>(2) Where the person concerned is a body corporate, the licenceholder's obligation under paragraph (1) relates to the directors of the body corporate.</p> <p>(3) Where the person concerned is an officer of or employed by the licenceholder, the licenceholder must take reasonable steps to ensure that the person concerned undertakes the office in a diligent and proper manner.</p>   |   |
| <p><b>8.63 Internal audit</b></p> <p>(1) In addition to the requirements of rule 8.6, a stockbroker must —</p> <p>(a) have an internal audit function; or</p> <p>(b) be subject to its group's internal audit function.</p> <p>(2) The internal audit function must —</p> <p>(a) have appropriate independence and be adequately resourced in terms of time, training and experience;</p> <p>(b) report directly to the licenceholder's responsible officers or audit committee;</p> <p>(c) have appropriate status within the licenceholder to ensure that responsible officers react appropriately to recommendations;</p> <p>(d) have unfettered access to all staff, records and data;</p> <p>(e) assess whether existing policies, processes and internal controls are effective and appropriate for the licenceholder's activities;</p> | <p><i>Class 2 that are stockbrokers</i></p> |

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| Rule   | Application |
|--|-------------|
| <p>(f) ascertain whether these policies and processes are complied with;</p> <p>(g) adopt an appropriate methodology that identifies material risks;</p> <p>(h) prepare an annual audit plan, which must be approved by the responsible officers or audit committee; and</p> <p>(i) be informed promptly of any material changes to the licenceholder's risk management strategy, policies or processes.</p> |             |

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## PART 9 – PROFESSIONAL OFFICERS

| Rule   | Application                             |
|--|---|
| <p><b>9.1 Interpretation</b></p> <p>In this Part, "<b>the regulatory requirements</b>" means the requirements of —</p> <ul style="list-style-type: none"> <li>(a) the conditions attached to the licence;</li> <li>(b) any direction issued under section 14 of the Act; and</li> <li>(c) the following, so far as applicable — <ul style="list-style-type: none"> <li>(i) any provision of the Act;</li> <li>(ii) this Rule Book;</li> <li>(iii) any other Rule Book under section 18 of the Act;</li> <li>(iv) the Anti-Money Laundering and Countering the Financing of Terrorism Code 2015 or any successor;</li> <li>(v) any other relevant code of practice under section 157(1) of the Proceeds of Crime Act 2008, or section 68 of the Terrorism and Other Crime (Financial Restrictions) Act 2014;</li> <li>(vi) any other provision having effect under or by virtue of the Act;</li> <li>(vii) any statutory provision referred to in section 43 of the Act; and</li> <li>(viii) the Collective Investment Schemes Act 2008.</li> </ul> </li> </ul> | <p><i>All professional officers</i></p> |
| <p><b>9.2 Relations with regulators</b></p> <p>A professional officer must —</p> <ul style="list-style-type: none"> <li>(a) co-operate in an open and honest manner with the Authority and any other regulatory body to which he is accountable; and</li> </ul>  | <p><i>All professional officers</i></p> |

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| Rule  | Application               |
|---|---------------------------|
| (b) keep the Authority promptly informed of anything relevant to the exercise of his regulatory functions.  |                           |
| <p><b>9.3 Skill, care and responsible behaviour</b></p> <p>A professional officer must —</p> <ul style="list-style-type: none"> <li>(a) act with integrity and avoid misleading or deceptive representations or practices;</li> <li>(b) conduct his business at all times with skill, care and diligence;</li> <li>(c) carry on any regulated activity in a professional, open and fair manner;</li> <li>(d) comply with any applicable law or regulations relating to that activity in the country or territory in which it is carried on;</li> <li>(e) comply with any applicable code or standard which is imposed or endorsed by — <ul style="list-style-type: none"> <li>(i) any professional body of which the professional officer is a member; or</li> <li>(ii) the Authority where a code or standard has been specified in writing to the professional officer, for the purpose of this rule;</li> </ul> </li> <li>(f) in respect of continuing professional development ("CPD") — <ul style="list-style-type: none"> <li>(i) undertake a minimum of 25 hours relevant CPD requirements per annum; or</li> <li>(ii) where the licenceholder is a member of a professional body and that body's CPD requirement is higher than 25 hours per annum, comply with the CPD requirements of his professional body; and</li> <li>(iii) maintain records of CPD undertaken;</li> </ul> </li> <li>(g) disclose to any affected parties any private benefit; and</li> </ul> | All professional officers |

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| Rule   | Application               |
|--|---------------------------|
| (h) avoid offering or receiving any gift or other benefit which might affect the recipient's judgement.  |                           |
| <b>9.4 Action likely to bring the Island into disrepute</b><br>A professional officer must not carry on business in a manner that may bring the Island into disrepute or damage its standing as a financial centre.  | All professional officers |
| <b>9.5 Independence</b><br>(1) A professional officer must only claim that he is independent or impartial –<br>(a) if he is independent; and<br>(b) if he clearly specifies any limitation to that independence and impartiality.<br>(2) Without prejudice to paragraph (1), a professional officer must not represent himself as acting independently if he has any relationship or arrangement with any other person which –<br>(a) may distort the way in which he conducts his business; or<br>(b) results in an advantage to the professional officer, or a disadvantage to the other person. | All professional officers |
| <b>9.6 Advertisements – general</b><br>If a professional officer advertises his services in respect of regulated activities, he must not publish or cause or permit to be published any advertisement –<br>(a) for a product or service which contains unfair, inaccurate or misleading indications of the product or service;<br>(b) which might damage the reputation of the Island; or<br>(c) which does not state the name of the professional officer, his principal business address in the Island and that the professional officer is licensed by the Authority.                           | All professional officers |



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| <b>Rule</b>   | <b>Application</b>               |
|---|----------------------------------|
| <p><b>9.7 Reference to licensing</b></p> <p>Except when carrying on the regulated activity of acting in the capacity of a company director, or in a personal capacity, a professional officer must make clear to those with whom he has business communications that he is licensed by the Authority.</p>   | <i>All professional officers</i> |
| <p><b>9.8 Details of licence</b></p> <p>A professional officer must provide on request, to any current, past or potential client —</p> <ul style="list-style-type: none"> <li>(a) information regarding the conditions attached to his licence; and</li> <li>(b) details of any exception or modification of any rule applicable to him.</li> </ul>   | <i>All professional officers</i> |
| <p><b>9.9 Business agreement</b></p> <ul style="list-style-type: none"> <li>(1) A professional officer must not carry on any regulated activity unless the services provided have been agreed in writing and a copy retained on file.</li> <li>(2) The agreement must set out the professional officer's remuneration or the basis of its calculation.</li> </ul>   | <i>All professional officers</i> |
| <p><b>9.10 Client money</b></p> <ul style="list-style-type: none"> <li>(1) Professional officers must not hold or receive client money.</li> <li>(2) Where a professional officer does receive client money he must — <ul style="list-style-type: none"> <li>(a) return it as soon as possible; and</li> <li>(b) on the date of receipt or the next working day, notify the Authority of the facts, including the date of receipt of the money and the date it was returned.</li> </ul> </li> </ul> | <i>All professional officers</i> |
| <p><b>9.11 Business governance and controls</b></p> <ul style="list-style-type: none"> <li>(1) A professional officer is responsible for the good governance of his business and compliance with the regulatory requirements.</li> </ul>  | <i>All professional officers</i> |

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| Rule  | Application                             |
|---|---|
| <p>(2) A professional officer must organise and control his affairs in a responsible manner.</p> <p>(3) A professional officer must establish and maintain operational controls, systems, policies and procedures appropriate to the nature, scale and complexity of his business to ensure —</p> <ul style="list-style-type: none"> <li>(a) effective communication;</li> <li>(b) effective maintenance of accounting and other records and the reliability of this information;</li> <li>(c) appropriate consideration is given to risks of money laundering, financial crime, the financing of terrorism, or the proliferation of weapons of mass destruction;</li> <li>(d) appropriate consideration is given to risks of market manipulation or market abuse; and</li> <li>(e) appropriate safeguards to protect clients' data and other commercially sensitive data from loss or misuse.</li> </ul> <p>(4) A professional officer must review the controls required by this rule annually, or more frequently if appropriate, and evidence that review.</p> |   |
| <p><b>9.12 Compliance</b></p> <p>A professional officer must —</p> <ul style="list-style-type: none"> <li>(a) comply with the regulatory requirements and also have regard to any code or set of standards promulgated by any authority or body other than the Authority, having responsibility in the public interest for the supervision or regulation of the professional officer's activities, except to the extent that it is inconsistent with the regulatory requirements; and</li> <li>(b) take reasonable steps to ensure that any company or trust for which he carries on any regulated activity complies with such statutory obligations as are applicable to that activity.</li> </ul>   | <p><i>All professional officers</i></p> |
| <p><b>9.13 Business plan</b></p>  | <p><i>All</i></p>                       |

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| Rule   | Application                             |
|--|---|
| <p>(1) A professional officer must have a documented business plan and must operate in accordance with his business plan.</p> <p>(2) A professional officer must notify the Authority, not less than 20 business days in advance of any cessation of, or material change to, any of his regulated activities; and —</p> <p>(a) incorporate any relevant amendments into the business plan; and</p> <p>(b) provide the Authority with a copy of the amended plan.</p> <p>(3) In this rule “<b>business plan</b>” means a statement describing the professional officer’s business or projected business, containing such details and projections as the Authority may reasonably require.</p> | <p><i>professional officers</i></p>     |
| <p><b>9.14 Change of name or address</b></p> <p>A professional officer must notify the Authority, not less than 20 business days in advance, of a change in —</p> <p>(a) his name;</p> <p>(b) his address; and</p> <p>(c) his principal place of business, if any.</p>   | <p><i>All professional officers</i></p> |
| <p><b>9.15 Annual reporting date</b></p> <p>(1) A professional officer must notify the Authority of his annual reporting date.</p> <p>(2) A professional officer may not change his annual reporting date without the prior consent in writing of the Authority.</p>   | <p><i>All professional officers</i></p> |
| <p><b>9.16 Compliance returns</b></p> <p>(1) A professional officer must make a return (an “<b>Annual Regulatory Return</b>”) to the Authority within 4 months of the professional officer’s annual reporting date.</p> <p>(2) The return must state the position as at the annual reporting date.</p>   | <p><i>All professional officers</i></p> |

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| Rule  | Application                             |
|---|---|
| <p>(3) The return must be in the form, contain the information and be accompanied by the documents specified by the Authority.</p> <p>(4) The following additional information must be submitted to the Authority within 4 months of the professional officer's annual reporting date as part of the annual return —</p> <p>(a) Professional officers authorised to carry on Class 5(2) regulated activity must confirm that they are in compliance with rule 9.24.</p> <p>(b) Any other professional officer must provide details of the insurance cover in place and how this is appropriate to his regulated activities.</p> |   |
| <p><b>9.17 Provision of statistical information</b></p> <p>(1) A professional officer must provide to the Authority such statistical information relating to his regulated activities as the Authority may require.</p> <p>(2) By 15 May each year, a professional officer must provide to the Authority details of the number of appointments held as at 30 April.</p>   | <p><i>All professional officers</i></p> |
| <p><b>9.18 Appointment of alternate directors</b></p> <p>A professional officer must maintain records to show alternate director(s) nominated by him and the dates and meetings at which the alternate director(s) act in his stead.</p>  | <p><i>All professional officers</i></p> |
| <p><b>9.19 Risk management</b></p> <p>(1) A professional officer must —</p> <p>(a) establish and maintain policies, appropriate to the nature and scale of his business for managing the risks specified in paragraph (2); and</p> <p>(b) update those policies whenever appropriate.</p> <p>(2) The risks referred to in paragraph (1)(a) are —</p> <p>(a) all material risks associated with the professional officer, including financial, legal and regulatory risks; and</p>   | <p><i>All professional officers</i></p> |

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| Rule   | Application                             |
|--|---|
| <p>(b) all operational risks associated with the professional officer's activities.</p> <p>(3) The professional officer must ensure that the policies referred to in paragraph (1)(a) are complied with.</p>   |   |
| <p><b>9.20 Systems and controls for record keeping</b></p> <p>(1) A professional officer must establish and maintain procedures to ensure that sufficient information is recorded and retained about the conduct of his business and his compliance with the regulatory requirements.</p> <p>(2) A professional officer must establish and maintain adequate systems and controls over his general records to ensure that they comply with the regulatory requirements.</p> <p>(3) If a professional officer holds any original records relating to his regulated activities, he must maintain these for at least 6 years after he ceases to hold a licence.</p>   | <p><i>All professional officers</i></p> |
| <p><b>9.21 Conflicts of interest</b></p> <p>(1) A professional officer must establish, implement and maintain an effective conflicts of interest policy which must be —</p> <p>(a) in writing; and</p> <p>(b) appropriate to the nature, scale and complexity of his business.</p> <p>(2) The policy must —</p> <p>(a) identify the circumstances which constitute or may give rise to a conflict of interest entailing a material risk of damage to the interests of any person for whom the professional officer undertakes regulated activities;</p> <p>(b) specify procedures to be followed and measures to be adopted in order to manage such conflicts.</p> <p>(3) A professional officer must —</p> <p>(a) so far as possible, avoid any conflict of interest; and</p> | <p><i>All professional officers</i></p> |

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| Rule  | Application                             |
|---|---|
| <p>(b) so far as any conflict of interest cannot be avoided, disclose the conflict to any affected parties.</p> <p>(4) For the avoidance of doubt, any borrowing by the professional officer from any person connected to the regulated activity amounts to a conflict of interest.</p> <p>(5) A professional officer must maintain a register of conflicts of interest.</p> <p>(6) The register referred to in paragraph (5) —</p> <p>(a) Must contain the information detailed in (6)(b) but may be in summary form, provided that a full record of each conflict of interest and the measures adopted to manage it is kept elsewhere;</p> <p>(b) must contain the following information relating to each conflict of interest —</p> <p>(i) a description of the conflict which arose;</p> <p>(ii) the name of the person whose interests are at a material risk of damage by reason of the conflict;</p> <p>(iii) the measures adopted to manage the conflict;</p> <p>(iv) the date when the conflict was first identified; and</p> <p>(v) if the conflict has ceased, the date when it ceased and the grounds for considering that it has ceased.</p> <p>(7) The information relating to a conflict of interest must be kept on the register until at least 6 years after the date the conflict ceased.</p> |   |
| <p><b>9.22 Complaints</b></p> <p>(1) If a professional officer receives a complaint about his regulated activities either in writing or in a meeting arranged specifically for this purpose, he must ensure that —</p> <p>(a) the complaint is recorded in a complaints register;</p>   | <p><i>All professional officers</i></p> |

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| Rule  | Application |
|---|-------------|
| <ul style="list-style-type: none"> <li>(b) the complaint is investigated promptly and thoroughly;</li> <li>(c) appropriate action is taken and recorded;</li> <li>(d) within 8 weeks of submitting the complaint, the complainant is notified of the outcome of the investigation and of any action taken; and</li> <li>(e) any remedial action needed is taken promptly (including, whenever appropriate, correcting any failures or weaknesses in his systems and procedures) and that the Authority is notified of any resulting changes to his procedures.</li> </ul> <p>(2) A professional officer must —</p> <ul style="list-style-type: none"> <li>(a) have documented procedures for dealing with complaints; and</li> <li>(b) make those procedures readily accessible on request.</li> </ul> <p>(3) The register referred to in paragraph (1)(a) —</p> <ul style="list-style-type: none"> <li>(a) must contain the information detailed in (3)(b) but may be in summary form, provided that a full record of the complaint and action taken in relation to the complaint is also held;</li> <li>(b) must contain the following information relating to each complaint — <ul style="list-style-type: none"> <li>(i) the name of the complainant;</li> <li>(ii) the date when the complaint was received;</li> <li>(iii) the nature of the complaint;</li> <li>(iv) whether the complaint involves a breach of the regulatory requirements;</li> <li>(v) how and when the complaint was investigated;</li> <li>(vi) the action taken to resolve the complaint;</li> <li>(vii) the date the complaint is considered closed; and</li> <li>(viii) whether the professional officer's professional indemnity insurers or</li> </ul> </li> </ul> |             |

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| Rule  | Application               |
|---|---------------------------|
| Directors and Officers insurers were informed, if applicable.   |                           |
| <p><b>9.23 Business resumption and contingency arrangements</b></p> <p>A professional officer must —</p> <ul style="list-style-type: none"> <li>(a) establish and maintain business resumption and contingency arrangements which are appropriate to the nature and scale of his business;</li> <li>(b) test those arrangements at appropriate intervals;</li> <li>(c) incorporate the arrangements into a disaster recovery plan; and</li> <li>(d) provide a copy of the disaster recovery plan to the Authority upon request.</li> </ul>  | All professional officers |
| <p><b>9.24 Professional indemnity insurance</b></p> <p><b>Trustees</b></p> <ul style="list-style-type: none"> <li>(1) A professional officer licensed to conduct Class 5(2) activity must ensure that professional indemnity insurance, or another type of insurance which provides the same effective protection, is maintained in respect of all of his regulated activities within Class 5, which must comply with the following level and scope — <ul style="list-style-type: none"> <li>(a) the level must be appropriate to the nature and scale of his business and at a minimum level of £1,000,000 in aggregate;</li> <li>(b) the scope must include — <ul style="list-style-type: none"> <li>(i) breach of duty by reason of negligent act, error and omission;</li> <li>(ii) libel or slander;</li> <li>(iii) legal liability incurred by reason of loss of documents; and</li> <li>(iv) liabilities which the professional officer might incur in any jurisdiction in which he carries on business.</li> </ul> </li> </ul> </li> <li>(2) Within 20 business days of each renewal of his professional indemnity insurance, the professional</li> </ul> | All professional officers |



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| Rule  | Application |
|---|-------------|
| <p>officer must submit a PII confirmation, in the form specified by the Authority. The PII confirmation must –</p> <ul style="list-style-type: none"> <li>(a) include declarations that the cover meets the requirements of paragraph (1);</li> <li>(b) include any other relevant matters required by the Authority; and</li> <li>(c) be signed by both the professional officer and his insurer or insurance broker.</li> </ul> <p>(3) Where a professional officer obtains an extension of his professional indemnity insurance, he must provide confirmation of the extension within 20 business days of the extension.</p> <p>(4) The Authority may require a professional officer who intends to cease carrying on regulated activities to arrange for appropriate "run-off" professional indemnity insurance in respect of claims arising from past acts or omissions.</p> <p><b>Non-trustees</b></p> <p>(5) A professional officer licensed to conduct Class 4, Class 5(5) or Class 5(6) activity must maintain insurance cover appropriate to his regulated activities. The Authority may require a professional officer who intends to cease carrying on regulated activities to arrange for appropriate "run-off" professional indemnity insurance in respect of claims arising from past acts or omissions.</p> <p><b>All professional officers</b></p> <p>(6) No account shall be taken of insurance provided by an insurer which has been notified by the Authority to any professional officer as being unsatisfactory for the purpose of this rule.</p> <p>(7) All professional officers must notify the Authority as soon as practicable of –</p> <ul style="list-style-type: none"> <li>(a) any claim exceeding £10,000 on the insurance described in paragraphs (1) and (4); and</li> <li>(b) any change in the insurance previously notified to the Authority.</li> </ul> |             |

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| Rule  | Application                             |
|---|---|
| <p><b>9.25 Breaches of regulatory requirements</b></p> <p>(1) A professional officer must notify the Authority as soon as he becomes aware that he has materially breached any regulatory requirements.</p> <p>(2) Where a professional officer gives a notification under paragraph (1), he must also inform the Authority of the steps which he proposes to take to remedy the situation.</p> <p>(3) A professional officer must maintain a register of all breaches.</p>   | <p><i>All professional officers</i></p> |
| <p><b>9.26 Matters to be notified – general</b></p> <p>(1) Without prejudice to the specific requirements of any other rule, a professional officer must notify the Authority of any relevant material change affecting his business.</p> <p>(2) A professional officer must notify the Authority as soon as he becomes aware that any of the following has occurred in relation to his regulated activities, whether within or outside the Island –</p> <ul style="list-style-type: none"> <li>(a) the breakdown of his administrative or control procedures (including breakdowns of computer systems or other accounting problems resulting, or likely to result in, failure to maintain proper records);</li> <li>(b) any event which makes it impracticable for him to comply with any of the regulatory requirements;</li> <li>(c) the imposition of disciplinary measures by any statutory or other regulatory authority;</li> <li>(d) any event which may constitute market manipulation or market abuse;</li> <li>(e) the material loss of data; or</li> <li>(f) an appeal made by him to a Tribunal against any decision or action taken by the Authority.</li> </ul> <p>(3) Where a professional officer gives a notification under paragraph (2)(a) or (b), he must also inform the</p> | <p><i>All professional officers</i></p> |

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| <b>Rule</b>  | <b>Application</b>               |
|--|----------------------------------|
| Authority of the steps which he proposes to take to remedy the situation.  |                                  |
| <p><b>9.27 Surrender of licence</b></p> <p>(1) Where a professional officer intends voluntarily to surrender his licence, he must notify the Authority of –</p> <p>(a) his intention to do so; and</p> <p>(b) whether he will continue to carry on the regulated activity under an exemption in the Financial Services (Exemptions) Regulations 2011; or</p> <p>(c) the date on which he will cease to carry on a regulated activity.</p> <p>(2) A notification under paragraph (1) must be given not less than 30 business days before the surrender of the licence.</p> <p>(3) If the requisite amount of notice under paragraph (2) is not given, the surrender will not take effect until 30 business days after the notice was received by the Authority.</p> | <i>All professional officers</i> |
| <p><b>9.28 Cessation of regulated activities</b></p> <p>(1) Where a professional officer intends voluntarily to cease carrying on a regulated activity of any description, he must notify the Authority of his intention to do so.</p> <p>(2) A notification under paragraph (1) must be given –</p> <p>(a) if practicable, not less than 20 business days before the event; or</p> <p>(b) otherwise, as soon as practicable.</p>  | <i>All professional officers</i> |
| <p><b>9.29 Resignation of professional officer as a director</b></p> <p>If a professional officer intends to cease carrying on regulated activities for or on behalf of a company, he must notify that company in writing.</p>   | <i>All professional officers</i> |
| <p><b>9.30 Resignation of professional officer as a trustee, protector or enforcer</b></p>   | <i>All professional officers</i> |

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| Rule  | Application                             |
|---|---|
| <p>If a professional officer ceases to carry on regulated activities in relation to a trust or foundation, he must take whatever steps are appropriate and necessary —</p> <ul style="list-style-type: none"> <li>(a) to facilitate the transfer of that regulated activity to another licenceholder or another person who is to provide those or similar services; and</li> <li>(b) to secure the appointment of a replacement trustee, protector or enforcer, as the case may be, and co-operate with the new trustee, protector or enforcer to ensure a smooth and timely transition.</li> </ul> |   |
| <p><b>9.31 Investigation of member's conduct by professional body</b></p> <p>A professional officer must notify the Authority as soon as he becomes aware of any action of the following kinds taken against him by a professional body of which the professional officer is a member —</p> <ul style="list-style-type: none"> <li>(a) an inquiry into his professional conduct;</li> <li>(b) the termination of his membership;</li> <li>(c) any disciplinary action against him;</li> <li>(d) any censure of his conduct.</li> </ul>  | <p><i>All professional officers</i></p> |
| <p><b>9.32 Disqualification as a director etc.</b></p> <p>A professional officer must notify the Authority as soon as he becomes aware of his disqualification or any application for his disqualification under —</p> <ul style="list-style-type: none"> <li>(a) sections 4, 5 or 9 of the Company Officers (Disqualification) Act 2009; or</li> <li>(b) any equivalent provision having effect in a country or territory outside the Island.</li> </ul>   | <p><i>All professional officers</i></p> |
| <p><b>9.33 Notice of action etc.</b></p> <ul style="list-style-type: none"> <li>(1) A professional officer must notify the Authority as soon as he becomes aware of any action specified in paragraph (3) against him.</li> <li>(2) A professional officer must notify the Authority as soon as he becomes aware of any action specified in</li> </ul>  | <p><i>All professional officers</i></p> |

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| Rule   | Application                             |
|--|---|
| <p>paragraph (3) against any person for whom he undertakes any regulated activity, either currently or within the previous 6 years, unless the action has been reported to the Authority by that person.</p> <p>(3) The actions referred to in paragraph (1) are the service by a constable or member of HM Attorney General's Chambers of any notice, summons, order or warrant made under any criminal statute in the Isle of Man for the purposes of obtaining evidence for a criminal investigation or criminal proceedings, including a confiscation investigation or confiscation proceedings either in the Island or elsewhere.</p> |   |
| <p><b>9.34 Legal proceedings</b></p> <p>(1) A professional officer must notify the Authority as soon as he becomes aware of any actual or intended legal proceedings taken, or to be taken, by or against —</p> <p>(a) the professional officer; or</p> <p>(b) a person for whom he undertakes regulated activities,</p> <p>(c) where the amount claimed or disputed is likely to exceed £100,000 or its equivalent in another currency.</p> <p>(2) Nothing in this rule requires a professional officer to disclose any matter subject to legal professional privilege.</p>   | <p><i>All professional officers</i></p> |
| <p><b>9.35 Criminal proceedings and convictions</b></p> <p>(1) In respect of an offence to which this rule applies, as soon as he becomes aware of the bringing of any criminal proceedings against, or the conviction of, himself or any person for whom he undertakes regulated activities, a professional officer must notify the Authority.</p> <p>(2) This rule applies to —</p> <p>(a) an offence which is triable on information, or, which would be triable on information if committed in the Island;</p>   | <p><i>All professional officers</i></p> |

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| Rule  | Application                             |
|---|---|
| <ul style="list-style-type: none"> <li>(b) an offence relating to a regulated activity or an activity which, if carried on in the Island, would be a regulated activity;</li> <li>(c) an offence under the Companies Acts 1931 to 2004 or the Companies Act 2006, or any legislation having similar effect in any country or territory outside the Island;</li> <li>(d) an offence relating to the formation, management or administration of companies in any country or territory;</li> <li>(e) an offence under the Purpose Trusts Act 1996 or any legislation having similar effect in any country or territory outside the Island;</li> <li>(f) an offence relating to trusts in any country or territory;</li> <li>(g) an offence relating to insolvency;</li> <li>(h) an offence involving fraud or dishonesty; or</li> <li>(i) an offence under the Foundations Act 2011 or any legislation having similar effect in any country or territory outside the Island.</li> </ul> <p>(3) Nothing in this rule requires a professional officer to disclose any matter subject to legal professional privilege</p> |   |
| <p><b>9.36 Bankruptcy, etc.</b></p> <p>A professional officer must notify the Authority as soon as he becomes aware of any of the following (whether occurring in the Island or elsewhere) —</p> <ul style="list-style-type: none"> <li>(a) the making of any composition or arrangement with his creditors;</li> <li>(b) the commencement of proceedings for his bankruptcy;</li> <li>(c) the appointment of an inspector by a statutory or other regulatory authority to investigate his affairs.</li> </ul>  | <p><i>All professional officers</i></p> |
| <p><b>9.37 Fraud or serious mismanagement</b></p>   | <p><i>All professional</i></p>          |

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| <b>Rule</b>   | <b><i>Application</i></b> |
|---|---------------------------|
| A professional officer must notify the Authority as soon as he becomes aware of any circumstances which may result in fraud or serious mismanagement in any person for whom he undertakes any regulated activity. | <i>officers</i>           |

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### Appendix 1 – Interpretation (Rule 4)

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| “accommodation address facilities” | has the same meaning as in the Order;  |
| “accounting records”               | means the records kept in accordance with rule 2.12 or 2.15;   |
| “the Act”                          | means the Financial Services Act 2008;   |
| “adjusted capital base” (“ACB”)    | in relation to a licenceholder, means a measurement of its capital available to cover its risk-weighted assets, calculated in accordance with rule 2.20;   |
| “administrator”                    | has the same meaning as in the CIS Act;  |
| “advocate”                         | includes a person who is registered under the Legal Practitioners Registration Act 1986;   |
| “agent”                            | includes an attorney and a nominee;  |
| “annual financial return”          | means a return made in accordance with rule 2.8;   |
| “annual financial statements”      | has the meaning given by rule 2.7;   |
| “Annual Regulatory Return”         | means a return made in accordance with rule 8.31 or 9.16;  |
| “annual reporting date”            | in relation to any person, means the end of that person’s financial year;  |
| “asset manager”                    | has the same meaning as in the CIS Act;  |
| “associated company”               | means —<br>(a) any company in which the licenceholder holds more than 20% of the equity shares; or<br>(b) a company, other than a subsidiary, over which the licenceholder is able to exercise a significant influence, and in which the licenceholder’s interest is either —<br>(i) effectively that of a partner in a joint venture or consortium;<br>or<br>(ii) both long-term and substantial; |
| “attorney”                         | means the donee of a power of attorney acting under that power;  |
| “auditor”                          | has the meaning given in rule 5.1;   |
| “the Authority”                    | means the Isle of Man Financial Services Authority;  |
| “business day”                     | means a day other than —<br>(a) a Saturday or Sunday, or<br>(b) a day which is a bank holiday under the Bank Holidays Act 1989;  |



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| <b>"business plan"</b>  | means a statement in writing provided by a licenceholder to the Authority setting out details of the licenceholder's current or proposed business for a future period of not less than 2 years, including financial projections for that period and anything else that the Authority may reasonably require;                 |
| <b>"certificates representing securities"</b>                         | has the same meaning as in the Order;  |
| <b>"CET1 ratio"</b>   | in relation to a licenceholder, means a ratio of its Common Equity Tier 1 capital available to cover its risk weighted assets, calculated in accordance with rule 2.20.  |
| <b>"charge"</b>   | means a charge referred to in section 79 of the Companies Act 1931 or section 138 of the Companies Act 2006, and includes, in the case of a company incorporated in a country or territory outside the Island, a charge required to be registered under any equivalent provision having effect in that country or territory; |
| <b>"the CIS Act"</b>  | means the Collective Investment Schemes Act 2008;  |
| <b>"client"</b>   | includes a customer (and vice versa), but see also rule 3.2;   |
| <b>"client agreement"</b>   | means an agreement referred to in rule 6.41 or rule 6.64;  |
| <b>"clients' assets"</b>  | include clients' money (including money held for clients in a nominee bank account), trust money, relevant funds and clients' investments held by the licenceholder or an eligible custodian;  |
| <b>"client bank account"</b>  | has the meaning given by rule 3.2 for the purposes of Part 3;  |
| <b>"client company"</b> (in relation to a corporate service provider) | means a company for which the corporate service provider carries on any regulated activity falling within Class 4;   |
| <b>"client company bank account"</b>                                  | has the meaning given by rule 3.2 for the purposes of Part 3;  |
| <b>"client free money account"</b>                                    | has the meaning given by rule 3.2 for the purposes of Part 3;  |
| <b>"client money"</b>   | has the meaning given by rule 3.2;   |
| <b>"client settlement account"</b>                                    | has the meaning given by rule 3.2 for the purposes of Part 3;  |
| <b>"collateral"</b>   | means any form of real security;   |
| <b>"collective investment scheme"</b>                                 | has the same meaning as in the CIS Act;  |
| <b>"company"</b>  | includes any body corporate, whether constituted under the law of the Island or elsewhere; and for the purposes of all rules applying to Class 4 regulated activities also includes –<br>(a) a <i>Stiftung</i> (foundation) established under the law of Austria,  |

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|   | <p>Germany or Liechtenstein;</p> <p>(b) an <i>Anstalt</i> (institution) established under the law of Liechtenstein;</p> <p>(c) a foundation or similar entity established under the law of a country or territory outside the Island;</p> <p>(d) a foundation established under the Foundations Act 2011;</p> |
| <b>“contract note”</b>                            | means a note of the essential features of a transaction carried out for a client;   |
| <b>“contract for differences”</b>                 | has the meaning given in rule 3.22(10);   |
| <b>“controlling interest”</b>                     | should be interpreted by reference to the definition of "controller" in the Financial Services Act 2008;  |
| <b>“corporate officer”</b>                        | means a company whose business consists solely of acting as a director or secretary;  |
| <b>“corporate service provider” (“CSP”)</b>       | means a person who carries on regulated activities falling within Class 4;  |
| <b>“corporate trustee, enforcer or protector”</b> | means a company whose business consists solely of acting as a trustee, enforcer or protector;   |
| <b>“counterparty”</b>                             | means another party to a transaction to which the licenceholder is a party;   |
| <b>“custodian”</b>                                | <p>(a) in relation to regulated activities falling within Class 2, means a person carrying on regulated activities falling within paragraphs (2) and (5) of that class;</p> <p>(b) in relation to regulated activities falling within Class 3, has the meaning given in section 26 of the CIS Act;</p>        |
| <b>“dealing”</b>                                  | has the same meaning as in the Order;   |
| <b>“debenture warrant”</b>                        | has the same meaning as in the Order;   |
| <b>“debentures”</b>                               | has the same meaning as in the Order;   |
| <b>“deposit”</b>                                  | has the same meaning as in the Order;   |
| <b>“deposit taker”</b>                            | means a person carrying on regulated activities falling within Class 1(1) or 1(2);  |
| <b>“deposit taking return”</b>                    | means a return required by rule 2.20 or 2.23;   |
| <b>“Depositors Compensation Scheme”</b>           | means the scheme for the time being having effect under section 25 of the Act;  |
| <b>“designated exchange”</b>                      | means an investment exchange (not being a recognised exchange) for the time being included on the list of designated investment exchanges maintained by the Financial Conduct Authority of the  |

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|                                      | United Kingdom;   |
| “designated stock”                   | means stock listed on a recognised or designated exchange;  |
| “director”                           | has the same meaning as in the Act;   |
| “discretionary management agreement” | means a client agreement which includes additional statements required by rule 6.45 (exercise of discretion in management of investments);  |
| “discretionary portfolio manager”    | means a person carrying on regulated activities falling within paragraphs (3), (4), (5), (6) and (7) only of Class 2;   |
| “disposal”                           | has the same meaning as in the Order;   |
| “DMLRO”                              | is an abbreviation for Deputy Money Laundering Reporting Officer, as described in the Anti-Money Laundering and Countering the Financing of Terrorism Code 2015   |
| “electronic communication”           | has the meaning given in rule 2.6;  |
| “electronic money”                   | has the same meaning as in the Order;   |
| “e-money”                            | has the same meaning as electronic money;   |
| “enforcer”                           | has the same meaning as in section 1(1)(d) of the Purpose Trusts Act 1996 in relation to a purpose trust, or has the same meaning as in section 14 of the Foundations Act 2011 in relation to a foundation established under that Act;  |
| “equity balance”                     | has the meaning given by rule 3.22(10);   |
| “exchange”                           | means —<br>(a) a recognised exchange;<br>(b) a designated exchange; or<br>(c) a recognised clearing house;  |
| “execution only”                     | means, in relation to arranging a deal for a client, a deal arranged in circumstances where the licenceholder can reasonably assume that the client is not relying upon the licenceholder to advise him on or to exercise any judgement on his behalf as to the merits of or the suitability for him of that transaction; |
| “exempt exposure”                    | means an exposure referred to in rule 8.41;   |
| “exempt scheme”                      | has the same meaning as in the CIS Act;   |
| “exposure”                           | means a claim on an individual counterparty or group of closely related counterparties;   |
| “express trust”                      | has the same meaning as in the Order;   |
| “fiduciary”                          | means a licenceholder who carries on activities falling within Class 4 or Class 5;  |
| “fiduciary custodian”                | has the same meaning as in the CIS Act;   |

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| <b>“financial adviser”</b>                                      | means a licenceholder who carries on activities falling within paragraphs (3) and (7) of Class 2;   |
| <b>“financial return”</b>                                       | means any return, statement or account required to be made, provided or submitted to the Authority by Part 2;   |
| <b>“Financial Services Ombudsman Scheme”</b>                    | means the Scheme contained in Schedule 4 to the Act;  |
| <b>“future”</b>   | has the meaning given in rule 3.22(10);   |
| <b>“general client bank account”</b>                            | has the meaning given by rule 3.2 for the purposes of Part 3;   |
| <b>“governing body”</b>   | has the same meaning as in the CIS Act;   |
| <b>“government security”</b>                                    | has the same meaning as in the Order;   |
| <b>“group company”</b>  | in relation to a licenceholder, means a company, trust or foundation which is a member of the same group as the licenceholder;  |
| <b>“group of closely related counterparties”</b>                | means individual counterparties which are related in such a way that the financial soundness of any one of them may affect the financial soundness of the others and as such they constitute a single risk; |
| <b>“illiquid investment”</b>                                    | means an investment which, either generally or under certain market conditions, may be difficult or impossible to realise;  |
| <b>“instrument”</b>   | has the same meaning as in the Order;   |
| <b>“interim financial return”</b>                               | means a statement prepared in accordance with <del>rule 2.34</del> <b>rule 2.33</b> ;   |
| <b>“intermediate broker”</b>                                    | in relation to a margined transaction, means any person through whom the licenceholder undertakes that transaction;   |
| <b>“internal capital adequacy assessment process” (“ICAAP”)</b> | in relation to a licenceholder, means procedures for assessing the adequacy of its capital and financial resources;   |
| <b>“international collective investment scheme”</b>             | has the meaning given in the section 26 of the CIS Act;   |
| <b>“investment”</b>   | has the same meaning as in the Order;   |
| <b>“investment adviser to retirement benefit schemes”</b>       | means a licenceholder licensed to carry on activities falling within paragraphs (3) and (6) of Class 2;   |
| <b>“Isle of Man resident officer”</b>                           | in relation to a licenceholder, means an individual appointed in accordance with rule 8.25;   |
| <b>“items subject to legal privilege”</b>                       | has the meaning given by section 13 of the Police Powers and Procedures Act 1998;   |

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| <b>“joint enterprise”</b>                      | has the same meaning as in the Order;  |
| <b>“large exposure”</b>                        | in relation to a licenceholder, means any exposure which is 10% or more of the licenceholder’s large exposures capital base;   |
| <b>“large exposures capital base” (“LECB”)</b> | in relation to a licenceholder —<br>(a) until 1 July 2017, means the adjusted capital base calculated annually on the licenceholder’s latest audited financial statements;<br>(b) from 1 July 2017, means its Tier 1 capital (calculated in accordance with rule 2.20);  |
| <b>“large exposures policy statement”</b>      | means a statement of a bank’s policy on treatment of large exposures;  |
| <b>“limited advice”</b>                        | means, in relation to advising on and arranging a deal for a client, where limited information relating to his circumstances has been provided to the licenceholder in relation to an identified specific need;  |
| <b>“limited liability transaction”</b>         | has the meaning given in rule 6.51;  |
| <b>“liquidity”</b>                             | means the risk of non-availability of liquid assets;   |
| <b>“long term insurance”</b>                   | has the same meaning as in the Order;  |
| <b>“management letter”</b>                     | means a letter from a licenceholder’s auditor highlighting possible weaknesses in the licenceholder’s systems and internal controls, and making recommendations to remedy the weaknesses;  |
| <b>“margined client money”</b>                 | has the meaning given in rule 3.22(10);  |
| <b>“margined transaction”</b>                  | has the meaning given in rule 3.22(10);  |
| <b>“market counterparty”</b>                   | means —<br>(a) another licenceholder;<br>(b) a trading member of an exchange, but only in respect of the kinds of investments traded on that exchange, or any related derivatives;<br>(c) an overseas person which regularly deals in investments off-exchange, but only in respect of investments of that kind, or any related derivatives;<br>(d) an inter-dealer broker, but only in respect of activities undertaken as inter-dealer broker;<br>(e) as regards debt investments and money market investments —<br>(i) a country;<br>(ii) an international banking or financial institution whose members are countries (or their central banks or monetary |

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|   | <p>authorities);</p> <p>(iii) an institution with a Part IV permission under Financial Services and Markets Act 2000<sup>6</sup> (an Act of Parliament) which includes accepting deposits; and</p> <p>(iv) a credit institution recognised under the Banking Consolidation Directive Regulations;</p> <p>(f) a central bank or other monetary authority of any country;</p> |
| <b>“minimum net tangible asset requirement”</b> | in relation to a licenceholder, means the amount specified in column 6 of Appendix 2;   |
| <b>“mismatch”</b>                               | in relation to liquidity, means the difference between the cumulative totals of assets and liabilities in specified time-bands, expressed as a percentage of total deposit liabilities;   |
| <b>“MLRO”</b>                                   | is an abbreviation of Money Laundering Reporting Officer as defined in the Anti-Money Laundering and Countering the Financing of Terrorism Code 2015;   |
| <b>“money”</b>                                  | has the meaning given by rule 3.2 for the purposes of Part 3;   |
| <b>“net tangible assets”</b>                    | in relation to a licenceholder, means the amount calculated in accordance with Part A of Appendix 3;  |
| <b>“nominee bank account”</b>                   | has the meaning given by rule 3.2 for the purposes of Part 3;   |
| <b>“nominee company”</b>                        | has the same meaning as in Schedule 2 to the Order;   |
| <b>“OECD”</b>                                   | means the Organisation for Economic Co-operation and Development;   |
| <b>“open-ended investment company”</b>          | has the same meaning as in the CIS Act;   |
| <b>“option”</b>                                 | has the meaning given in rule 3.22(10);   |
| <b>“the Order”</b>                              | means the Regulated Activities Order 2011;  |
| <b>“overseas person”</b>                        | has the same meaning as in the Order;   |
| <b>“overseas scheme”</b>                        | means schemes established outside the Isle of Man;  |
| <b>“participant”</b>                            | in relation to a collective investment scheme, has the same meaning as in the CIS Act;  |
| <b>“payment institution”</b>                    | has the same meaning as in the Order;   |
| <b>“payment service provider”</b>               | has the same meaning as in the Order;   |

<sup>6</sup> 2000 c.8

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| <b>“payment transaction”</b>       | has the same meaning as in the Order;  |
| <b>“payment service user”</b>      | has the same meaning as in the Order;  |
| <b>“person”</b>                    | includes individuals and any body of persons, corporate or unincorporate;  |
| <b>“PII confirmation”</b>          | is a specified document within which a licenceholder and their insurance broker or insurance company confirm specified details relating to the professional indemnity insurance (“PII”) cover held by the licenceholder. See also Run-off PII confirmation;  |
| <b>“private trust company”</b>     | means a company which is exempt from licensing under paragraph 5.6(1) of the Financial Services (Exemptions) Regulations 2011 (as amended).  |
| <b>“professional officer”</b>      | means an individual licensed to carry on regulated activities falling within either or both of –<br>(a) Class 4 paragraph (6) acting as an officer of a company; or<br>(b) Class 5 paragraph (2) acting as trustee (other than sole trustee) in relation to an express trust and/or paragraph (5) acting as a protector in relation to an express trust and/or paragraph (6) acting as an enforcer (within the meaning of the Purpose Trusts Act 1996) in relation to a purpose trust or acting as an enforcer (within the meaning of the Foundations Act 2011) in relation to a foundation; |
| <b>“promoter”</b>                  | has the same meaning as in the CIS Act;  |
| <b>“property”</b>                  | has the same meaning as in the Order;  |
| <b>“protector”</b>                 | means a person other than a trustee who, as the holder of an office created by or under the terms of an express trust, is authorised or required to participate in the administration of the trust;  |
| <b>“pure protection contracts”</b> | has the same meaning as in the Order;  |
| <b>“quarter”</b>                   | (a) for Class 1 licenceholders, means a period ending on a quarter-end; and<br>(b) for all other licenceholders, means a 3 month period based on the licenceholder’s accounting year end;  |
| <b>“quarter-end”</b>               | means 31 March, 30 June, 30 September or 31 December;  |
| <b>“recognised bank”</b>           | has the meaning given by rule 3.2 for the purposes of Part 3;  |
| <b>“recognised clearing house”</b> | means a body for the time being declared to be a recognised clearing house by an order of the Financial Conduct Authority under section 290 of the Financial Services and Markets Act 2000 (an Act of Parliament);   |



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| <b>“recognised collective investment scheme”</b> | has the same meaning as in the CIS Act;   |
| <b>“recognised exchange”</b>                     | means a body for the time being declared to be a recognised investment exchange by an order of the Financial Conduct Authority under section 290 of the Financial Services and Markets Act 2000 (an Act of Parliament);                                     |
| <b>“regulated activity”</b>                      | has the same meaning as in the Order;   |
| <b>“regulatory authority”</b>                    | has the same meaning as in the Order;   |
| <b>“regulatory requirements”</b>                 | has the meaning given in rule 8.1;  |
| <b>“relevant agreement”</b>                      | has the meaning given by rule 3.2 for the purposes of Part 3;   |
| <b>“relevant funds”</b>                          | has the meaning given in rule 3.35;   |
| <b>“relevant person”</b>                         | in relation to a licenceholder, means any of its officers, employees and tied agents and persons employed by them;  |
| <b>“relevant scheme”</b>                         | means a collective investment scheme for which a licenceholder provides services which are regulated activities falling within Class 3;   |
| <b>“required contribution”</b>                   | has the meaning given in rule 3.22(10);   |
| <b>“responsible officers”</b>                    | in relation to a licenceholder, means —<br>(a) in the case of a licenceholder incorporated in the Island, its directors; or<br>(b) in any other case its Isle of Man resident officers;   |
| <b>“restricted funds”</b>                        | has the meaning given in rule 3.37;   |
| <b>“retail client”</b>                           | in relation to a licenceholder carrying on an activity of Class 2, means a client who is required by rule 6.42 to be treated as a retail client;  |
| <b>“risk-asset ratio” (“RAR”)</b>                | means a ratio of adjusted capital base to risk-weighted assets;   |
| <b>“risk-weighted assets”</b>                    | means assets weighted by risk (calculated in accordance with rule 2.20);  |
| <b>“Run-off PII confirmation”</b>                | is a specified document within which a licenceholder and their insurance broker or insurance company confirm specified details relating to the professional indemnity insurance (“PII”) run-off cover held by the licenceholder. See also PII confirmation; |
| <b>“scheme”</b>                                  | means a collective investment scheme;   |



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|   |   |
|---|---|
| <b>“securities”</b>                             | has the same meaning as in the Order;   |
| <b>“segregated account”</b>                     | means an account which complies with rule 3.37;   |
| <b>“set of deposit taking returns”</b>          | means a set of returns required by rule 2.20 or 2.23;   |
| <b>“share”</b>                                  | has the same meaning as in the Order;   |
| <b>“share warrant”</b>                          | has the same meaning as in the Order;   |
| <b>“shelf company”</b>                          | means a company which –<br>(a) has been formed and maintained by a licenceholder in the course of regulated activities falling within Class 4 with the intention that it should at some time be transferred to a client; and<br>(b) has not carried on any activity;  |
| <b>“specified client bank account”</b>          | has the meaning given by rule 3.2 for the purposes of Part 3;   |
| <b>“stockbroker”</b>                            | means a person carrying on regulated activities falling within all of paragraphs (1) to (7) of Class 2 or all of paragraphs (2) to (7) of Class 2;  |
| <b>“structured deposit”</b>                     | means a deposit which is repayable at maturity on terms under which interest or a premium will be paid or is at risk, according to a formula involving factors such as –<br>(a) an index or combination of indices (excluding variable rate deposits whose return is directly linked to one interest rate index such as Euribor or Libor);<br>(b) a financial instrument or combination of financial instruments;<br>(c) a commodity or combination of commodities or other physical or non-physical non-fungible assets; or<br>(d) a foreign exchange rate or combination of foreign exchange rates; |
| <b>“subscription and/or redemption account”</b> | has the meaning given by rule 3.2 for the purposes of Part 3;   |
| <b>“tied agent”</b>                             | means an agent or intermediary who –<br>(a) is permitted by his terms of employment or agency to recommend only products marketed by one or more specified companies; or<br>(b) has otherwise determined to recommend only products marketed by one or more specified companies;  |
| <b>“Tier 1 ratio”</b>                           | in relation to a licenceholder, means a ratio of its common Tier 1 capital available to cover its risk weighted assets, calculated in accordance with rule 2.20;  |

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|   |  |
|---|--|
| <b>“Total capital ratio”</b>            | in relation to a licenceholder, means a ratio of its Total capital available to cover its risk weighted assets, calculated in accordance with rule 2.20;   |
| <b>“trust”</b>                          | has the same meaning as in the Order;  |
| <b>“trust bank account”</b>             | has the same meaning as in the Order and has the meaning given by rule 3.2 for the purposes of Part 3;   |
| <b>“trust corporation”</b>              | has the meaning given in section 65A(b) of the Trustee Act 1961;   |
| <b>“trust money”</b>                    | has the meaning given by rule 3.2;   |
| <b>“trust service provider” (“TSP”)</b> | means a licenceholder licensed to carry on regulated activities falling within paragraphs (1), (2), (3), (5) and (6) of Class 5;   |
| <b>“unit trust scheme”</b>              | has the same meaning as in the CIS Act;  |
| <b>“units”</b>                          | in relation to a collective investment scheme, has the same meaning as in the CIS Act;   |
| <b>“virtual currency”</b>               | means convertible virtual currencies such as 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;   |
| <b>“vulnerable client”</b>              | <p>a vulnerable client may have one or more of the following characteristics –</p> <ul style="list-style-type: none"> <li>• inexperienced, with little understanding of financial matters and financial planning;</li> <li>• lower income or little disposable income;</li> <li>• significantly impaired health;</li> <li>• mental impairment or disability;</li> <li>• reduced or limited life expectancy;</li> <li>• not fluent in English (including where English is not a first language);</li> <li>• other factors of a similar nature which make a person more vulnerable;</li> </ul> |
| <b>“warrant”</b>                        | has the same meaning as in the Order.  |

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### Appendix 2 – Minimum Share Capital Requirement etc. (Rule 2.30)

| Column 1                                  | Column 2                        | Column 3  | Column 4   | Column 5                          | Column 6                               |
|---|---------------------------------|---|--|-----------------------------------|--|
| Description of activity                   |                                 |   |  | Minimum Share Capital Requirement | Minimum Net Tangible Asset Requirement |
| Class                                     | Paragraph(s)                    | Description   | Qualification or Exception   |                                   |  |
| Investment business                       |                                 |   |  |                                   |  |
| 2   | (3) and (6) only                | Investment adviser to retirement benefits schemes                     |  | £15,000                           | £15,000                                |
| 2   | (3) and (7) only                | Financial adviser   |  | £10,000                           | £10,000                                |
| 2   | (3), (6) and (7) only           | Financial adviser that may also advise on retirement benefits schemes |  | £15,000                           | £15,000                                |
| 2   | (3) to (7) only                 | Discretionary portfolio manager                                       |  | £25,000                           | £75,000                                |
| 2   | All                             | Stockbroker   |  | £25,000                           | £175,000                               |
| 2   | (2) and (5) only                | Custodian   |  | £25,000                           | £175,000                               |
| 2   | Any (except as specified above) | Other   |  | £25,000                           | £75,000                                |
| Services to collective investment schemes |                                 |   |  |                                   |  |
| 3   | (1) or (2) (or both) only       | Manager or administrator  | except where schemes are exempt schemes or exempt-type schemes (or both) | £25,000                           | £75,000                                |
| 3   | (3), (4) or (5) only            | Trustee, fiduciary custodian or custodian                             | except where scheme is an authorised scheme or                           | £25,000                           | £175,000                               |

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| Column 1                | Column 2           | Column 3   | Column 4  | Column 5  | Column 6   |
|-------------------------|--------------------|--|---|---|--|
| Description of activity |                    |  |   | Minimum<br>Share<br>Capital<br>Requirement                          | Minimum<br>Net<br>Tangible<br>Asset<br>Requirement |
| Class                   | Paragraph(s)       | Description  | Qualification<br>or Exception   |   |  |
|                         |                    |  | full<br>international<br>scheme   |   |  |
| 3                       | (3) or (4)<br>only | Trustee or fiduciary<br>custodian  | where<br>scheme is an<br>authorised<br>scheme or<br>full<br>international<br>scheme | £1 million<br>capital and<br>£3.5 million<br>shareholders’<br>funds | £3.5 million                                       |
| 3                       | (6)                | Asset manager  |   | £25,000   | £75,000  |
| 3                       | (7)                | Investment adviser   |   | £25,000   | £50,000  |
| 3                       | (8)                | Promoter (where<br>regulated promoter is<br>required)  |   | £10,000   | £10,000  |
| 3                       | (9)                | Provider of<br>management or<br>administration services<br>to another manager or<br>administrator  |   | £25,000   | £175,000   |
| 3                       | (10)               | Provider of<br>administration services<br>to overseas manager or<br>administrator  |   | £25,000   | £50,000  |
| 3                       | (11)               | Manager,<br>administrator, trustee,<br>fiduciary custodian or<br>custodian of more than<br>one exempt scheme or<br>an exempt-type scheme |   | £25,000   | £25,000  |
| 3                       | (12)               | Provider of<br>administration services<br>to exempt manager etc.<br>of certain schemes   |   | £25,000   | £25,000  |

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| Column 1                    | Column 2                | Column 3   | Column 4  | Column 5   | Column 6   |
|-----------------------------|-------------------------|--|---|--|--|
| Description of activity     |                         |  |   | Minimum Share Capital Requirement                                  | Minimum Net Tangible Asset Requirement                             |
| Class                       | Paragraph(s)            | Description  | Qualification or Exception  |  |  |
| Corporate services          |                         |  |   |  |  |
| 4                           | Any                     | Corporate service provider   | except where only activities within paragraph (6) (officers) are licensed   | £10,000  | £10,000  |
| Trust services              |                         |  |   |  |  |
| 5                           | Any                     | Trust service provider   | except where (a) licenceholder is an individual and (b) only activities within paragraphs (2), (5) or (6) (trustee, protector or enforcer) are licensed | £25,000  | £25,000  |
| Money transmission services |                         |  |   |  |  |
| 8                           | (2)(a) or (4) (or both) | Payment institution or issuer of electronic money where annual Isle of Man turnover related to this regulated activity is:<br>a) up to and including £1 million;<br>b) over £1 million and up to and including £5 million; |   | a) £10,000<br>b) £15,000<br>c) £25,000<br>d) £25,000<br>e) £25,000 | a) £10,000<br>b) £15,000<br>c) £25,000<br>d) £50,000<br>e) £75,000 |

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| <i>Column 1</i>         | <i>Column 2</i> | <i>Column 3</i>   | <i>Column 4</i>               | <i>Column 5</i>                            | <i>Column 6</i>                                    |
|-------------------------|-----------------|---|-------------------------------|--|--|
| Description of activity |                 |   |                               | Minimum<br>Share<br>Capital<br>Requirement | Minimum<br>Net<br>Tangible<br>Asset<br>Requirement |
| Class                   | Paragraph(s)    | Description   | Qualification<br>or Exception |  |  |
|                         |                 | c) over £5 million and<br>up to and including<br>£50 million;<br>d) over £50 million and<br>up to and including<br>£100 million;<br>e) over £100 million. |                               |  |  |

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### Appendix 3 – Financial Resources Statement (rule 2.30)

#### APPENDIX 3 – PART A – CALCULATION OF NET TANGIBLE ASSETS

| Net Tangible Assets Calculation  | £ | £ |
|--|---|---|
| Capital and Reserves (see Note 1)  |   | X |
| <b>Less:</b>   |   |   |
| Goodwill and other intangible assets (see Note 2)  | X |   |
|  |   |   |
| Any accumulated losses of subsidiaries or associated companies (see Note 3)  | X |   |
|  |   | X |
| <b>Add:</b>  |   |   |
| Qualifying subordinated loans (see Note 4)   | X |   |
|  |   |   |
| <b>NET TANGIBLE ASSETS FOR MINIMUM NET TANGIBLE ASSET REQUIREMENT (Part E) AND LIQUID CAPITAL CALCULATION (Part B)</b> |   | X |

|        |  |
|--------|--|
| Note 1 | <p><b>Capital and Reserves.</b> Capital and reserves are to be based on the Statement of Financial Position (reporting) date calculated in accordance with accounting standards generally accepted in the UK, International Financial Reporting Standards, Statement of Recommended Practice or other internationally accepted accounting standards.</p> <p>A licenceholder may include freehold and leasehold land and buildings at a valuation taken as its open market value on an existing use basis, if it has been valued by a qualified surveyor or valuer within the preceding 18 months, or in other cases its net book value. The Authority may require evidence of the valuation or request that a valuation be carried out at the licenceholder's expense.</p> <p>Where the licenceholder is licensed to carry on Class 8(2)(a) or 8(4) regulated activity –</p> <ul style="list-style-type: none"> <li>(a) relevant funds must not be included in the calculation of financial resources; but</li> <li>(b) any restricted funds may be included in the calculation of financial resources.</li> </ul> |
| Note 2 | <b>Goodwill and other intangible assets. Disallowed.</b>   |
| Note 3 | <p><b>Shortfall in attributable net assets of a subsidiary or associated company compared with the book value of the investment in that subsidiary or associated company.</b></p> <p>The shortfall should be calculated as the accumulated losses of the subsidiary or</p>   |

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|        |   |
|--------|---|
|        | <p>associated company not the net liability figure. Provision should be made for this deficiency or (in the case of an associated company) the portion attributable to the licenceholder as well as deducting the full book value of the investment as a fixed asset investment.</p> <p>Where an adjustment has been made to the book value of an investment in a subsidiary or associated company in calculating the net tangible assets only the adjusted amount should be deducted to avoid double counting, but where there is a deficiency of net tangible assets in a subsidiary or associated companies, this must not be added back.</p>  |
| Note 4 | <p><b>Qualifying subordinated loans.</b> A loan to a licenceholder may be treated as a qualifying subordinated loan for the purposes of this rule provided that –</p> <ul style="list-style-type: none"> <li>(a) it is in the same form as the model issued by the Authority and it is signed by authorised signatories of all of the parties; and</li> <li>(b) the licenceholder’s net tangible assets are in excess of its minimum share capital requirement.</li> </ul> <p>For the purpose of this calculation, only the amount of the loan actually advanced and outstanding may be counted as a qualifying subordinated loan.</p> <p>A licenceholder must obtain the prior written approval of the Authority before the repayment, prepayment or termination of a subordinated loan.</p> |



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### APPENDIX 3 – PART B – CALCULATION OF LIQUID CAPITAL

| <b>Liquid Capital Calculation</b>                               | <b>£</b> | <b>£</b> |
|---|----------|----------|
| Net Tangible Assets for Liquid Capital Calculation              |          | X        |
| <b>Less:</b>  |          |          |
| Tangible fixed assets   | X        |          |
| Fixed asset investments   | X        |          |
| Stock/Inventories (excluding stocks of investments)             | X        |          |
| Debtors > 90 days (see Note 5)                                  | X        |          |
| Work in progress > 90 days (see Note 5)                         | X        |          |
| Prepayments > 90 days (see Note 5)                              | X        |          |
| Amounts due from related parties (see Note 5)                   | X        |          |
| Any other relevant items (see Note 5)                           | X        |          |
| Market Value Adjustments (see Table I below and Note 6)         | X        |          |
| Amounts given as guarantees or charges over assets (see Note 7) | X        |          |
| Counterparty Risk Requirement (if applicable: see rule 2.34)    | X        |          |
| Term deposits > 90 days maturity                                | X        |          |
|   |          | X        |
| <b>Add:</b>   |          |          |
| Bank loans and lease obligations > 1 year (see Note 8)          | X        |          |
| Non-refundable deferred income (see Note 9)                     | X        |          |
| Tax obligations > 1 year  | X        |          |
| Any other relevant items (see Note 10)                          | X        |          |
|   |          | X        |
| <b>Liquid Capital</b>   |          | X        |

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| <b>Table I (of Appendix 3)<br/>Market Value Adjustments</b>   | <b>Market<br/>Value</b> | <b>MV<br/>Adj<br/>%</b> | <b>Market<br/>Value<br/>Adj</b> | <b>MV less<br/>MV Adj</b> | <b>Book<br/>Value</b> | <b>MV<br/>&lt;<br/>BV</b> |
|---|-------------------------|-------------------------|---------------------------------|---------------------------|-----------------------|---------------------------|
| Certificates of Deposit   | X                       | 0%                      | (X)                             | X                         | X                     | (X)                       |
| UK Treasury Bills   | X                       | 5%                      | (X)                             | X                         | X                     | (X)                       |
| Quoted fixed rate securities  | X                       | 10%                     | (X)                             | X                         | X                     | (X)                       |
| Quoted floating rate and index-linked securities  | X                       | 15%                     | (X)                             | X                         | X                     | (X)                       |
| Units in CIS authorised or recognised in IOM or UK  | X                       | 15%                     | (X)                             | X                         | X                     | (X)                       |
| Designated stocks   | X                       | 20%                     | (X)                             | X                         | X                     | (X)                       |
| Inv on recognised exchange not covered above and ICIS units (Not EIFs/PIFs, SFs/QFs, Exempt ICIS)                     | X                       | 30%                     | (X)                             | X                         | X                     | (X)                       |
| Virtual currencies  | X                       | 100%                    | 0                               | X                         | X                     | (X)                       |
| Other current asset investments   | X                       | 100%                    | 0                               | X                         | X                     | (X)                       |
| <b>Total market value adjustment</b>  |                         |                         |                                 |                           |                       | (X)                       |
|   |                         |                         |                                 |                           |                       |                           |
| <b>Settlement adjustments</b>   |                         |                         |                                 |                           | £                     | £                         |
| Valuation adjustment for creditors outstanding for >30 days after settlement date - Excess of MV over Creditor amount |                         |                         |                                 |                           | X                     |                           |
| Valuation adjustment for amount paid in advance where delivery has been outstanding for more than 5 days              |                         |                         |                                 |                           | X                     |                           |
| <b>Total settlement adjustments</b>   |                         |                         |                                 |                           |                       | (X)                       |
| <b>Total Investment adjustment</b>  |                         |                         |                                 |                           |                       | (X)                       |

|        |  |
|--------|--|
| Note 5 | <p><b>Debtors &gt; 90 days</b><br/>Debtors which are more than 90 days overdue must be treated as illiquid and be disallowed.</p> <p><b>Work in progress &gt; 90 days</b><br/>WIP not billed or billable and collectable within 90 days must be treated as illiquid and be disallowed.</p> <p><b>Prepayments &gt; 90 days</b><br/>Any prepayment relating to a period after 90 days must be treated as illiquid and be</p> |
|--------|--|

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|        |  |
|--------|--|
|        | <p>disallowed.</p> <p><b>Amounts due from related parties</b></p> <p>Irrespective of Financial Reporting Standard 8 “Related Party Disclosure”, all amounts due from related parties (including shareholders, directors and connected companies) are considered to be illiquid and must be disallowed unless —</p> <ul style="list-style-type: none"> <li>• they have a fixed repayment term of 3 months or less; or</li> <li>• they arise in the normal course of business and are settled every 60 days.</li> </ul> <p>Amounts due from related parties cannot be netted-off against amounts due to related parties unless there is a legally enforceable netting agreement in place, and with the prior consent of the Authority to allow settlement on a net basis.</p> <p><b>Any other relevant items</b></p> <p>A licenceholder must exercise appropriate judgement to include any items here that may not be covered by the defined categories of illiquid asset adjustments but nevertheless would be considered illiquid.</p> |
| Note 6 | <p><b>Market Value adjustments</b></p> <p>The percentages in Table I shall be applied to calculate the amount by which the market value less the investments adjustment is lower than the book value of current asset investments. This calculation is to be provided to the Authority and any exceptions to the above percentages must be agreed in writing by the Authority.</p> <p><b>Settlement adjustments</b></p> <p>Unless calculating a CRR requirement (see below), a valuation adjustment must be calculated for creditors arising from purchases of investments outstanding for more than 30 days from contractual settlement date, the extent (if any) to which the market value of the underlying investments exceeds the amount of each creditor.</p>  |
| Note 7 | <p><b>Amounts given as guarantees or charges over assets.</b> Where a licensed entity has obtained approval from the Authority to enter into a guarantee arrangement or give a charge over its assets, the amount of the guarantee and/or charge should be deducted from the Liquid Capital as follows —</p> <ul style="list-style-type: none"> <li>• In respect of a mortgage or charge over assets in respect of a loan: the amount of the capital and interest outstanding;</li> <li>• In respect of a floating charge: the amount secured by the charge;</li> <li>• In respect of a guarantee for a specific amount: the amount guaranteed;</li> <li>• In respect of an unlimited guarantee in respect of borrowings: the amount of existing loans drawn down, over which the guarantee is in force.</li> </ul> <p>A contingent liability in respect of a Government grant for a specific expense is not regarded as a guarantee or charge for the purposes of the calculation.</p>  |
| Note 8 | <p><b>Bank loans and lease obligations &gt; 1 year.</b></p> <p>All such longer term liabilities can be added back.</p>   |
| Note 9 | <p><b>Non-refundable deferred income.</b></p> <p>Where the licenceholder has received income (e.g. in the form of annual fees billed in advance) which is non-refundable under the terms of the contract this amount should be added back.</p>   |

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| Note 10 | <p><b>Any other relevant items</b></p> <p>A licenceholder must obtain the Authority’s consent to add back any other items here that may not be covered by the defined categories of adjustments (excluding subordinated loans already added back in the calculation of net tangible assets – see also Note 4).</p> |
|---------|--|

### APPENDIX 3 – PART C – CALCULATION OF ANNUAL AUDITED EXPENDITURE

| Calculation of Annual Audited Expenditure (“AAE”) and Expenditure Based Requirement (“EBR”) (See Note 11) |   |          |
|---|---|----------|
|   | £ | £        |
| Operating expenses (see Note 12)  | X |          |
| Interest payable (see Note 13)  | X |          |
| Tax expense   | X |          |
| Other expenses (see Note 14)  | X |          |
| Total Audited Expenditure   |   | X        |
| <b>Audited expenditure</b>  |   | <b>X</b> |
| Adjustments to Expenditure  |   |          |
| Discretionary bonuses/profit share (see Note 15)  | X |          |
| Depreciation / Amortisation   | X |          |
| Bad debt expense (see Note 16)  | X |          |
| Exceptional and extraordinary costs (see Note 17)   | X |          |
| Total Adjustment to Expenditure   |   | X        |
| <b>Annual Audited Expenditure (AAE)</b>   |   | <b>X</b> |
| <b>Expenditure Based Requirement = AAE x 1/4</b>  |   | <b>X</b> |

|         |   |  |
|---------|---|--|
| Note 11 | <p><b>Calculation of Annual Audited Expenditure (“AAE”) and Expenditure Based Requirement (“EBR”)</b></p> | <p>Where the relevant audited financial statements are for a period other than a year, the annual audited expenditure shall be calculated on a proportional basis in accordance with the following calculation –</p> <p style="text-align: center;"><math display="block">\frac{\text{(annual audited expenditure)} \times 12}{\text{length of period of financial statements in months}}</math></p> <p>A licenceholder must, if required by the Authority, or may, if agreed with the Authority, adjust its relevant annual expenditure where –</p> <p>(a) there has been a significant change in the</p> |
|---------|---|--|

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|         |                           |  |
|---------|---------------------------|--|
|         |                           | <p>circumstances or activities of the licenceholder; or</p> <p>(b) the licenceholder has a material proportion of its expenditure incurred on its behalf by third parties and such expenditure is not fully recharged to the licenceholder; or</p> <p>(c) it is a licenceholder’s first period of account.</p> <p><b>The Expenditure Based Requirement shall be determined by reference to the Annual Audited Expenditure (see also Note 12).</b></p>  |
| Note 12 | <b>Operating expenses</b> | <p>Per audited financial statements.</p> <p><b>All expenses should be included in operating expenses except where –</b></p> <ul style="list-style-type: none"> <li>• commissions are paid to third parties but only where this is based on a percentage of earned commission or other income by the licenceholder and included in turnover. In such instances, the commissions or other income paid/payable must be treated as a “cost of sale” rather than an operating expense within the Profit and Loss or the Income and Expenditure Account; and/or</li> <li>• another regulated company (in the same group) provides client related services to the licenceholder under a formal agreement and the fees paid / payable to that group company are reasonable and directly attributable to the fees earned by the licenceholder. In such circumstances the fees paid / payable may be treated as a “cost of sale” rather than an overhead expense within the Profit and Loss or the Income and Expenditure Account.</li> </ul> <p>The Authority expects licenceholders and their auditors to break down operating expenses appropriately for the regulated activity being undertaken. If items are consolidated, the Authority may request a further detailed breakdown.</p> <p>Fees, brokerage and other charges paid to clearing houses, exchanges, approved exchanges and intermediate brokers for the purposes of executing, registering or clearing transactions may be treated as a “cost of sale”.</p> |
| Note 13 | <b>Interest payable</b>   | <p>“Netting off” is not permitted under any circumstances, for example, interest payable must not be “netted off” against interest receivable. Interest payable must be treated as an expense.</p>   |
| Note 14 | <b>Other expenses</b>     | As agreed in advance with the Authority.   |
| Note 15 | <b>Discretionary</b>      | Any form of discretionary (i.e. not contractual) profit related  |

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|         |  |   |
|---------|--|---|
|         | <b>bonuses etc.</b>                        | bonus payable to employees, Directors, Partners or Proprietors made can be deducted from operating expenses for the purposes of the expenditure based requirement.  |
| Note 16 | <b>Bad debt expense</b>                    | Where a bad debt provision relates to a debtor that has been disallowed in the calculation of liquid capital, the related expense may be included as an adjustment when arriving at the Annual Audited Expenditure.   |
| Note 17 | <b>Exceptional and extraordinary costs</b> | Exceptional items as agreed in advance with the Authority. Extraordinary items either as defined in UK FRS 3, or IAS 1. Examples given in IAS 1 include asset write downs, restructuring costs, profit or loss on disposal of assets, discontinuing operations and reversal of provision. Litigation settlements would not be acceptable as deductions unless the litigation concluded during the relevant financial year and there are no ongoing costs. |

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### APPENDIX 3 – PART D – CALCULATION OF LIQUID CAPITAL REQUIREMENT

| <b>Liquid Capital Requirement</b>                     |   |          |
|---|---|----------|
| Expenditure Based Requirement (AAE x ¼) (from Part C) | X |          |
| Excess on PI Insurance (if applicable) (see Note 18)  | X |          |
| Other (see Note 19)                                   | X |          |
| <b>Total Liquid Capital Requirement</b>               |   | <b>X</b> |

|         |                                       |   |
|---------|---------------------------------------|---|
| Note 18 | <b>Excess on PI insurance<br/>x 1</b> | <p>The licenceholder should maintain liquid capital to be able to fund the excess on one potential claim on the PI insurance policy, except where a letter of support is in place from a group company when an amount of zero may be entered.</p> <p>If licenceholder A pays the excess for licenceholder B as well as its own excess, then both excesses must be deducted from licenceholder A's liquid capital.</p> |
| Note 19 | <b>Other</b>                          | As determined by the Authority (e.g. a deduction for contingent liabilities if required).   |

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## APPENDIX 3 – PART E – CALCULATION OF FINANCIAL RESOURCES

|   |   |
|---|---|
| <b>Minimum Share Capital Requirement</b>                              |   |
| Paid up Share Capital/Share Premium                                   | X |
| Less Minimum Share Capital/Share Premium Requirement (see Appendix 2) | X |
| <b>Surplus/Deficit</b>  | X |

|  |        |
|--|--------|
| <b>Minimum Net Tangible Asset Requirement</b>                |        |
| Net Tangible Assets (from Part A)                            | X      |
| Less Minimum Net Tangible Asset Requirement (see Appendix 2) | X      |
| <b>Surplus/Deficit</b>                                       | X      |
| <b>110% of Net Tangible Asset Requirement</b>                | X      |
| <b>Notification Level Reached</b>                            | Yes/No |

|   |        |
|---|--------|
| <b>Liquid Capital Requirement</b>               |        |
| Liquid Capital (from Part B)                    | X      |
| Liquid Capital Requirement (from Part D)        | X      |
| <b>Excess/Shortfall of Liquid Capital</b>       | X/(X)  |
| <b>110% of Total Liquid Capital Requirement</b> | X      |
| <b>Notification Level Reached</b>               | Yes/No |



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## **Appendix 4 – Calculation of Counterparty Risk Requirement (rule 2.34)**

### **Frequency of calculation**

1. A licenceholder must calculate its counterparty risk requirement ("CRR") at least once each business day; for the purposes of the relevant calculations the licenceholder may use prices of investments and physical commodities as at the close of business on the previous day.

### **Negative amounts**

2. A licenceholder must not include any CRR if it is a negative amount.

### **Instruments for which no CRR has been specified**

3. Where a licenceholder is in doubt as to the classification of an item for the purposes of CRR, it must promptly seek advice from the Authority and until the Authority informs the licenceholder of the correct treatment in the CRR calculation, the licenceholder must add to its CRR the whole of the exposure on the item concerned.

### **Provisions**

4. A licenceholder may reduce the exposure on which its CRR is calculated to the extent that it makes provision for a specific counterparty balance.

### **Associated companies and subsidiaries**

5. For the avoidance of doubt, a licenceholder must calculate a CRR as appropriate on exposures to or from associated companies and subsidiaries.

### **Basis of valuation**

6. For the purposes of valuing instruments and physical commodities at market value in the calculation of CRR, a licenceholder must be consistent in the basis it chooses and may use either mid-market value or bid and offer prices (as appropriate).

### **Acceptable collateral**

7. A licenceholder may reduce the exposure to a counterparty on which its CRR is calculated to the extent that it holds acceptable collateral from that counterparty.

### **Nil weighted counterparty exposures**

8. A licenceholder may disregard any counterparty exposure calculated in accordance with paragraphs 2 to 9, if the counterparty is or the contract is guaranteed by or is subject to the full faith and credit of a sovereign government or province or state thereof (or a corporation over 75% owned by such

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government, province or state), which is a member of the OECD and the government, province, state or corporation has not defaulted, or entered into any rescheduling or similar arrangement, or announced the intention of so doing, in respect of itself or its agency’s debt within the last 5 years.

### **Cash against documents transactions**

9. (1) A licenceholder which enters into a transaction on a cash against documents basis must calculate the market risk for transactions still unsettled 16 calendar days after settlement date as set out in (2) below and must then multiply this by the appropriate percentage set out in Table A below to calculate a CRR for each separate unsettled transaction.

**Table A (of Appendix 4)**  
**Percentage to be applied to the market risk**

| Calendar days after settlement day | Percentage |
|------------------------------------|------------|
| 0 – 15                             | Nil        |
| 16 – 30                            | 25%        |
| 31 – 45                            | 50%        |
| 46 – 60                            | 75%        |
| Over 60                            | 100%       |

- (2) Market risk calculation:
- (a) Where a licenceholder has neither delivered securities nor received payment when purchasing securities for, or selling securities to, a counterparty, the market risk is the excess of the contract value over the market value of the securities.
- (b) Where a licenceholder has neither received securities nor made payment when selling securities for, or purchasing securities from, a counterparty, the market risk is the excess of the market value over the contract value of the securities.
- (3) The sum of the amounts calculated in accordance with (1) and (2) above is the licenceholder’s total CRR for cash against documents transactions.

### **Free deliveries of securities**

10. (1) When a licenceholder makes delivery to a counterparty of securities without receiving payment or pays for securities without receiving the certificates of good title, the licenceholder must calculate the free delivery value for each transaction.

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- (2) A licenceholder must calculate the free delivery value for each transaction as set out below and multiply this value by the appropriate percentage in Table B below for free deliveries of securities as follows –
- (a) if the licenceholder has delivered securities to a counterparty and has not received payment, the free delivery amount is the full amount due to the licenceholder (i.e. the contract value);
  - (b) if the licenceholder has made payment to a counterparty for securities and not received the certificates of good title, the free delivery amount is the market value of the securities.
- (3) The sum of the amounts calculated in accordance with (1) and (2) above is the licenceholder's total CRR for free deliveries of securities.

**Table B (of Appendix 4)**  
**Percentage to be applied to free deliveries relating to securities**

| Nature of counterparty to whom free delivery is made |   | Business days since delivery    |                                  |   |
|--|---|---------------------------------|----------------------------------|---|
|  |   | 0–3                             | 4–15                             | over 15   |
| 1  | A counterparty to whom securities have been delivered or to whom payment for securities has been made   | Nil                             | 100% of contract or market value | 100% of contract or market value  |
| 2  | A regulated financial institution or regulated banking institution to whom securities have been delivered or payment made with the expectation that market practice will result in a settlement day longer than 3 days from delivery date | 15% of contract or market value |                                  | 100% of contract or market value  |
| 2A   | A counterparty to whom securities have been delivered which settle through the Crest or to whom payment for such securities has been made.  | 15% of contract or market value |                                  | 100% of contract or market value  |
| 3  | A Manager, underwriter, sub-underwriter or member of a selling syndicate or issuer to whom payment for securities has been made; or a manager of a regulated collective investment scheme to whom units of the scheme have been           | Nil                             |                                  | 100% of contract or market value or, if the issue is a country approved by the Authority, 15% |

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|  |  |  |                                 |
|--|--|--|---------------------------------|
|  | delivered or payment for units of the<br>scheme has been made. |  | of contract or<br>market value. |
|--|--|--|---------------------------------|

### Options purchased for a counterparty

11. (1) **Single premium options.** Where a licenceholder has purchased a single premium option on behalf of a counterparty and the counterparty has not paid the full option premium cost within 3 business days after trade date, a licenceholder must calculate a CRR as the amount by which the option premium owed to the licenceholder exceeds the market value of the option or acceptable collateral.
- (2) **Traditional options.** Where a licenceholder has purchased a traditional option for its own account or a counterparty and paid the option premium, it must calculate a CRR equal to the value of the option premium.
- (3) The sum of the amounts calculated in accordance with (1) and (2) above is the licenceholder’s CRR in respect of purchased options.

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### Appendix 5 – Client Money Information Sheet (revoked)

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### **Appendix 6 – Personal account notice (rule 6.36)**

1. **A licenceholder must ensure that the personal account notice identifies the ~~Compliance officer~~Head of compliance or a specifically designated employee of the licenceholder to be responsible for receiving reports and granting permissions in respect of activities undertaken by its employees in accordance with the personal account notice.**
2. The personal account notice must require that an employee —
  - (a) does not deal for his own account in investments in which the licenceholder carries on investment business to any material extent, or in any related investments, without the permission of the licenceholder (such permission may be general or specific);
  - (b) does not deal in investments for his own account with any of the licenceholder's customers without the prior consent of the licenceholder;
  - (c) reports promptly to the licenceholder in writing any transaction for his own account for which permission is required under sub-paragraph (a) above which he enters into otherwise than through the licenceholder unless he has arranged for the licenceholder to receive promptly a copy of the contract or similar note issued in respect of the transaction;
  - (d) does not deal for his own account in an investment in circumstances where he knows or should know that the licenceholder intends to publish a written recommendation, or a piece of research or analysis, in respect of that investment or any related investment which could be reasonably expected to affect the price of that investment;
  - (e) does not deal for his own account at a time or in a manner which he knows or should know is likely to have a direct adverse effect on the particular interests of any customer of the licenceholder; and
  - (f) does not accept any gift or inducement from any person which is likely to conflict with his duties to any customer of the licenceholder.
3. The personal account notice must specify that the references to an employee dealing for his own account include an employee —
  - (a) dealing in his capacity as a personal representative of an estate or as a trustee of a trust, in which estate or under which trust there is a significant interest held by the employee, or any associate of the employee, or any company or partnership controlled by him or by any associate of the employee;

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- (b) otherwise dealing in his capacity as a personal representative or a trustee, unless he is relying entirely on the advice of another person from whom it is appropriate to seek advice in the circumstances; or
  - (c) dealing for the account of another person unless he does so in the course of his employment with the licenceholder.
- 4. The personal account notice must further state that, if an employee is precluded from entering into a transaction for his own account, he must not (except in the proper course of his employment) —
  - (a) procure any other person to enter into such a transaction; or
  - (b) communicate any information or opinion to any other person if he knows, or has reason to believe, that the person will, as a result, enter into such a transaction, or counsel or procure some other person to do so.
- 5. Paragraphs 2 and 3 do not apply to —
  - (a) any transaction by an employee for his own account in a packaged product; and
  - (b) any discretionary transaction entered into for, and without prior communication with the employee, provided that the discretion is not exercised by the licenceholder.

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## **Appendix 7 – Risk disclosure statement (rule 6.38)**

### **APPENDIX 7 – PART 1 – UNREGULATED COLLECTIVE INVESTMENT SCHEMES**

- I. This notice is provided to you as a retail client in compliance with the Rule Book issued by the Isle of Man Financial Services Authority. Retail clients are afforded greater protection under those rules than those classed as non-retail clients, and you should ensure that the licenceholder with whom you are dealing tells you what this protection is.
- II. This notice does not disclose all of the risks relating to unregulated collective investment schemes. Nor does it attempt to define all the relevant terms used, and you should ensure that any terms which you do not understand are fully explained to you before completing this risk disclosure statement. You should not deal in unregulated collective investment schemes, or grant discretion to an investment manager to deal on your behalf in unregulated collective investment schemes, unless you understand the extent of your exposure to risk. You should also be satisfied that such investments are suitable for you in the light of your circumstances and financial position.
- III. Retail clients, investing in unregulated collective investment schemes should understand the features and risks attendant to investing in such schemes and, unless such transactions are undertaken in relation to a discretionary mandate, should have read and fully understood the offering document, including in particular the information on the risks associated with the fund, before deciding to invest in the fund.
- IV. Retail clients must personally accept all the risks associated with investment in unregulated collective investment schemes, in particular that the investment involves risks that could result in a loss of a significant proportion or the entire sum invested.
- V. Where appropriate, retail clients should take independent advice on the suitability of investment in unregulated collective investment schemes.

[Name of licenceholder]

[on duplicate for signature by client]

I / we have read and understood the risk disclosure statement set out above.

Date \_\_\_\_\_

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Signature \_\_\_\_\_ Signature \_\_\_\_\_  
(joint account holders)

[Notes to licenceholders —

- 1) This statement may be incorporated as part of a two-way customer agreement, except that the customer must sign separately that he has read and understood the risk warnings.
- 2) Licenceholders may also include further descriptions of the types of investments covered by this statement, provided such descriptions do not lessen the effect of the risk warnings provided.]



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## APPENDIX 7 – PART 2 – DERIVATIVES

- I. This notice is provided to you as a retail client in compliance with the Rule Book issued by the Isle of Man Financial Services Authority. Retail clients are afforded greater protection under those rules than those classed as non-retail clients, and you should ensure that your Licenceholder tells you what this protection is.

This notice does not disclose all of the risks and other significant aspects of derivatives products such as futures, options and contracts for differences. Nor does it attempt to define all the relevant terms used, and you should ensure that any terms which you do not understand are fully explained to you before completing this risk disclosure statement. You should not deal in derivatives unless you understand the nature of any such contracts that you may be entering into or which may be entered into on your behalf, and the extent of your exposure to risk. You should also be satisfied that such contracts are suitable for you in the light of your circumstances and financial position.

- II. Whilst derivatives can in certain circumstances be used for the management of investment risk, some such investments are unsuitable for many clients. Further, strategies intended to reduce risk may be impossible to complete in some market conditions, and so the intended level of protection will not be obtained. You should establish whether this will be a possibility. Your Investment Management Agreement should make it clear whether your Licenceholder may use derivatives on your behalf for speculative purposes, or whether they may only be used to effect an investment strategy of reducing risk.
- III. Certain strategies using a combination of instruments, such as those described as "spreads" or "straddles", may be as risky as – or more risky than – simple "long" or "short" positions. Clients may not only lose their entire capital, but be liable to pay much more. Different instruments involve different levels of exposure to risk, and in deciding whether to trade such instruments you should be aware of the following points –

### 1. Futures

Transactions in futures involve the obligation to make, or to take, delivery of the underlying asset of the contract at a future date, or in some cases to settle a position with cash. They carry a high degree of risk. The "gearing" or "leverage" often obtainable in futures trading means that a small deposit or down-payment can lead to large losses as well as gains. It also means that a relatively small market movement can lead to a proportionately much larger movement in the value of an investment, and this can work against you as well as for you. Futures transactions carry a contingent liability, and you should be aware of the implications of this, in particular the margining requirements which are set out in paragraph 6 below.

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## 2. Options

There are many different types of options, with different characteristics and subject to different conditions. You should ensure that these characteristics are appropriate to your circumstances; you should also be aware of the relevant expiry dates, after which the rights attached to your options can no longer be exercised.

**(a) Buying options:** Buying options involves less risk than writing options, because you can simply allow your option to lapse if the price of the underlying asset moves against you. The maximum loss is limited to the cost of the option (the “premium”) you have paid, plus any commission or other transaction charges. However, if you buy a call option on a futures contract, and you later exercise the option, you will acquire the future. This will expose you to the risks described under “Futures” and “Contingent Liability Transactions”.

**(b) Writing options:** If you write an option, the risk involved is considerably greater than that involved in buying options. By writing an option, you accept a legal obligation to purchase or sell the underlying asset if the option is exercised against you, however far the market price has moved away from the exercise price. You may be liable for margin to maintain your position, and a loss may be sustained well in excess of any premium received. If you already own the underlying asset which you have contracted to sell (this is known as dealing in “covered call options”) the risk is reduced. If you do not own the underlying asset (i.e. you are dealing in “uncovered call options”) the risk can be unlimited. Such transactions are not generally suitable for retail clients and so only experienced persons should contemplate writing uncovered options, and then only after securing full details of the applicable conditions and potential risk exposure.

**(c) Traded options** are options which are traded on an exchange. There is therefore a market in them and this can be helpful in valuing or liquidating (“closing out”) positions.

**(d) Traditional options:** A further type of option known as a “traditional option” is written by certain London Stock Exchange firms under special exchange rules. These may involve greater risk than other options (e.g. traded options above). Two way prices are not usually quoted in them, and there is no exchange market on which to close out an open position or to effect an equal and opposite transaction to reverse an open position. It may be difficult to assess the option’s value, or for the seller of such an option to manage his exposure to risk. Certain options markets operate on a margined basis, under which buyers do not pay the full premium on their option at the time they purchase it. In this situation you may subsequently be called upon to pay margin on the option up to the level of your premium. If you fail to do so as required, your position may be closed or liquidated in the same way as a futures position.

## 3. Contracts for Differences

Futures and options contracts can also be referred to as “Contracts for Differences”. These can include options and futures on the FTSE100 index or any other index, as well

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as currency and interest rate swaps. However, unlike other futures and options, these contracts can only be settled in cash. Investing in a contract for differences carries the same risk as investing in a future or an option and you should be aware of these as set out in paragraphs 1 and 2, respectively. Transactions in contracts for differences may also have a contingent liability and you should be aware of the implications of this as set out in paragraph 6 below.

#### **4. Off-exchange Transactions in Derivatives**

It may not always be apparent whether or not a particular derivative is effected on or off-exchange. Your Licenceholder must make it clear to you if you are entering into an off-exchange derivative transaction, and may only enter into off-exchange transactions which have a contingent liability (see paragraph 6) with your express permission.

While some off-exchange markets are highly liquid, transactions in off-exchange or “non-transferable” derivatives may involve greater risk than investing in on-exchange derivatives because there is no exchange market on which to close out an open position. It may not be possible to liquidate an existing position, to assess the value of the position arising from an off-exchange transaction or to assess the exposure to risk. Bid and offer prices need not be quoted, and, even where they are, they will be established by dealers in these instruments and consequently it may be difficult to establish what is a fair price.

#### **5. Foreign Markets**

Foreign markets will involve different risks from UK markets. In some cases the risks will be greater, and moreover timely and accurate information may be harder to obtain. On request, your Licenceholder must provide an explanation of the relevant risks and protections (if any) which will operate in any relevant foreign markets, including the extent to which he will accept liability for any default of a foreign broker through whom he deals. The potential for profit or loss from transactions on foreign markets or in foreign currency denominated contracts will be affected by fluctuations in exchange rates, which may more than wipe out any profits made through the underlying investment.

#### **6. Contingent Liability Transactions**

Contingent liability transactions which are “margined” require you to make a series of payments against the purchase price, instead of paying the whole purchase price immediately.

If you trade in futures, contracts for differences or options, you may sustain a total loss of any margin your Licenceholder has deposited on your behalf to establish or maintain a position. If the market moves against you, you may be called upon to pay substantial additional margin at short notice to maintain the position. If you fail to do so within the

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time required, your position may be liquidated at a loss and you will be liable for any resulting deficit. You should ascertain from your Licenceholder whether he will be liable for any such deficit in the event that he fails to make such payments on your behalf; otherwise, you yourself will be liable.

Even if a transaction is not margined, it may still carry an obligation to make further payments in certain circumstances over and above any amount paid when you entered the contract.

Except in specific circumstances, your Licenceholder may only carry out margined or other contingent liability transactions with or for you if they are traded on or under the rules of a Recognised or Designated Investment Exchange. Contingent liability transactions which are not traded on or under the rules of a Recognised or Designated Investment Exchange may expose you to substantially greater risks.

## **7. Collateral**

If you deposit collateral as security, the way in which it will be treated will vary according to the type of transaction involved and where it is traded. There could be significant differences in the treatment of your collateral depending on whether you are trading on a Recognised or Designated Investment Exchange, with the rules of that exchange (and associated clearing house) applying, or traded off-exchange. Deposited collateral may lose its identity as your property once dealings on your behalf are undertaken. Even if your dealings should ultimately prove profitable, you may not get back the same assets that you deposited and you may have to accept payment in cash instead. You should ascertain from your Licenceholder how your collateral will be dealt with.

## **8. Commissions**

Before you begin to trade, your Licenceholder should explain to you in writing details of all commissions and other charges for which you will be liable. If any charges are not expressed in money terms (but, for example, as a percentage of the contract value), this should include a clear written explanation, including appropriate examples, to establish what such charges are likely to mean in specific money terms. In the case of futures, when commission is charged as a percentage, it will normally be as a percentage of the total contract value and not simply as a percentage of your initial payment.

## **9. Suspensions of Trading**

Under certain trading conditions it may be difficult or impossible to liquidate a position. This may occur, for example, at times of rapid price movement if the price rises or falls in one trading session to such an extent that under the rules of the relevant exchange, trading is suspended or restricted. Placing a “stop-loss” order will not necessarily limit

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your losses to the intended amounts, because market conditions may make it impossible to execute such an order at the stipulated price.

## 10. Clearing House Protections

On many exchanges, the performance of a transaction by your Licenceholder (or the third party with whom he is dealing on your behalf) is "guaranteed" by the exchange or its clearing house. However, this guarantee is unlikely in most circumstances to cover you, the retail client, and may not protect you if the Licenceholder or another party defaults on its obligations to you. On request, your Licenceholder must explain any protection provided to you under the clearing agreement applicable to any on-exchange derivatives in which you are dealing. There is no clearing house for traditional options, nor normally for off-exchange instruments which are not traded on or under the rules of a Recognised or Designated Investment Exchange.

## 11. Insolvency

The Rule Book provides for the segregation of Client Money and Clients Investments from the "own funds" of a Licenceholder acting on behalf of clients. Nonetheless, your Licenceholder's insolvency or default, or that of any broker involved with your transaction, may lead to positions being liquidated or closed out without your consent. In certain circumstances, you may not get back the actual assets which you lodged as collateral and you may have to accept any available payment in cash (which may not cover the sum in full). On request, your Licenceholder must provide an explanation of the extent to which he will accept liability for any insolvency of, or default by, any brokers involved with your transactions.

[Name of licenceholder]

[on duplicate for signature by client]

I / we have read and understood the risk disclosure statement set out above.

Date \_\_\_\_\_

Signature \_\_\_\_\_

Signature \_\_\_\_\_

(joint account holders)

[Notes to licenceholders –

- 1) This statement may be incorporated as part of a two-way customer agreement, except that the customer must sign separately that he has read and understood the risk warnings.

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- 2) Licenceholders may also include further descriptions of the types of investments covered by this statement, provided such descriptions do not lessen the effect of the risk warnings provided.

Paragraphs 1 to 7 may be deleted, as appropriate, where they relate to business which will not be carried out with or for the client. The remainder of the statement is mandatory and may not be deleted.]

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## APPENDIX 7 – PART 3 – WARRANTS

This notice is provided to you as a retail client in compliance with the Rule Book issued by the Isle of Man Financial Services Authority. Retail clients are afforded greater protection under those rules than those classed as non-retail clients, and you should ensure that your Licenceholder tells you what this protection is.

This notice does not disclose all of the risks and other significant aspects of warrants; nor does it attempt to define all the relevant terms used, and you should ensure that any terms which you do not understand are fully explained to you before completing this Risk Disclosure Statement. You should not deal in warrants unless you understand the nature of any transaction that you may enter, or which may be entered into on your behalf, and the extent of your exposure to potential loss.

You should also consider carefully whether warrants are suitable for you in the light of your circumstances and financial position. In deciding whether or not to trade, you should be aware of the following matters:

### Warrants

A warrant is a right to subscribe for shares, debentures, loan stock or government securities, and is exercisable against the original issuer of the securities. Warrants often involve a high degree of gearing, so that a relatively small movement in the price of the underlying security results in a disproportionately large movement in the price of the warrant. The prices of warrants can therefore be very volatile. You also need to take into account the fact that warrants have expiry dates, after which the rights attached to them can no longer be exercised.

You should not buy warrants unless you are prepared to sustain a total loss of the money you have invested plus any commission or other transaction charges.

Some other instruments are also called warrants, but are actually options; for example, a right to acquire securities which is exercisable against someone other than the original issuer of the securities (often called a "covered warrant").

### Off-exchange Transactions

Transactions in off-exchange warrants may involve greater risk than those in exchange-traded warrants because there is no exchange market on which to liquidate your position, to assess the value of the warrant or to assess the exposure to risk. Bid and offer prices need not be quoted, and, even where they are, they will be established by dealers in these instruments and consequently it may be difficult to establish what is a fair price.

Your Licenceholder must make it clear to you if you are entering into an off-exchange transaction and advise you of any risks involved.



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## Foreign Markets

Foreign markets will involve different risks from UK markets. In some cases the risks will be greater and further, timely and accurate information may be harder to obtain. On request, your Licenceholder must provide an explanation of the relevant risks and protections (if any) which will operate in any relevant foreign markets, including the extent to which he will accept liability for any default of a foreign broker through whom he deals. The potential for profit or loss from transactions on foreign markets or in foreign currency denominated contracts will be affected by fluctuations in exchange rates, which may more than wipe out any profits made through the underlying investment.

## Commissions

Before you begin to trade, your Licenceholder should explain to you in writing details of all commissions and other charges for which you will be liable. If any charges are not expressed in money terms (but, for example, as a percentage of the transaction value), this should include a clear written explanation, including appropriate examples, to establish what such charges are likely to mean in specific money terms.

[Name of licenceholder]

[on duplicate for signature by client]

I / we have read and understood the risk disclosure statement set out above.

Date \_\_\_\_\_

Signature \_\_\_\_\_

Signature \_\_\_\_\_

(joint account holders)

[Notes to licenceholders –

- 1) This notice may be incorporated as part of a two-way customer agreement, except that the customer must sign separately to confirm that he has read and understood the risk warnings.
- 2) Licenceholders may also include further descriptions of the types of investments covered by this statement, provided such descriptions do not lessen the effect of the risk warnings provided.]



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## **EXPLANATORY NOTE**

***(This note is not part of the Rule Book)***

This Rule Book contains detailed rules to be complied with by the holders of licences under the Financial Services Act 2008 in carrying on regulated activities. It replaces the Financial Services Rule Book 2013.

Part 1 is introductory. Part 2 imposes requirements with respect to financial resources and reporting. Part 3 details requirements for client money, trust money, relevant funds, nominee bank accounts and client company money. Part 4 deals with the safeguarding and safekeeping of clients' investments. Part 5 provides for the audit of licenceholders' accounts. Part 6 lays down standards for the conduct of business by licenceholders. Part 7 imposes requirements with regard to licenceholders' administration. Part 8 imposes requirements with regard to risk management and internal control. Part 9 contains the rules for professional officers.