



ISLE OF MAN FINANCIAL SERVICES AUTHORITY

ANNUAL REPORT

2016/17



ISLE OF MAN
FINANCIAL SERVICES AUTHORITY

Lught-Reill Shirveishyn Argidoil Ellan Vannin

CONTENTS

Chairman's Statement	2	Appendices	
Chief Executive Officer Statement	4	Appendix A	
The Isle of Man Financial Services Authority		Isle of Man Financial Services Authority's Functions	32
Regulatory Objectives	8	Appendix B	
Organisation of the Authority	10	Membership of the Financial Services Authority	34
How the Authority Operates	10	Corporate Governance	37
Governance and Board Committee Structure	11	Appendix C	
Regulation and Supervision		Organisation Chart	38
Authorisations	12	Appendix D	
Supervision	13	Industry Statistics	40
Co-operation and Co-ordination	19	Licenceholders - Number of Licences	40
Prevention of Money Laundering and Countering the Financing of Terrorism	21	The Banking Industry	41
Enforcement	23	Collective Investment Schemes and Services to Schemes	45
Policy Development		Corporate and Trust Services	49
Regulatory Developments	24	Retirement Benefits Scheme	50
International Policy Matters	25	Authorisations under the Insurance Act 2008	50
Consultation	25	Appendix E	
Legislation and Guidance	26	Income and Expenditure	50
Other Activities	26	Statement of Responsibilities in respect of the Chief Executive's Report and the Accounts	52
Emerging Risks and International	27	Report of the Independent Auditors, KPMG Audit LLC, to the Isle of Man Financial Services Authority	53
Business Change	28	Opinion on the Accounts	54
Operations		Income and Expenditure Account	55
Finance	29	Notes	56
Human Resources	30	Appendix F	
Complaints Against the Authority	30	Performa Comparative income and expenditure (unaudited)	59
Information Technology	30	Appendix G	
		Legislation coming into effect between 1 April 2015 and 31 March 2016	60
		Appendix H	
		Consultative documents issued between 1 April 2015 and 31 March 2016	62
		Appendix I	
		Other information	63
		Glossary	64



Geoff Karran MBE, TH - Chairman

FOREWORD BY THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

CHAIRMAN'S STATEMENT

It is with great pleasure that I share the second annual report of the Isle of Man Financial Services Authority.

As I reflect upon this past year we continue to advance our pre-merger responsibilities while at the same time taking on additional responsibilities. Although the operating environment continues to produce some uncertainties this has not slowed the pace or enthusiasm for change in the Authority. As I mentioned in last year's annual report, stakeholder engagement and a renewed approach to how we work with industry

would be one of the key focal points of the Authority in the period of this report. I am pleased with the reaction and reception of industry to how we have approached this. We have been characterised as being more open and accessible and this has been an important achievement for all of us who seek to ensure that our financial services sector remains relevant and vibrant.

Over the last year the Board members and I engaged in a series of luncheons with industry leaders and we had some healthy exchanges with industry asking them how we are doing and discussing whether in their opinion we could be doing more to further their development or possibly do less for the same reason. We continue to pursue many of these action points and look to make these gatherings more frequent.

We have also endeavoured to engage earlier with industry as we roll out new initiatives. As an example, considerable effort was spent this year in discussing important changes to the client money rules and the end result greatly benefited from the frank discussions we had with industry throughout the period of development. We can all benefit if we seek to understand the views of industry before acting.

“As the world changes so must we, so much of the work that we have undertaken over the past year has driven us towards increased compliance with international standards.”

The MONEYVAL findings, ongoing banking reform, enhanced transparency and compliance with international insurance standards are significant drivers to these changes. We are mindful of the need to ensure that these changes are proportionate and balanced and at the same time we must keep in mind the need to ensure that our industry remains well-regulated and that all markets remain accessible to them.

We have also spent considerable time this year looking inward to ensure that our own internal governance and risk frameworks remain sound and develop with changing expectations. Our Risk and Control Committee of the Board, working with the Senior Management team, continues to advance our enterprise-wide risk management frameworks, and we have made considerable progress in advancing

our thinking on the key elements of a risk tolerance framework for the Authority. Like many across industry and government, cyber risk is becoming a top 10 agenda item for both the Board and management at the Authority and we continue to enhance our cyber security awareness and readiness.

I would like to take this opportunity to thank my fellow Board members for their hard work and support throughout the year and thank and pay tribute to our Chief Executive Officer, Karen Badgerow, and all the staff of the Authority for their professionalism, their dedication, and their immense contribution to the smooth working of the Authority.

Despite change, choppy waters, the uncertainty of Brexit and its implications for the industry, all of which may be positive as well as negative, I am confident in the ability of the Isle of Man's financial services industry, working together with the Authority and other stakeholders, to steer a steady course. The Manx motto 'Quocunque Jeceris Stabit' applies equally as much in 2017 as it did in its infancy.



CHIEF EXECUTIVE OFFICER'S STATEMENT

Looking back, 2016/17 continued to be a period of change and new challenges for global markets.

Karen Badgerow - Chief Executive



The continued uncertainty of Brexit and the search for the “right deal” has been embraced by many in the financial services industry as creating opportunities which reflect the resilience and general level of optimism of local markets. Like many of our regulatory counterparts we are maintaining a close interest and involvement and contribute where possible to the wider discussions both here and away. Our ongoing participation in various international fora will enable us to better prepare as a regulator and in real time assess the possible implications for the Island’s financial industry. This is not a one-sided relationship, as the Authority has considerable expertise in the financial services sector, and will continue to participate in discussions around more general policy and supervisory matters that impact international financial sectors more specifically and global regulation more broadly.

“Now in our second year as an Authority we continue to advance our key priorities and close-off on others.”

The work relating to modernising the insurance framework is now starting to move into implementation considerations, resulting in more focused, and at times intense, discussions with industry. The honest exchange of views will hopefully land us in a place where we have a proportionate regulatory system which at the same time adheres to international standards. Continued market access remains critical for our industry so it is important that we maintain a reputation of being a well-regulated jurisdiction.

Banking matters continue to have a significant place on our agenda with ongoing reform discussions with local banks relating to both local policy implementation and responding to the wider global requirements. At the same time, we are aware of some of the challenges being faced in the banking environment with ongoing consolidation in that industry and its impact on the local economy. We are contributing to broader discussions on this trend both here and with our counterparts in other jurisdictions, and this remains a difficult trend to arrest. The introduction of the Alternative Banking Regime this past year is intended to provide additional diversity in banking choices and over this period we have met with many parties interested in pursuing this class of licence. During the year we have issued some additional guidance to inform this interest and we remain confident that material progress will occur over the next year.

The Designated Businesses registration process completed this year with more registrants than we expected; some 316 businesses are now registered. We are now commencing our on-site phase of the programme and have revised our visit schedule to accommodate the increased number of registrants. The upfront work of the Authority during the lead-up to the registration has renewed awareness of the AML obligations of the Designated Businesses community and this will hopefully result in positive outcomes during the on-site phase.

A significant work effort was undertaken by the Authority related to the MONEYVAL review undertaken last summer.

While many positive ratings in relation to the activities of the Authority were achieved, it was observed that there are areas for improvement. Earlier this year we held an industry forum to share the major findings and to mobilise industry working groups to collectively agree a way forward. This will

continue to be an area of significant work for the Authority in the coming year and will necessitate ongoing collaboration with industry and other government departments alike.

Over this past year some of the activities of the Authority have garnered enhanced visibility either because of enforcement outcomes or due to significant interventions where we have taken the view that there have been major regulatory failures. The Authority will continue to take a path of reasonable remediation (and we have had a number of successful outcomes in this regard) but will not hesitate to look at enforcement options where matters warrant. This is part of being a responsible regulator and maintaining confidence in the regulatory system.

“The last year under review also saw significant work effort around the Beneficial Ownership Act and defining the Authority’s role relative to the Act.”

Although not the sponsor of the Bill, the Authority was a frequent subject matter contributor to its development, facilitating discussions with industry and developing appropriate guidance. This upcoming year will focus on the oversight role that the Authority has been given.

Looking inward we have made some structural realignments to enhance our supervisory capability in key risk areas and strengthen our own internal governance. This has resulted in some role changes for our Executive team and in some cases the forging of new relationships with our regulated community. We have also paused to consider our supervisory approach during this period and how we undertake the programme of supervision across the Authority. In the upcoming supervisory cycle, we will be making more use of annual



business meetings in selected areas to better our understanding of the activities of the regulated entities so that we can focus on key risk areas; and we will supplement this with thematic reviews and industry surveys to better our understanding.

We also continue to look at areas in the Authority that are ripe for process improvement, the first of which we will be introducing later in 2017/18 in relation to our fitness and propriety assessment ('vetting') process. Over the past year we have focused on better understanding our current state activities so that we can draw out both the commonalities and dissimilarity of approach. Understanding our core work processes has been critical as we start to articulate requirements for our new IT data system. Later this year we will start to liaise with industry about what this will mean for them in terms of the type and means of providing information to the Authority.

“Looking inward has also resulted in continued work on defining our core values, principles and strategic objectives for the long-term.”

In undertaking this exercise, we have considered our approach and have focused on principles and actions that we believe are critical to a well-functioning financial services system. Enhancing our knowledge, not making things overly complex and making sure regulated entities are responsible for their risk management frameworks are many of the basic tenets underpinning this work. We are in test-drive mode at this point to make sure there is alignment and understanding across the Authority of what we are trying to achieve with an introduction to industry planned for later this year.

All of this would not have been possible without the support, hard work and commitment of both the staff and the Board of the Authority and I wish to thank them for their ongoing contribution. Looking ahead, our continued success in meeting our objectives can only be achieved if we operate as one organisation with shared goals and shared vision and I am confident that we are well positioned to achieve this.

THE YEAR AT A GLANCE

In 2016/17 we:

- Introduced the Alternative Banking Regime.
- Continued work on the Insurance Core Principle (ICP) project with significant progress in progressing the Insurance (Amendment) Bill through the legislature, as well as ongoing consultation on key elements of the programme.
- Continued outreach to the insurance industry with the roll-out of Quantitative Impact Studies to better understand the impact of the new capital requirements under the ICP project.
- Issued consultation on the Credit Unions (Amendment) Bill.
- Authorised the first Credit Union in the Isle of Man.
- Introduced the Financial Services Rule Book 2016 for licenceholders under the FSA08.
- Maintained a robust supervisory programme with on-site visits, complimented by annual business meetings, thematic reviews and attendance at supervisory colleges.
- Participated in the MONEYVAL on-site assessment programme.
- Participated in the OECD Global Forum Peer Review.
- Continued selected enforcement action including issuing prohibitions under section 10A FSA08 and commencing director disqualification proceedings under CODA09.
- Supported the work of others through on-going domestic working partnerships with the Treasury, Department of Economic Development, the Financial Intelligence Unit, the Department of Home Affairs and continued exchange of information through existing gateways.
- Maintained ongoing engagement with our international colleagues by responding to and making requests for information under Multilateral Memoranda of Understanding.

THE ISLE OF MAN FINANCIAL SERVICES AUTHORITY

The Authority is an independent statutory board, established on 1 November 2015 by article 4 of the Transfer of Functions (Isle of Man Financial Services Authority) Order 2015. The Authority took over the responsibilities of two predecessor regulators - the Insurance and Pensions Authority and the Financial Supervision Commission.

This annual report addresses the requirement, under paragraph 7 of Schedule 1 to the FSA08, for the Authority to report to Treasury annually on its proceedings and activities for the previous year, and to supply its audited accounts. The annual report covers the period 1 April 2016 to 31 March 2017, and will also be laid before Tynwald.

REGULATORY OBJECTIVES

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

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

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

- the need to balance the regulatory objectives
- the need for the regulatory, supervisory and registration regimes to be effective, responsive to commercial developments and proportionate to the benefits which are expected to result from the imposition of any regulatory burden
- the need to use resources in an efficient and economic way
- the desirability of implementing and applying recognised international standards
- the desirability of co-operating with governments, regulators and others outside the Island
- the need to safeguard the reputation of the Island
- the need to promote public understanding of the financial services, insurance and pensions industries



- the responsibilities of those who manage the affairs of permitted persons, insurers and retirement benefits schemes
- the international character of financial services, insurance and pensions industries and their markets and the desirability of maintaining the competitive position of the Island
- the desirability of facilitating the development of the financial services, insurance and pensions industries
- the impact of its decision on the stability of the financial system of the Island.

ORGANISATION OF THE AUTHORITY

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

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

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

HOW THE AUTHORITY OPERATES

The Authority is formed of seven internal Divisions and has a variety of functions. Two new Divisions were created over this period, 'Business Change' and 'Emerging Risks and International'. Further information regarding these can be found later in this report.

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

Appendix A provides further information on the Authority's functions.

GOVERNANCE AND BOARD COMMITTEE STRUCTURE

BOARD AND COMMITTEE MEETINGS

The Authority's affairs are administered by its Board, made up of a Non-Executive Chairperson, the CEO and seven further Non-Executive Members.

The Board of the Authority previously met once per month, and now meets approximately every six weeks. In addition, a quorum of the Board (comprising a minimum of three Board Members) meets separately, as and when required, to consider applications for authorisation.

The following meetings have been held between 1 April 2016 and 31 March 2017:

Meetings of the Isle of Man Financial Services Authority 13

Authorisations Meetings 6

There are two standing committees of the Board – the Risk and Control Committee¹ and the Human Resources and Compensation Committee².

The following meetings of these committees have been held between 1 April 2016 and 31 March 2017:

Meetings of the Risk and Control Committee 7

Meetings of the HR and Compensation Committee 4

More information on the Corporate Governance arrangements of the Authority can be found in Appendix B.

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

² Alan Smith, Peter Kenny (until 31 July 2016), David Stacey, Mark Waterhouse



REGULATION AND SUPERVISION

AUTHORISATIONS

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

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

Applications from new businesses are considered by authorisations staff, in close liaison with appropriate supervisory staff responsible for the relevant sector(s). In all cases staff work closely with the applicant, and meetings take place and additional information is obtained until such times as either a positive or negative recommendation can be made to the Board of the Authority in respect of the application.

Authorisations staff work closely with supervisory colleagues in respect of existing licenceholders that may apply to extend their current services and seek additional permissions or classes of regulated activity. In these cases, the level of compliance of the existing licenceholder with regulatory requirements is a matter of focus, as well as the nature of the new permissions being sought.

Authorisations staff also handle applications for fitness and propriety assessments from licenceholders in respect of certain senior staff and officers in relation to regulated activity under the FSA08. Over the period of the report 374 such applications were considered. Many of these result from changes within licenceholders as well as from new business applications. Procedures for conducting fitness and propriety assessments are currently under review with a view to ensuring the process is sufficiently focussed and efficient.

During the period of this report staff of the Authority continued to offer support and guidance to businesses considering the Island as 'the place to do business'. A wide variety of business propositions have been reviewed and there has been no common theme to the enquiries received. The range of potential activities has included alternative banking operations, investment platforms, as well as trust and corporate service provider business. Enquiries range from tentative initial queries to formal applications for licensing or authorisation. A number of the enquiries have been directed to the Authority, through the Department of Economic Development, as a result of its promotion of the Island. In this regard, regular liaison meetings take place with that Department to discuss matters of common interest.

SUPERVISION

SUPERVISORY APPROACH

The Authority's knowledge and understanding of any regulated entity, its activities and the principal risks to which it is exposed, develops on an ongoing basis through a combination of desk-based analysis, discussion with management and on-site inspection visits. On-site inspection visits

are undertaken using a risk-based model, and they focus on the effectiveness of management and controls as well as specific themes and risks per sector or entity.

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

Supervision is undertaken through two Divisions of the Authority: Banking, Funds & Investments Division, and Insurance, Pensions & Fiduciary Services Division. Supervisory staff are allocated to the various sub-sectors as follows:

- Banking (deposit takers, credit unions and money transmission entities)
- Funds and Investment Services (financial advisers, investment managers, stockbrokers, fund administrators and managers, custodians, investment platforms, crowdfunding platforms)
- Insurance (including insurance intermediaries, insurance managers and life companies)
- Pensions (including retirement benefits schemes)
- Fiduciary Services (trust and corporate service providers).

There is also a Risk and Compliance team which is responsible amongst other things for elements of internal systems, controls and procedures, managing and updating guidance, and financial analysis.

Supervisory staff have continued to provide feedback sessions (on the general nature of findings from supervisory visits) to the various industry sectors during the year, and staff have also been heavily involved in the MONEYVAL mutual evaluation assessment of the Island's AML/CFT framework. Further information on each sector is provided separately.

Regulatory permissions

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

Regulated activity under the FSA08	Number of licenceholders conducting the following regulated activities as at 31 March	
	2017	2016
Class 1 – Deposit taking	19	22
Class 2 – Investment business	46	49
Class 3 – Services to collective investment schemes	54	55
Class 4 – Corporate services	153	164
Class 5 – Trust services	111	115
Class 6 – Crowdfunding platforms	0	N/A
Class 7 – Management & administration	10	10
Class 8 – Money transmission services	5	5
Registered entities under the Industrial and Building Societies Act 1892 and supervised by the Authority under the Credit Unions Act 1993	Number of registered entities conducting the following activities as at 31 March	
	2017	2016
Credit Unions	1	0
Permissions under the IA08 and RBSA00	Number of regulated entities conducting the following activities as at 31 March	
	2017	2016
Authorised insurers – life	16	16
Authorised insurers – non-life	111	118
Permitted insurers – life	9	9
Permitted insurers – non-life	9	9
Insurance managers – life	11	11
Insurance managers – non-life	11	11
General insurance intermediaries	22	24
Administrators – pensions	50	56

Regulatory actions

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

	Year ended 31 March	
	2017	2016
Directions – under sections 14 and 18 of the FSA08	30 – of which 6 were remedial	42 – of which 7 were remedial
Civil Penalties		
Fixed penalties relating to late filings	19	22
Discretionary penalties relating to regulatory breaches	0	0
Section 11 – warning notices	0	5
Section 23 – reporting accountant	0	2
Section 22 – successful application to court for the appointment of a business manager	0	1
FSA08 licences (or classes thereof) suspended or revoked	1	0

The following table sets out remedial and other regulatory actions taken under the CISA08 during the period:

CISA08	Year ended 31 March	
	2017	2016
Section 11A – not fit and proper	0	0
Section 11B – prohibitions	0	0
Section 11F – warning notices	0	0
Section 12 – directions	4	1
Section 13 – appointment of an adviser to a fund	2	0
Section 13 – appointment of a person to assume control of a fund	2	0
Section 15 – successful application to court for winding up and appointment of a liquidator to a fund	3	0
Section 16 – successful application to Court for the appointment of an inspector to a fund	1	0
Section 19A – civil penalty	0	0

The following table sets out remedial and other regulatory actions taken under the CISA08 during the period:

IA08	Year ended 31 March 2017
Section 33 – imposition of requirements	2
Section 29 – not fit and proper direction	1
Schedule 5 – information request	1
RBSA00	Year ended 31 March 2017
Section 19 – not fit and proper direction	1

Banking and Money Transmission Services

Over the period of this report, the team undertook a series of annual business meetings with banking and money transmission groups / licenceholders.

The team also undertook compliance visits which were designed to focus on areas the Authority believed were relevant to that particular licenceholder. They covered such areas as AML/CFT, corporate governance effectiveness and lending.

The team has been closely monitoring the winding down of four licenceholders: Habib European Bank (which surrendered its licence during 2016), Nationwide Building Society, Duncan Lawrie (IOM) Limited, and Zurich Bank International Limited. The three latter banks are expected to surrender their licences during 2017. The focus of the Authority's work in this respect is to make sure customers are treated in a fair way and that the banks wind down their businesses in a responsible and orderly manner.

Additionally, the Island's first credit union was registered during the period.

The team also continued to work on a number of initiatives. These include:

Basel III – capital and liquidity

New capital requirements for banks incorporated in the Isle of Man come into effect from 1 July 2017, which take into account Basel III principles. Banks will also have to report a leverage ratio.

Proposals for changes to the liquidity framework, following previous discussions with the sector, are to be progressed through consultation during the latter part of 2017 and into 2018.

Other changes to the risk weighted assets framework being proposed by the Basel Committee on Banking Supervision will also need to be considered in the future.

A framework for Domestic Systemically Important Banks in the Isle of Man (DSIBs)

A consultation on proposals for identifying and supervising DSIBs was issued and following this a draft policy statement was provided to banks; the final policy was issued on 30 June 2017 and the first round of assessments will take place later in 2017.

Improving data for supervisory purposes

Banks have been reporting detailed information on their lending portfolios since March 2016 and, following a period needed for data remediation and consistency checks, aggregated information will be published in 2017, most notably for mortgage lending.

A new Annual Statistical Return for certain money transmission licenceholders (those only conducting bureau de change, cheque cashing and agency business) was also implemented in the year, providing us with desk-based information to help formulate better risk assessments (including for AML/CFT).

UK banking structural reform and its impact in the Isle of Man

Liaison took place with relevant banking groups, and the UK Prudential Regulation Authority, on the more detailed implications for the Isle of Man operations of the major UK retail banks that are subject to the UK's 'ring-fencing' regime. That regime comes into full effect from 1 January 2019. The Isle of Man operations (and other parts of the UK groups that are not in the EEA) must be outside of the ring-fenced part of these groups. In some cases this will involve legal entity restructuring in the Isle of Man.

The Isle of Man's Alternative Banking Regime

During the period, and following consultation, the regulated activity of deposit taking was split into three sub-classes: class 1(1), class 1(2) and class 1(3). All banks currently have class 1(1) licences.

Class 1(2) banks are only able to undertake business with certain depositors ('restricted depositors') which are bodies corporate and individuals subject to stringent minimum net worth criteria. Class 1(2) banks are not members of the Island's deposit compensation scheme. The ownership structure permitted for these banks is wider than for class 1(1).

Class 1(3) banks are representative offices of overseas banks.

Discussions continue with a number of parties interested in applying for class 1(2) or class 1(3) licences and guidance has been issued to assist potential applicants.

Funds and Investment Services

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

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

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

Over the period there was a significant focus on remediation work which included intervention into a number of collective investment schemes and licenceholders. This included applications to Court where necessary.

Some of the project work planned for the period was reprioritised as a result. The project to update and simplify the Island's funds offering to take account of the revised IOSCO Principles and Methodology will continue over the forthcoming year.

Insurance

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

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

Over the period of this report, the team undertook a series of review meetings with insurers and insurance managers. The insurance team, in conjunction with the ICP project team, conducted two thematic reviews. The first of these reviews considered the liquidity risk management frameworks of long-term insurers. The second thematic, again aimed at long-term insurers, considered investment-linked asset matching. The results of these thematic reviews will be published in the upcoming year and insights from the exercises will also inform elements of the insurance framework that is currently being updated by the ICP Project team. The insurance team also conducted an on-site visit programme with one of the insurance managers that looked through to a number of managed captive insurers. This on-site programme focused on corporate governance and AML/CFT.

Pensions

The Authority's on-site visit programme within this sector complements its desk-based analysis, and may take the format of a routine visit or may focus on a specific area of interest, policy or procedure, including that of compliance with applicable AML/CFT legislation.

Over the period of this report, the team held a number of review meetings with pension administrators. There was also a continuation of the AML/CFT thematic review that the team had started in the previous period.

Occasionally third parties may be commissioned to undertake a review of work that the Authority has required of a company (i.e. remedial action or to justify a position). The cost of such work would ordinarily be met by the company concerned. That power has been used in this period to address the Authority's concerns regarding the effectiveness of the governance and control environment of a pension administrator and its compliance with statutory requirements.

Fiduciary Services

Over the period of this report, the team undertook annual business meetings with corporate and trust service providers, and the on-site visit programme concentrated on addressing issues facing particular licenceholders.

A briefing was provided to the industry on implementation of the new Clients Assets Report, which should enhance protection of client money, and on changes to the Financial Services Rule Book that were introduced in January 2017.

The Group of International Finance Centre Supervisors is continuing to build upon its Standard on the Regulation of Trust and Corporate Service Providers. Measures adopted by the Group during the year include agreeing to commence a programme of mutual assessments, and forming "colleges" to help regulators build a common approach towards groups with a presence in various jurisdictions. This is a first step towards the types of group supervision that are available to regulators in other sectors of the industry. The Authority will contribute to the mutual evaluation programme.

CO-OPERATION AND CO-ORDINATION

Supervisory

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

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

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

Co-operation in domestic supervision

In developing further the Authority's legislative framework in respect of AML/CFT, it liaises about matters of common interest with the Department of Home Affairs, the Isle of Man Financial Intelligence Unit and Customs and Excise. The Authority also sits on the AML/CFT Advisory Group, which provides a forum for discussions between Government, regulators and industry.

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

Consolidated / Group Supervision

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

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

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

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

Exchange of information

Similar to other supervisory bodies, the Authority has a statutory duty of confidentiality in respect of information collected in the performance of its statutory functions. Such information is classified as restricted information and may only be disclosed to third parties with the consent of the person from whom the information was received and, if different, the person to whom it relates, subject to the statutory 'gateways' set out in the various legislation that the Authority operates under.

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

Memoranda of Understanding (MOUs)

The powers that enable the Authority to co-operate with other regulatory organisations both domestically and internationally, are supported by a number of bilateral MOUs with regulatory authorities world-wide. Over the period of this report, many MOUs that were originally those of the IPA or FSC have been updated and converted to Authority MOUs. Those that are still pending updates continue to operate for the Authority as a whole, and will be updated in due course.

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

IAIS and IOSCO Multilateral Memoranda of Understanding (MMOUs)

The Authority is full signatory to both the IAIS MMOU and the IOSCO MMOU. It is also a full signatory to the GIFCS MMOU, many of whose members are also full signatories to the IAIS and IOSCO MMOUs.

Assistance with Investigations and Insider Dealing

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

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

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

PREVENTION OF MONEY LAUNDERING AND COUNTERING THE FINANCING OF TERRORISM

AML Unit

This period has seen the AML Unit working on the MONEYVAL evaluation of the Island and tasks linked with the DBROA15.

During 2016 an AML/CFT Policy Office was set up within Cabinet Office, and the Head of the Isle of Man Delegation to MONEYVAL is now located in that AML/CFT Policy Office.

Guidance

The Authority may issue and publish guidance as it considers appropriate. It issues guidance for various purposes including to illustrate best practice, to assist relevant persons in complying with legislation and to provide examples or illustrations. Guidance in respect of AML/CFT is published in the form of the AML/CFT Handbook which is a “living” document subject to regular revision and updating. Guidance is not law, however it is persuasive. Where a person follows guidance this would tend to indicate compliance with the legislative provisions, and vice versa.

During this period a number of updates regarding administrative issues have been made to the Authority’s AML/CFT Handbook to ensure that the Handbook remained valid and up to date. There were also some updates to maintain the lists of higher risk jurisdictions and jurisdictions that may pose a higher risk in line with the FATF statements.

In April 2016 the Banking Sector Specific AML/CFT Guidance Notes were updated and, in October 2016 Sector Specific AML/CFT Guidance Notes for Virtual Currency Businesses were published.

More substantive changes to guidance issued by the Authority were put on hold whilst the MONEYVAL mutual evaluation process was ongoing.

Moneyval

The Isle of Man became a participant in the Council of Europe’s Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) in December 2012, and was evaluated by MONEYVAL in 2016. The evaluation was under MONEYVAL’s 5th round evaluation process and was conducted against

the FATF 2012 recommendations using the 2013 methodology.

An on-site visit to the Island, focussing on effectiveness, was conducted by the MONEYVAL evaluation team over the period 25 April to 6 May 2016. Following the on-site visit a number of draft reports were received and the Authority provided input into the Island’s comments on these. Many teleconferences with the evaluation team also took place, whose attendance included members of the Authority. Members of the Authority attended, as part of the Isle of Man delegation, the face-to-face meeting with the evaluation team in Paris in October 2016, and some members of the Authority also formed part of the Isle of Man delegation to the MONEYVAL plenary in December 2016, where the final draft report was discussed and adopted. The mutual evaluation report was published by MONEYVAL on 27 January 2017.

Following the publication of the mutual evaluation report, work has begun regarding assessing the findings and recommended action points affecting the Authority.

MONEYVAL holds plenary meetings three times per year, at which mutual evaluation reports of its members, and other matters in the AML/CFT area are discussed. In addition to work linked to the Island’s evaluation, members of the AML Unit attended two plenary meetings during the period.

Industry contact

Throughout the period the AML Unit has been involved in meetings with industry bodies.

On 1 November 2016 the Authority hosted its annual Anti-Money Laundering and Financial Fraud Conference. The conference included talks on cybercrime, how to spot criminal facilitation and how to prevent it, and terrorist financing.

On 20 March 2017 the Authority ran an information session for industry regarding MONEYVAL’s evaluation of the Island. This session gave an overview of the main findings in the mutual evaluation report affecting businesses licensed, regulated, and registered by the Authority, and included talks regarding the findings regarding specific sectors of business.

Designated Businesses

The Designated Businesses (Registration and Oversight) Act 2015 ('the DBROA15') came into force on 26 October 2015. The DBROA15 gave the Authority responsibility for the oversight of certain businesses and professions ('designated businesses') adherence to the Island's AML/CFT regime.

Designated businesses are registered and overseen by the Authority for AML/CFT purposes only. Designated businesses retain their status with any bodies responsible for their wider business, competence, or other matters.

All designated businesses are subject to a periodic visit by the Authority, or a body to whom the Authority has delegated necessary powers, to test compliance with AML/CFT legislation. At present the Authority has delegated its oversight powers to the following professional bodies: Institute of Chartered Accountants in England and Wales; Association of Chartered Certified Accountants; Isle of Man Law Society; Institute of Certified Bookkeepers; Institute of Financial Accountants; and International Association of Bookkeepers. The delegated professional bodies are responsible for the oversight process and feed the findings of their visits back to the Authority. Registration and enforcement powers are retained by the Authority.

Ninety-nine designated businesses have elected to be overseen by a designated body with the remaining 217 being overseen by the Authority.

Registration

The DBROA15 contains transitional provisions which mean that designated businesses established before 26 October 2015 could continue to undertake designated business, provided they submitted completed applications for registration to the Authority by 26 April 2016. Any businesses formed after 26 October 2015 must be registered with the Authority before undertaking designated business.

At the time of publication the Authority has registered 316 designated businesses, which are broken down as follows:

- 40 law firms
- 183 accounting firms
- 19 estate agents
- 58 money lenders
- 10 convertible virtual currency providers
- 4 specified non-profit organisations
- 2 high value goods dealers

Entities may undertake more than one category of designated business.

The DBROA15 states that the Authority must refuse to register a designated business if it is not satisfied that the applicant, or a specified person in relation to the applicant, is a fit and proper person. During the period the Authority has refused to register one applicant. The DBROA15 also states that the Authority may revoke a registration under certain circumstances; during the period the Authority has revoked one registration.

Oversight and outreach

During the last twelve months the AML Unit has conducted outreach and education sessions with all the major designated business sectors affected by the legislation.

A programme of AML/CFT compliance oversight visits commenced in January 2016. These visits are undertaken by a dedicated team within the AML Unit. The AML Unit has now carried out a number of visits to businesses across the designated business sector. A key finding of the visits carried out by the Authority and also from those carried out by the bodies to whom the Authority has delegated its oversight powers, is the need for designated businesses to document their thought process regarding decisions made and actions taken.

ENFORCEMENT

Regulatory Enforcement Action

During the past calendar year the number of active enforcement investigations has shown a significant increase. The reasons for such increase are necessarily subjective but may well reflect ongoing economic pressures within the financial services sector, as well as ongoing enhancements to the Authority's supervisory practices.

The nature of the work, and the fact that certain of the Authority's powers are subject to appeal, means that not all of the enforcement action taken by the Authority is in the public domain.

During the period the Authority conducted a formal investigation into prima facie contraventions of the AML/CFT Code. As a result of this investigation, the Attorney General's Chambers issued a summons against a particular regulated entity in the Summary Court. That regulated entity was subsequently convicted of several counts involving contraventions of the AML/CFT Code.

Company Law Measures

The Authority has power under the Island's company legislation to make application to the High Court for the winding-up of companies in the public interest. The Authority has wound-up the following companies in the public interest over the last year:

- The Eco Resources Fund PCC Plc which was wound up on 16 March 2017
- New Earth Recycling and Renewables (Infrastructure) Plc on 12 July 2016
- The Premier Investment Opportunities Fund Protected Cell Company Plc on 12 July 2016
- The Eclipse Investment Fund Protected Cell Company Plc on 12 July 2016

The Authority also has power, under CODA09, to make application to the High Court for disqualification of company officers whose conduct renders them unfit to act in that capacity. During the year the Authority issued such proceedings against seven former officers of companies associated with a former licenceholder, Louis Group (IOM) Limited (in Liquidation). Two of the defendants applied to have these proceedings dismissed and a hearing to deal with this application was held on 31 January 2017 and 1 February 2017. His Honour Deemster Doyle found in favour of the Authority and the full judgment is available to view [here](#).

One of the seven defendants offered a voluntary undertaking to the Authority and, in accordance with relevant provisions under CODA09, that undertaking was accepted by the Authority and that individual is now disqualified from holding corporate office for a period of five years.

During the year the Authority also determined that it should pursue disqualification proceedings against a person formerly employed by a regulated entity and who had been convicted of offences of dishonesty. Upon receipt of the Authority's letter before action that individual offered a voluntary undertaking, in accordance with the relevant provisions of CODA09, not to act as a company director for a period of 15 years. The Authority accepted the undertaking offered and as such that individual is now disqualified from holding office for the maximum possible term permitted under CODA09.

The current list of disqualified directors can be viewed [here](#).

POLICY DEVELOPMENT

The Policy and Authorisations Division is primarily responsible for the maintenance of the Authority's legislative framework. It is necessary to update legislation occasionally for various reasons such as when the 'boundaries' of the regulatory perimeter need to change to reflect innovation in the marketplace, or to remain in compliance with international standards, where appropriate.

REGULATORY DEVELOPMENTS

The year to 31 March 2017 saw the introduction of the 'Alternative Banking Regime' with the establishment of new classes of deposit taking business for persons accepting deposits from only restricted depositors (Class 1(2)) and representative offices of foreign banks (Class 1(3)). In addition, staff were involved in the production of consumer focused material relating to pension scams and risky pension investments and amended various items of regulatory secondary legislation.

The Authority continues to progress actions arising from the General Review of Collective Investment Schemes. Over this period the Authority has liaised closely with the IOMWFSA in connection with possible changes suggested by that association to elements of the regulatory requirements that may assist the industry; as well as discussing draft legislation ahead of formal consultation in relation to forthcoming changes to the regulatory status of a limited number of closed-ended investment companies.

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

CROWDFUNDING

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

UPDATING OF THE FINANCIAL SERVICES RULE BOOK

The Financial Services Rule Book contains the detailed rules for all FSA08 licenceholders, and is updated from time to time. Over this period a full consultation exercise took place, culminating in the updated Rule Book (in a new user-friendly tabular format) being approved in Tynwald in October 2016 and coming into force on 1 January 2017.

CREDIT UNIONS

Over this period Authority staff have been working with the Attorney General's Chambers to prepare a draft Credit Unions (Amendment) Bill. A consultation on the draft Bill was issued in March 2017.

BENEFICIAL OWNERSHIP

The Isle of Man Government has entered into certain agreements with the UK Government that include the establishment and maintenance of a 'non-public' beneficial ownership register for Isle of Man incorporated legal entities. This involves the Authority, in that the agreement with the UK includes a level of 'oversight' of the register by the Authority. The Authority has worked in partnership with Treasury and other interested parties over this period on the Beneficial Ownership Bill and ancillary matters.

INSURANCE SUPERVISORY FRAMEWORK

The Island's regulatory framework for insurance supervision is set out in the IA08.

In 2012 the ICP project was launched, the objective of which is to update the Island's regulatory

framework for insurance business in a way that is both appropriate and proportionate to the Island's insurance sector and consistent with relevant international standards. This is for the purpose of maintaining the Island's reputation as a well-regulated and responsible international financial centre.

The updated framework will be implemented by a combination of changes to the enabling powers in the IA08 and by the implementation of new and amended secondary legislation.

The key areas of change are as follows:

- the development of a more sophisticated risk-based capital and solvency regime
- the introduction of a group supervision framework
- enhanced conduct of business requirements
- enhanced governance and enterprise risk management requirements
- enhanced requirements in respect of general insurance intermediation
- the introduction of public disclosure requirements where appropriate
- enhanced regulatory reporting.

The Authority continues to work closely with the Island's insurance sector and other interested parties throughout the project by way of detailed pre-consultation discussions, quantitative impact studies, formal consultations, update communications and such other means as appear appropriate. The project is now in its implementation phase and it is expected that this level of engagement will continue and increase as the Authority and industry work towards finalising all legislation and arrangements for implementation.

The Authority's formal report on the project is contained in the "Roadmap for updating the Isle of Man's regulatory framework for insurance business" which has been published annually since 2013, the latest update having been issued at the end of January 2017. As well as providing information about the project, the Roadmap reviews progress over the previous period and looks forward to developments over the forthcoming year.

INTERNATIONAL POLICY MATTERS

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

Over the period of this report an important matter of focus has been on the implications for the Isle of Man, and specifically regulated entities, resulting from the UK's decision to leave the EU. Some implications may be significant, and the Authority will be prepared for this, but importantly, the Isle of Man is already a 'third country' for EU purposes. Therefore it is hoped that any negative effects of 'Brexit' on regulated entities will be few in number, and that positive implications can be leveraged.

CONSULTATION

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

LEGISLATION AND GUIDANCE

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

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

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

OTHER ACTIVITIES

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

The Authority is an ordinary member of IOSCO and a full signatory to the IOSCO MMOU.

EMERGING RISKS AND INTERNATIONAL

During the period of this report, the Authority determined that it should give some additional focus to emerging risks and international developments.

As a first stage, it was decided to more formally adopt an Enterprise Risk Management approach across the Authority. This work has commenced and the intention is to formalise each Divisional Risk Register into a more common format with a focus on Strategic Objectives, the threats to the achievement of those objectives and the risks that arise out of those threats.

In future, there will be additional focus placed upon the measurement of impact and likelihood of the threats materialising and on the controls in place to reduce the impact and / or likelihood of those risks occurring. This will then assist in more easily identifying, prioritising and addressing the key risks to the Authority, including the allocation of its resources.

During the forthcoming year, the Authority will be looking to establish a more forward-looking approach to emerging risks.



BUSINESS CHANGE

The merger of the two predecessor organisations to form the Authority in November 2015 provided an excellent opportunity to consider the reasonable expectations of stakeholders, how the Authority delivers its work and what kind of regulator the Authority wants to be.

At the beginning of the period of this report the Authority created a new Business Change Division to assist in this work. The Division's remit is to analyse the existing processes and procedures adopted by the separate teams of the Authority, to identify aspects that add value to the supervisory process as well as those which require refinement, with a view to adopting a common set of risk-sensitive supervisory methodologies and approach.

To this end, the Authority is currently working towards refining the existing risk assessment methodologies utilised by each supervisory team with a view to the introduction of an over-arching risk assessment framework that allows for comparability of risk between regulated entity types. This methodology is an integral component to the development of an Authority-wide supervisory approach and this work continues into the forthcoming period.

Another important element of the Division's work is the development of a new IT system to support the efficient supervision of entities, using common methodologies of approach as well as supporting the operations of the Authority. A key benefit arising from this is that the new supervisory support system will enable more regulated entities to submit information electronically to the Authority. The system is intended to enable the validation and storage of information received in such a way that it can be analysed efficiently, so leading to more effective supervision and also bringing some efficiencies to regulated entities in their reporting process. Work is ongoing, with planned implementation commencing in 2018.

OPERATIONS

FINANCE

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

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

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

The statement of Income and Expenditure of the Authority and its associated Report of the Auditors are set out in Appendices E and F. The Authority is audited in accordance with the Audit Act 2006.

Income from registration and licence fees was marginally above the budgeted figure for the year. Income was also received from the Authority's annual AML/CFT conference, attended by industry representatives, and from civil penalties charged to licenceholders.

In aggregate, operational expenditure was below budget. Spending was broadly in line with or under budget for all areas of expenditure with the exception of professional fees. Professional fees are incurred in connection with the engagement of professional services companies to either provide additional capacity over the short term for one-off tasks or to secure specialist skills and knowledge to supplement the routine services delivered by the Authority's staff. The overrun in professional fees for the year arises from a relatively heavy caseload of disciplinary and enforcement matters which require input from independent legal practitioners. Where on-Island legal services are engaged, appointees are drawn from the Isle of Man Government's central procurement list.



HUMAN RESOURCES

As a relatively new organisation, formed by the merger of the two predecessor organisations, the Authority's staff structure has been developing during the year to ensure the allocation of resources aligns with its priorities and objectives. In addition, the office layout and the location of staff within the office has been changed during the year to make best use of the available space. The Authority has a full-time establishment of 68.

During the first half of the year, the Authority experienced a relatively high level of staff turnover, compared to earlier periods, with six staff leaving through retirement or resignation during the period. There was no dominant reason for the leavers. All resulting vacancies were filled during the year and the staff turnover rate reduced in line with historic levels during the second part of the year.

A terms and conditions harmonisation project has been undertaken this year to remove any disparities arising from pre-merger arrangements. The project has resulted in a single set of terms and conditions applying to all existing employees along with the introduction of a revised, consolidated Staff Handbook.

Alongside the terms and conditions work, a job evaluation exercise has been completed with the aid of an independent consultant. The exercise has resulted in a single grade structure for the Authority with the pay bands allocated to each grade having been benchmarked against equivalent roles in the private and public sectors. The project will continue to ensure a consistent job description format and a revised performance management approach incorporating the Authority's core purpose, key principles and core values.

It is the Authority's policy to promote equal opportunities in the workplace. Procedures in relation to recruitment and learning and development form part of this commitment.

The Authority arranges a programme of training sessions for staff. These are delivered either by staff or external parties. In addition staff are supported in their studies towards professional qualifications.

COMPLAINTS AGAINST THE AUTHORITY

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

A complaint was made against the Authority in March 2017, which was not upheld. No requests for reviews of complaints by the Board were received during the year, nor since that period in respect of the complaint received in March 2017.

INFORMATION TECHNOLOGY

Due to the plans for the new supervisory support system, detailed in the Business Change section above, there have been no major developments on the Authority's existing IT systems. However, a number of small enhancements have been made to the designated businesses' administration system to assist the Authority's oversight processes for this sector.

During 2016/17, the Authority sought the views of its website users on the site's usability and content. In August 2016 the Authority committed to launching a new website on an improved technical platform. The development will take account of the feedback received from users. The new site will be ready for launch in the coming months with a number of enhancements, including improved navigation and compatibility with mobile devices. Once the new site is operational-enhancements will be made to the content on a phased basis.



ISLE OF MAN FINANCIAL SERVICES AUTHORITY'S FUNCTIONS

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

- the regulation and supervision of persons undertaking regulated activities
- the regulation and supervision of persons undertaking regulated insurance activities or regulated pensions activities
- the maintenance and development of the regulatory regime for regulated insurance activities and regulated pensions activities
- the maintenance and development of the regulatory regime for regulated activities
- the conduct of investigations into any potential liability arising from breach of AML/CFT legislation by persons undertaking regulated activities
- the oversight of directors and persons responsible for the management, administration or affairs of commercial entities
- participation in consultative bodies, working groups and other arrangements
- the functions conferred on it under the Financial Services Act 2008
- the regulation and supervision of collective investment schemes within the meaning of the Collective Investment Schemes Act 2008
- the regulation and supervision of retirement benefits schemes within the meaning of the Retirement Benefits Schemes Act 2000
- the functions conferred on it under the Acts specified below, and
- the functions conferred on it under any other statutory provision

The Acts under which functions are specified are the:

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

MEMBERSHIP OF THE FINANCIAL SERVICES AUTHORITY

Geoff Karran MBE, TH (Chair)

Geoff Karran was appointed to one of the predecessor organisations in July 2007 and became Chair in April 2012. He was subsequently appointed Chair of the Isle of Man Financial Services Authority in November 2015. He was admitted to the Manx Bar in 1969 and during his time as an Advocate he became Senior Partner in Dickinson Cruickshank and served for three years as President of the Isle of Man Law Society. Geoff retired from practising law in February 2007. In March 2008 he was appointed Deputy Police Complaints Commissioner and then Police Complaints Commissioner in March 2009. Geoff was awarded the MBE in the New Year's Honours List 2009. He was bestowed with the Freedom of the Borough of Douglas in 2012 and awarded the Tynwald Honour in 2015.



Lillian Boyle (Deputy Chair)

Lillian Boyle was appointed to one of the predecessor organisations in April 2012 and appointed Deputy Chair of the Isle of Man Financial Services Authority in November 2015. She is a lawyer, a Chartered Fellow of the Securities and Investment Institute, a Fellow of the Chartered Insurance Institute (CII) and a Chartered Insurer as well as a Trust and Estate Practitioner. Lillian has been Managing Director and Chairman of different Isle of Man based International Life Companies and has held various non-executive roles in the investment and trust sectors in the Island. She has been a member of the UK Financial Reporting Council's Conduct Committee being particularly involved in the oversight of Audit Quality Review work.

Currently she holds a position with a UK financial services group and is a Trustee and Audit & Risk Chair of a UK based charity. She is a former UK President of the CII and sits on the CII Professional Standards Board. Lillian has also served as a Governor of University College Isle of Man as well as having been Chairman of various local professional and industry bodies.



Karen Badgerow

Karen Badgerow was appointed to the position of Chief Executive in November 2015. Prior to that she served over 30 years with the Canadian government in senior roles in financial services regulation. Most recently she was Senior Vice-President with the Canada Deposit Insurance Corporation (CDIC) heading up its Insurance and Risk Assessment division. Before joining CDIC Karen spent over 25 years with the federal banking and insurance regulator, the Office of the Superintendent of Financial Institutions, and was responsible in her last position for oversight of the federal banking sector. She also represented Canada on a number of international committees including the Senior Supervisors Group and the FSB's Supervisory Intensity and Effectiveness Committee. Karen holds a Bachelor's degree and a Master's degree in Public Administration from Carleton University in Ottawa, Canada.



Roger Butler

Roger Butler was appointed to one of the predecessor organisations in April 2012. Since 1998 Roger has been chairman and non-executive director of, and consultant to, several companies in varied industries. Between 1996 and 1998 he was Chief Executive of Newton Investment Management, a major UK fund management company, until its sale to Mellon Bank. Previously he was a Senior Advisor to Morgan Stanley where he was involved in advising both the firm and its investment banking clients on corporate structuring and taxation matters. Prior to this Roger was with Arthur Young (now Ernst & Young) where he was latterly Regional Managing Partner in London and Chairman of the global tax practice, having previously been UK National Director of Taxation.



Juan Clarke

Juan Clarke was appointed in March 2016. Prior to this he was Managing Director of the Clerical Medical International (CMI) Group of Companies, part of the Lloyds Banking Group comprising trust, fund management and venture capital investment companies and Scottish Widows offshore insurance arm, CMI Insurance Company Limited. He has more than 30 years' experience since starting his career with Barclaytrust in 1982 and at CMI worked in various senior roles specialising in insurance, investments and fund management. Juan currently holds non-executive director positions in the Isle of Man and Luxembourg, and is a Chartered Fellow of the Chartered Institute for Securities and Investment and holds Chartered Wealth Manager status with the Institute.



Alan Smith

Alan Smith was appointed to one of the predecessor organisations in July 2007. He began his career with Lloyds Bank Trust Division and then spent seven years as Manager of Bank of Bermuda's Cayman operations. Alan moved to the Isle of Man in 1987 and was appointed Managing Director of Bank of Bermuda in 1994. He was appointed to the Global Board of the Bank's Fund Services Division in 2001 as Global Head of Marketing and Strategy and subsequently of HSBC's Alternative Fund Services Division until his retirement in 2005. Alan has more than 40 years' experience in trust administration, corporate services, banking, custody and fund administration.



David Stacey

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

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



Mark Waterhouse

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



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

Paul Wright

Paul Wright was appointed to one of the predecessor organisations in May 2012. He spent most of his career with the Bank of England where, among other roles, he had supervisory responsibility for global institutions. He was alternate Executive Director at the International Monetary Fund in the early 1990s. He worked in the UK Financial Services Authority for 10 years where he oversaw supervision of the major overseas institutions in the UK and subsequently had responsibility for global and EU strategy. Until 2012 he was Senior Director at the Institute of International Finance in Washington DC. Paul was the CSFI/Swiss Re Fellow in global insurance issues and currently advises a number of supervisory bodies on supervisory practice internationally.



CORPORATE GOVERNANCE

The Authority's CEO is responsible for ensuring that the Authority's business is conducted in accordance with the law and proper standards, and for developing and operating internal controls to ensure that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.

In discharging these responsibilities and reporting to the Board, the CEO and Executive of the Authority are required to put in place adequate arrangements for the governance of the Authority's affairs and the stewardship of resources at its disposal. This is also embraced within the Isle of Man Government's Corporate Governance Principles and Code of Conduct. That code requires there to be in place a framework governing activity and ensuring that:

- decisions are taken properly
- channels of communication are open
- performance is monitored
- standards are upheld.

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

The control environment within which the Authority operates includes:

- adherence to the Government's Financial Regulations
- arrangements for functions and responsibilities delegated by the Board to individual officers via job descriptions and monitored by a regular review process
- a staff handbook (including codes of conduct, etc.)
- an internal reporting mechanism through the senior management team to the CEO and to the Board.

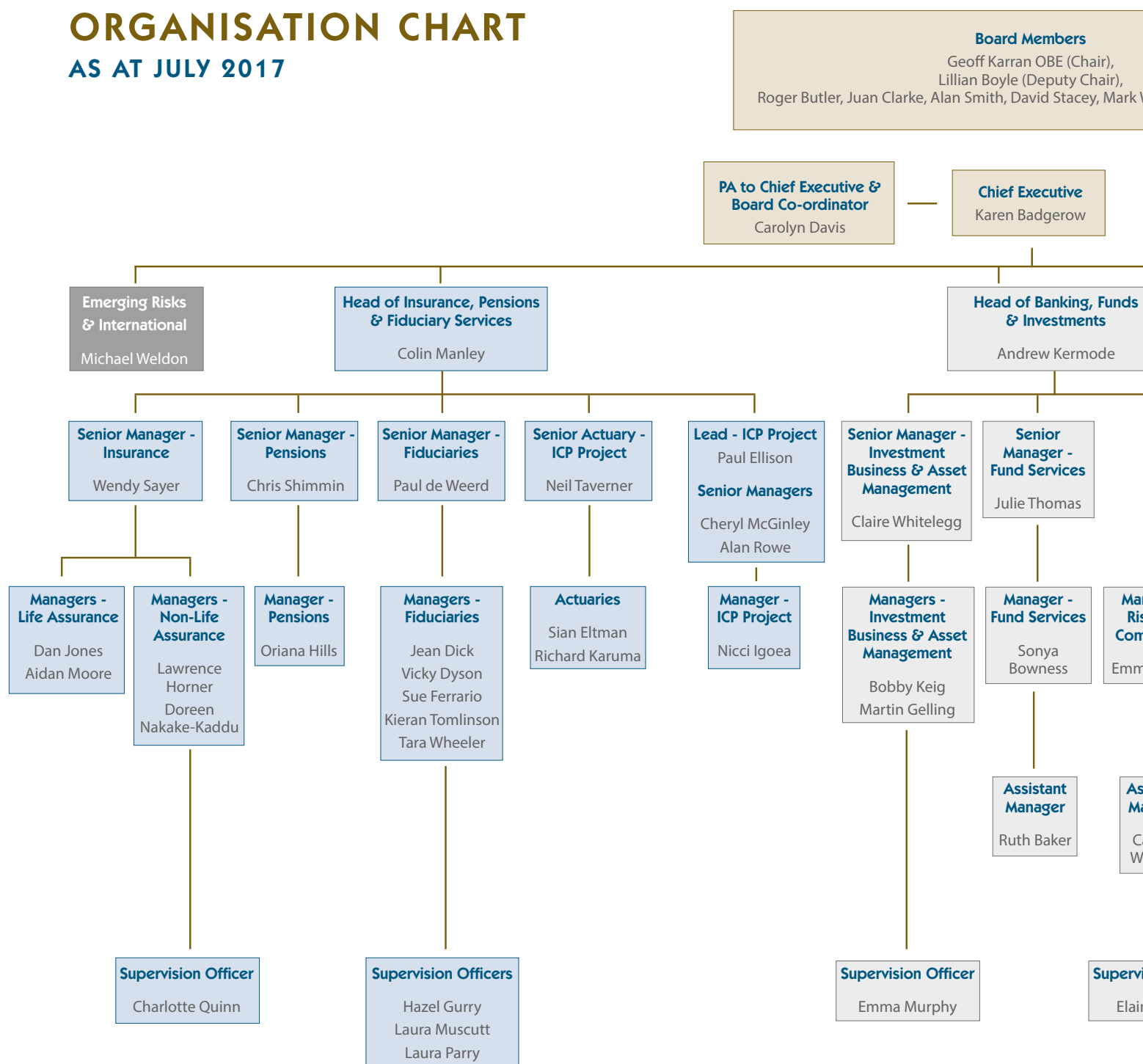
The control environment sets the overall structure for internal control and the exercise of the responsibilities of the Authority's Board Members, CEO, senior management and officers in regard to all matters, including such areas as the:

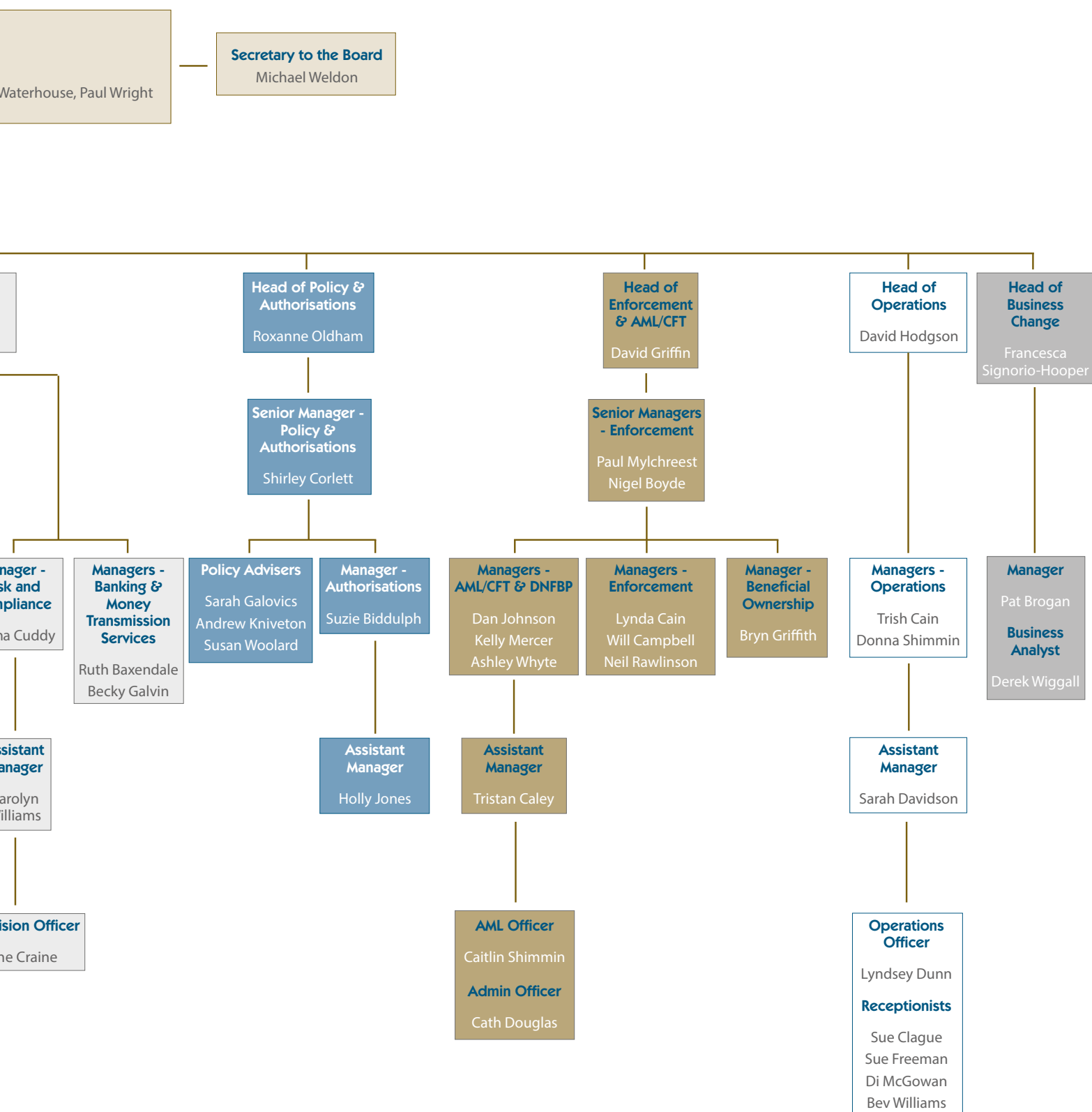
- accomplishment of established goals and objectives
- appropriate exercise of powers and delegated authorities within the Authority
- compliance with policies, plans, procedures, law and other requirements
- management of conflicts of interests
- reliability and integrity of management information
-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

Whilst responsibility and accountability for internal control is vested with the CEO, the Treasury has a role in reviewing the adequacy of the Authority's internal controls through the use of internal audit processes. The Authority has entered into a new memorandum of understanding with Treasury to set out the framework for co-operation between the Treasury and the Authority. The memorandum establishes arrangements to ensure that the Authority is accountable to Treasury for its actions and clarifies the circumstances in which liaison and dialogue can flow between the parties.

ORGANISATION CHART

AS AT JULY 2017





INDUSTRY STATISTICS

LICENCEHOLDERS - NUMBER OF LICENCES

As at 31 March 2017, a total of 221 institutions held a licence issued by the Financial Services Authority under section 7 of the Financial Services Act 2008. The Classes of regulated activity which these institutions were permitted to conduct were as follows:

Deposit Taking (Class 1) (excluding Kaupthing Singer & Friedlander (Isle of Man) Limited, in liquidation)	18
Investment Business (Class 2)	46
Services to Collective Investment Schemes (Class 3)	54
Corporate Services (Class 4)	153
Trust Services (Class 5)	111
Money Transmission Services (Class 8)	5

Some licenceholders are permitted to conduct more than one Class of regulated activity; hence the total of the above (387) exceeds the number of licenceholders.

THE BANKING INDUSTRY

PROFIT AND LOSS DATA – DEPOSIT TAKERS

The data below is taken from the year-end (unaudited) prudential returns for all year-ends up to and including 31 March 2017 (current year) and 31 March 2016 (prior year). The data includes figures relating to overseas branches of Isle of Man incorporated banks.

	Current year (year-ends between 1 April 2016 and 31 March 2017)		Prior year (year-ends between 1 April 2015 and 31 March 2016)	
Income	£'m	£'m	£'m	£'m
Net interest income	451		478	
Other banking income (including FX income, fees, commissions and charges)	102		111	
<i>Total banking income</i>		553		589
<i>Total non-banking income</i>		35		42
Total income		588		631
Expenses				
<i>Total operating expenses</i>	278		287	
<i>Total other expenses</i>	1		2	
Total expenses		(279)		(289)
Profit before tax and impairment (bad debts)		309		342
Impairment (bad debt) charge		(15)		(2)
Profit before tax		294		340

ASSETS AND LIABILITIES OF LICENSED BANKS

The data includes figures relating to overseas branches of Isle of Man incorporated banks. At March 2016 the data included the business of the Jersey and Guernsey branches of Barclays Private Clients International Limited (an Isle of Man company); this bank transferred all of its business in the Isle of Man, Jersey and Guernsey to branches of Barclays Bank PLC in each island in October 2016 and surrendered its licence. Therefore, the data at March 2017 only includes the Isle of Man business of Barclays Bank PLC.

	At 31 March			At 31 March	
Assets	2017	2016	Liabilities	2017	2016
	£'bn	£'bn		£'bn	£'bn
Money market assets, due from banks and building societies	34.5	48.4	Deposits due to banks and building societies**	10.6	11.3
Loans, advances and assets leased*	7.5	8.3	Deposits due to customers	31.0	43.9
Investments	0.9	0.7	Other deposits (held as security and interest payable) including deposits due to public sector bodies	0.3	0.4
Other assets	0.4	0.5	Other liabilities	0.4	0.4
			Capital and Reserves	1.0	1.9
Total assets	43.3	57.9	Total liabilities	43.3	57.9

* At 31 March 2017, 51.3% of loans, advances and assets leased were classified as being secured on residential property (31 March 2016: 61.0%). The above figures relating to loans and advances are net of impairment charges.

** Includes deposits/loans received from other Isle of Man banks of £2.01bn (2016: £3.35bn).

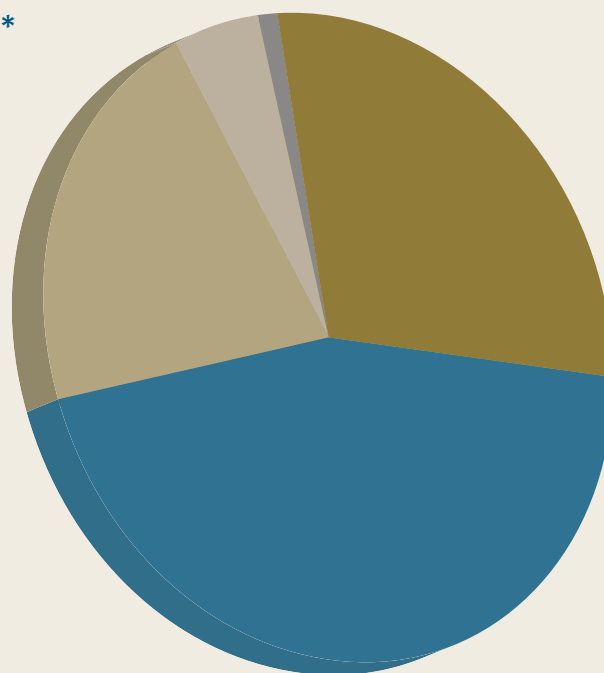
GEOGRAPHICAL SOURCE OF NON-BANK DEPOSITS

Country	31 March 2017	31 March 2016	31 March 2015
Isle of Man	35%	25%	25%
United Kingdom	29%	41%	41%
European Union (excluding UK)	6%	6%	6%
Europe (Non-EU)	2%	2%	5%
Middle and Far East	7%	6%	6%
North America	4%	4%	4%
Other	17%	16%	13%

SECTOR ANALYSIS OF DEPOSITS* INCLUDING INTER-ISLE OF MAN BANKS AS AT 31 MARCH 2017

Corporate / trust / fiduciary deposits	28%
Retail deposits	45%
Group deposits	21%
Other bank deposits	5%
Other deposits	1%

*These figures represent deposits with Isle of Man offices of licensed banks only.



ULTIMATE COUNTRY OF ORIGIN OF BANKING AND BUILDING SOCIETY GROUPS* OPERATING IN THE ISLE OF MAN

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

At 31 March 2017			
Country	Total	Subsidiaries	Branches
United Kingdom	9	2	7
Ireland	1	1	0
Spain	1	0	1
South Africa	3	2	1
Switzerland	1	1	0
Cayman Islands	1	1	0
USA	1	0	1
Sub total	17	7	10
Isle of Man	1		
	18		

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

DISTRIBUTION OF LOCALLY INCORPORATED BANKS BY RISK ASSET RATIO

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

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

At the end of March 2017 all Isle of Man incorporated banks held more than the minimum risk asset ratio.

Minimum prescribed risk asset ratio	Number of locally incorporated banks	Actual risk asset ratio	Number of locally incorporated banks
Less than 10%	2	Less than 10%	0
From 10% to less than 15%	6	From 10% to less than 15%	2
From 15% to less than 20%	0	From 15% to less than 20%	3
20% and over	0	20% and over	3
Total	8	Total	8

COLLECTIVE INVESTMENT SCHEMES AND SERVICES TO SCHEMES

TYPES OF SCHEME AND ASSET VALUES

Category of Collective Investment Scheme	Number of Schemes	Net Asset Value of funds under management/ administration US\$	Gross Asset Value of funds under management/ administration US\$
Authorised Schemes (retail)	5	668.69m	668.94m
Regulated Fund (can be retail)	4	131.48m	176.27m
Specialist Fund	17	1.06bn	1.31bn
Qualifying Fund	11	387.56m	431.49m
Full International Scheme (retail legacy fund)	3	70.71m	70.85m
Experienced Investor Funds ('EIF') (legacy funds)			
Closed EIF	8	41.51m	55.03m
Legacy EIF	5	185.08m	520.02m
Qualifying EIF	7	66.87m	68.33m
Exempt Schemes	128	4.08bn	5.56bn
Overseas Schemes	56	5.63bn	5.95bn
Services to overseas managers or administrators of schemes (previously Inward Outsourcing)	3	637.98m	638.69m
Closed-Ended Investment Companies* (CEIC)	41	4.72bn	5.90bn
Total (31/03/2017)	288	17.68bn	21.35bn
Total (31/03/2016)	328	22.24bn	26.03bn
% Change	-12.19	-20.50	-17.98

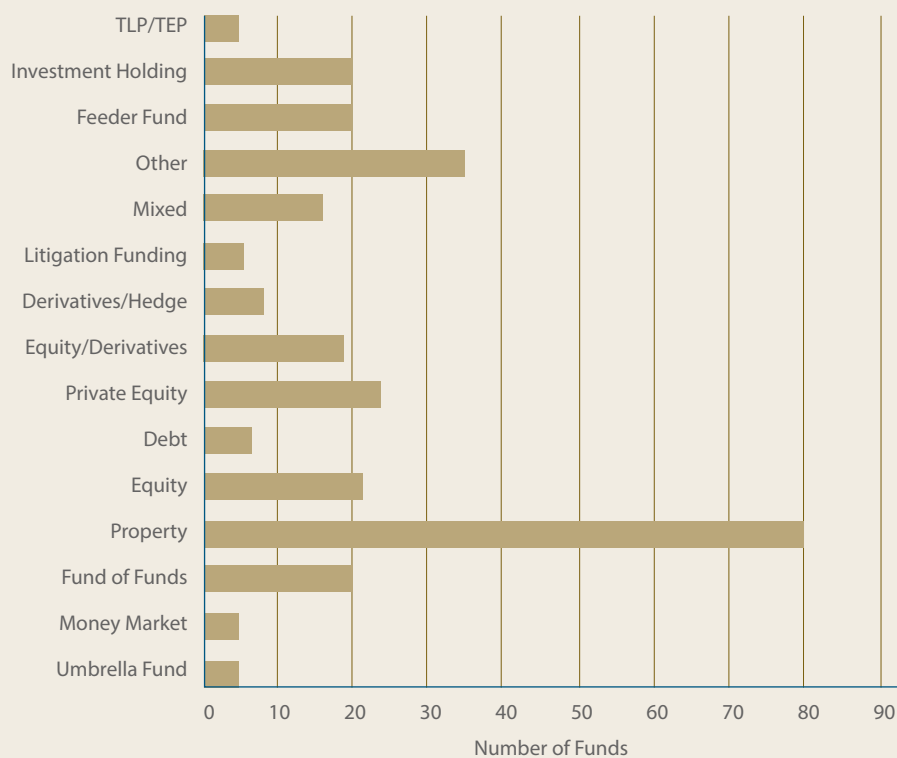
As at 31 March 2017 the Authority also had 22 Recognised Schemes from a designated territory under Schedule 4 paragraph 1 to the Collective Investment Schemes Act 2008 and two Individually Recognised Schemes under Schedule 4 paragraph 2 to that Act.

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

TYPES OF ISLE OF MAN SCHEMES (PERCENTAGE BREAKDOWN BY NAV)

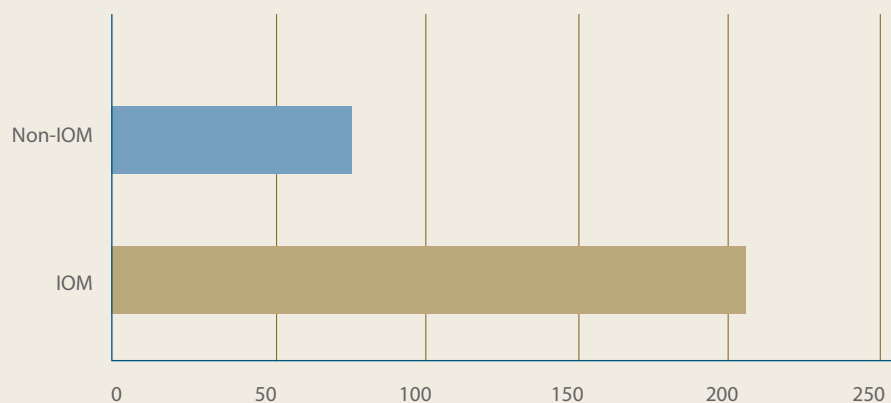
	As at 31 March 2017
Authorised Schemes	3.78
Full International Schemes	0.40
Regulated Funds	0.74
Specialist Funds	6.00
Qualifying Funds	2.19
Qualifying EIF	0.38
Legacy EIF	1.05
Closed EIF	0.23
Exempt Schemes	23.08
Overseas	31.84
Closed-Ended Investment Companies	26.70
Services to overseas managers or administrators of schemes (previously Inward Outsourcing)	3.61

ASSET CLASSES OF SCHEMES



GEOGRAPHICAL ORIGIN OF SCHEMES

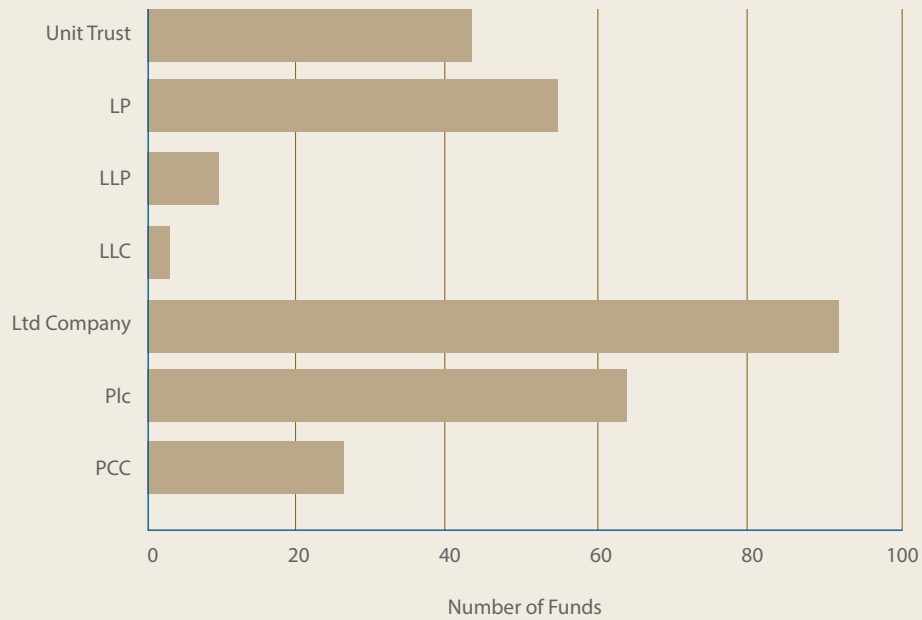
Domicile of collective investment schemes administered in the Isle of Man including services to overseas managers or administrators of schemes.



Origin of non-Isle of Man schemes:

Cayman	47
BVI	17
Jersey	3
UK	3
Delaware	2
Bermuda	2
Ireland	2
Guernsey	1
Gibraltar	1

LEGAL CONSTITUTION OF COLLECTIVE INVESTMENT SCHEMES ADMINISTERED IN THE ISLE OF MAN



CORPORATE AND TRUST SERVICES

COMPANIES, TRUSTS AND PARTNERSHIPS UNDER ADMINISTRATION

Companies, partnerships and foundations			
	2016/17	2015/16	Movement
1931 Act Companies	9,051	9,674	-6%
2006 Act Companies	8,097	8,026	+1%
Isle of Man public limited companies	162	141	+15%
Public companies incorporated elsewhere	66	17	+288%
Non-public limited companies with more than 50 shareholders	19	24	-21%
Overseas companies not registered under the Foreign Companies Act 2014	13,748	15,009	-8%
Overseas companies registered under the Foreign Companies Act 2014 (a.k.a. 'F-Registered')	562	622	-10%
Limited Liability Companies	304	439	-31%
Partnerships	436	480	-9%
Foundations	105	84	+25%

Trusts			
	2016/17	2015/16	Movement
Trusts	16,410	17,247	-5%
Private Trust Companies	183	205	-11%

RETIREMENT BENEFITS SCHEMES

REGISTRATIONS UNDER THE RETIREMENT BENEFITS SCHEMES ACT AS AT 31 MARCH 2017

	31 March 2017	31 March 2016
Professional Retirement Benefits Schemes Administrators	21	23
In-House Administrators	29	33
Domestic Schemes	904	845
International Schemes	128	116
Recognised Schemes	52	52
Permitted Schemes	2	2

As at 31 March 2017, a total of 50 corporate and in-house administrators held a registration issued by the Authority under section 36 of the Retirement Benefits Schemes Act 2000 (the "Act"). A total of 1032 retirement benefits schemes were registered as authorised pursuant to s. 3 of the Act - an increase of 7.4% in the period since 31 March 2016 (961 schemes).

AUTHORISATIONS UNDER THE INSURANCE ACT 2008

NUMBER OF AUTHORISATIONS IN RESPECT OF THE INSURANCE ACT 2008 AS AT 31 MARCH 2017

	31 March 2017	31 March 2016
Life Insurers	16	16
Non-Life Insurers	111	118
Permit Holders - Life	9	9
Permit Holders - Non-Life	9	9
Insurance Managers - Life	11	11
Insurance Managers - Non-Life	11	11
General Insurance Intermediaries	23	26
Total	190	200

PREMIUM AND ASSETS UNDER MANAGEMENT

	31 December 2016 £bns	31 December 2015 £bns
Funds Under Management – Life	66.6	58.8
Funds Under Management – Non-Life (inc non-EU permit holders)	6.56	6.26
Gross Premiums – Life	5.8	6.5
Gross Premiums – Non-Life (inc non-EU permit holders)	1.53	1.43

INCOME AND EXPENDITURE

STATEMENT OF RESPONSIBILITIES IN RESPECT OF THE CHIEF EXECUTIVE'S REPORT AND THE ACCOUNTS

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

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

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

In preparing these accounts, the Authority is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with UK Accounting Standards including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, as applicable to the Authority; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Authority will continue in operation.

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

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

We have audited the Accounts of the Isle of Man Financial Services Authority for the year ended 31 March 2017 which comprise the Income and Expenditure Account and the related notes. The financial reporting framework that has been applied in their preparation is the Audit Act 2006 and UK Accounting Standards including FRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland, as applicable to the Authority.

This report is made solely to the Authority, as a body, in accordance with Section 4 of the Audit Act 2006. Our audit work has been undertaken so that we might state to the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Authority and Auditor

As explained more fully in the Chief Executive's Responsibilities Statement set out on page 55, the Authority is responsible for the preparation of financial statements that give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with the Accounts and Audit Regulations 2013 made under the Audit Act 2006, and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

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

Scope of the audit of the accounts

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

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

OPINION ON THE ACCOUNTS

In our opinion the Accounts:

- give a true and fair view of the Authority's income and expenditure for the year ended 31 March 2017;
- have been properly prepared in accordance with UK Accounting Standards, as applicable to the Authority; and
- have been properly prepared in accordance with the provisions of the Accounts and Audit Regulations 2013 made under the Audit Act 2006.

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

INCOME AND EXPENDITURE ACCOUNT

for the year ended 31 March 2017

Income	Notes	£	2016-17 £	£	2015-16 (1/11/15 to 31/3/16) £
Fee Income	1(b), 2		3,380,057		28,359
Civil Penalties	2		5,500		600
Government Grant	13		2,516,199		1,950,602
Other Income	3		146,442		-
Reimbursements from Central Government Funds			-		179,788
Balancing Government Grant			-		220,709
Total Income	1(b)		6,048,198		2,380,058
Expenditure					
Salaries	4	4,212,020			1,531,772
Members' Remuneration	5	169,233			67,188
Recruitment		67,383			38,052
Agency Staff		2,100			9,900
Premises		304,085			180,019
Training		57,521			25,528
Travel and Subsistence		48,041			14,320
Professional Fees and External Consultancy	6	806,282			362,318
Operating Expenses		42,776			15,009
Information Technology		131,976			82,966
Professional Subscriptions		66,487			48,545
Other expenses		12,997			4,441
Loan Charges	7	11,500			-
Bad Debts	8	115,797			-
Total Expenditure	1(c)	(6,048,198)			(2,380,058)
Surplus/(deficit) for the period	13	-	-		-

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

The income and expenditure account was approved by the Financial Services Authority on the 1 June 2017 and signed on its behalf by Mr Geoff Karran, Chairman and Ms Karen Badgerow, Chief Executive.

NOTES

to the accounts for the year ended 31 March 2017

1. Accounting Policies

a) Basis of accounting

The Isle of Man Financial Services Authority ("the Authority") is constituted under the Transfer of Functions (Isle of Man Financial Services Authority) Order 2015 as a Statutory Board of Tynwald. The income and expenditure account is part of the general revenue account of the Isle of Man Government. Accordingly, any deficit or surplus for the year forms part of general revenue and any deficit or surplus is not retained by the Authority. The Isle of Man Government is committed to funding any shortfall of the Authority on an on-going basis, in accordance with section 52(1) of the Financial Services Act 2008.

The accounts are prepared in accordance with the Accounts and Audit Regulations 2013, made under the Audit Act 2006. They are also prepared in accordance with UK Accounting Standards including FRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland, as applicable to the Authority, and in accordance with the Isle of Man Statement of Recommended Practice 2007 on accounting for entities subject to the Audit Act 2006 ("the SORP"), to the extent applicable to the Authority. The Authority does not hold any assets or liabilities on its own account. Any assets or liabilities arising from the Authority's activities are held by the Isle of Man Government.

b) Income

Income is recognised when fees are invoiced. Income that remains due and is deemed irrecoverable is written off at the end of the period. No debtors are recognised by the Authority, consistent with the policy that no assets or liabilities are recognised by the Authority (note 1(a)).

c) Expenditure

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

The Authority has elected to include the cost of fixed assets within expenditure, rather than capitalising. The Authority, as a Statutory Board, does not hold assets in its own name. Any assets purchased are of immaterial value with limited useful lives and therefore a policy of non-capitalisation is adopted.

d) Pensions

The majority of the Authority's employees are members of the Isle of Man Government Unified Pension Scheme which is administered by the Public Sector Pensions Authority. Employees contribute to the scheme with employer's contributions, from 1 April 2016, being funded from the Authority's salaries budget (see note 4 below).

e) Balance sheet

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

2. Fee Income and Civil Penalties

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

From 2016/17 income from civil penalties levied on regulated entities, is shown separately from fee income. This change has been made to differentiate between these different types of income.

3. Other Income

Other Income includes £113,525 in legal expenses paid by the Authority on behalf of an Isle of Man based fund requiring external oversight, but which is illiquid. The costs were recharged to the fund. As the expectation is that the fund has no assets, the amount was written off at the end of the period. (See notes 6 and 8.)

4. Salaries

Included within salaries are employer pension contributions of £454,406. With effect from 1st April 2016, Executive Government Pension costs were re-allocated to Departments. The Authority was awarded a budget of £511,139.

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

	At 31 March 2017 Total number of employees	At 31 March 2016 Total number of employees
£0 - £99,999	71	70
£100,000 - £199,999	4	3
£200,000 - £300,000	1	1
	76	74

The 76 members of staff equate to a full time equivalent of 68 employees.

5. Members' Remuneration

Membership of the Authority is reduced compared to the combined membership of the predecessor organisations of the Insurance and Pensions Authority and the Financial Supervision Commission. In addition, one Member left during the year and it was decided that it was not necessary to appoint a replacement.

6. Professional Fees and External Consultancy

The Authority has experienced a significant number of cases requiring external legal advice which is reflected in the level of expenditure in this area.

In addition, expenditure includes professional fees of £113,525 paid by the Authority on behalf of an Isle of Man based fund, requiring external oversight, but which is illiquid. The costs were recharged to the fund, but subsequently written-off (notes 3 and 8).

7. Loan Charge

At the end of the prior period an amount of £200K was ring-fenced within Government's central funding for future draw downs in respect of merger related costs. It was agreed with Treasury that this would be on a repayment basis - to be repaid over a period of 10 years with interest to be paid at a rate of 1.5% for 17/18, uplifted to 2% for 18/19 onwards.

8. Bad Debts

A total of £115,797 was written off to bad debts at the year end, including £113,525 paid in legal expenses on behalf of an Isle of Man based fund (notes 3 and 6).

9. Contingency Fund

At the end of the period, the Authority has transferred £173K of unused budget to the Isle of Man Government contingency fund. Treasury has agreed to ring fence these funds for the Authority to draw down over a period of two years commencing from the date of the first draw down request. The agreement to the carry forward is to assist the Authority to meet resource needs for some additional responsibilities and increased workload in some areas of the Authority's work.

10. Operating Commitments

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

11. Segmental Reporting

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

12. Related Party Disclosures

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

Some Members of the Authority's Board may also act as Directors of licenceholders. All licenceholder fees are charged in accordance with the Financial Services (Fees) Order; Insurance (Fees) Regulations; Collective Investment Schemes (Fees) Order; and the Registered Schemes Administrators (Fees) Order. The total fees generated, from entities where members are directors, were £89,360. No comparative figure is included; annual fees are payable prior to 1 November, which was the start date of the period covered by the Authority's previous accounts.

13. Government Grant

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

A budgetary grant was approved by Tynwald at its February 2016 sitting, and published in the same month within the Isle of Man Government's "Budget Report and Estimates 2016-17". This grant secured the provision of up to £2,779,212 to cover any shortfall.

PROFORMA COMPARATIVE INCOME AND EXPENDITURE ACCOUNT (UNAUDITED)

for the year ended 31 March 2017

This account brings together the closing Insurance and Pensions Authority and Financial Supervision Commission accounts for the period 1 April 2015 to 31 October 2015, and the Isle of Man Financial Services Authority accounts for the period 1 November 2015 to 31 March 2016. Its purpose is to aid comparability of the results of the Authority for the year ended 31 March 2017 with all the component authorities existing in the previous financial period.

This combined income and expenditure account has not been audited.

Income	£	2016-17 £	£	2015-16 £
Licence & Scheme Fees				
Fee income and Civil Penalties		3,385,557		3,259,842
Government Grant		2,516,199		1,950,602
Other Income		146,442		28,225
Reimbursements from Internal Funds		-		179,788
Total Income		6,048,198		5,418,457
Expenditure				
Salaries	4,212,020		3,790,126	
Members' Fees	169,233		194,503	
Recruitment	67,383		67,488	
Agency Staff	2,100		11,750	
Premises	304,085		317,811	
Training	57,521		47,168	
Travel	48,041		37,289	
Professional Fees and Consultancy	806,282		642,499	
Operating Expenses	42,776		62,494	
Information Technology	131,976		184,483	
Expenses – Subscriptions	66,487		52,589	
Other expenses	12,997		10,257	
Loan Charges	11,500		-	
Bad Debts	115,797		-	
Total Expenditure	(6,048,198)			(5,418,457)
Surplus/(deficit) for the year	-			-

LEGISLATION THAT CAME INTO EFFECT BETWEEN 1/4/16 AND 31/3/17

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

Secondary legislation made or drafted by the Isle of Man Financial Services Authority:

- SD no. 2016/0087 effective 1 April 2016 – Insurance (Fees) Regulations 2016. These Regulations prescribe the application and annual fees payable under section 47 of the Insurance Act 2008.
- SD no. 2016/0088 effective 1 May 2016 – Registered Schemes Administrators (Fees) (Order) 2016. This Order prescribes the fees payable by registered schemes administrators under section 1 of the Fees and Duties Act 1989.
- SD no. 2016/0089 effective 1 May 2016 – Registered Schemes Administrators (Fees) (Amendment) Regulations 2016. These Regulations amend the time and manner of the fees payable under the Registered Schemes Administrators (Fees) (Order) 2016.
- SD no. 2016/0098 effective 1 May 2016 – Financial Services (Fees) Order 2016. This Order prescribes the fees payable in relation to the licensing of regulated activities under the Financial Services Act 2008.
- SD no. 2016/0099 effective 1 May 2016 – Regulated Activities (Amendment) Order 2016. This Order makes various changes to the Regulated Activities Order 2011, principally to introduce a new class of regulated activity (crowdfunding).
- SD no. 2016/0100 effective 1 May 2016 – Financial Services (Exemptions) (Amendment) Regulations 2016. These Regulations make various changes to the Financial Services (Exemptions) Regulations 2011.
- SD no. 2016/0102 effective 1 June 2016 – Recognised Auditor (Exempt Company Definition Amendment) Regulations 2016. These Regulations amend the definition of “exempt company” in each of three sets of 2010 Regulations relating to ‘Recognised Auditors’.
- SD no. 2016/0186 effective 1 August 2016 – Financial Services (Exemptions) (Amendment) (Class 1 - Deposit-Taking) Regulations 2016. These Regulations amend the Financial Services (Exemptions) Regulations 2011 in respect of certain exemptions from Class 4 and Class 8 regulated activities, notably for Class 1(1) and Class 1(2) permissions.
- SD no. 2016/0187 effective 1 August 2016 – Depositors’ Compensation Scheme (Amendment) Regulations 2016. These Regulations amend the Depositors’ Compensation Scheme Regulations 2010 to reflect the sub-division of Class 1 Deposit Taking regulated activity into three separate sub-classes and also substitute a new Schedule to those Regulations.

- **SD no. 2016/0188 effective 1 August 2016 – Regulated Activities (Amendment) (Class 1 – Deposit Taking) Order 2016.** This Order amends the Regulated Activities Order 2011 to reflect the sub-division of Class 1 Deposit Taking regulated activity into three separate sub-classes.
- **SD no. 2016/0189 effective 1 August 2016 – Financial Services (Fees) (Amendment) (Class 1 – Deposit-Taking) Order 2016.** This Order amends the Financial Services (Fees) Order 2016 to add fees for each of the three separate sub-classes of Class 1 Deposit Taking regulated activity.
- **SD no. 2016/0264 effective 1 January 2017 – Financial Services Rule Book 2016.** This Rule Book replaces the Financial Services Rule Book 2013 and contains detailed rules for the holders of licences under the Financial Services Act 2008 in respect of regulated activities.
- **SD no. 2016/0351 effective 20 January 2017 – Financial Services (Civil Penalties) (Amendment) Regulations 2016.** These Regulations amend the Financial Services (Civil Penalties) Regulations 2015, principally to reflect the separate sub-classes of Class 1 and the new rule numbers introduced by the Financial Services Rule Book 2016. The Regulations do not vary penalties that may be charged.

CONSULTATIVE DOCUMENTS ISSUED BETWEEN 1/4/16 AND 31/3/17

Title of consultation	Date consultation published	Date consultation closed
Financial Services Rule Book 2016 – consultation on draft legislation	28 April 2016	19 June 2016
DP16-02 Group supervision – Discussion paper and request for information	29 April 2016	10 June 2016
CP16-03 Managing Conflicts of Interest in the Insurance Sales Process (Long-term business)	7 July 2016	2 September 2016
CP16-04 QIS3 Exercise for Non-Life Insurers	1 September 2016	31 December 2016
CP16-06 Insurance Amendment Bill 2016 Consultation	30 September 2016	11 November 2016
CP16-05 3rd Quantitative Impact Study for Life Insurers	4 October 2016	31 December 2016
Financial Services (Civil Penalties) (Amendment) Regulations 2016	28 October 2016	20 November 2016
DP16-07 Insurance Intermediaries	28 October 2016	23 December 2016
Fees 2017	25 November 2016	6 January 2017
CP17-01/T01 – Conduct of Business for non-life insurance	31 January 2017	14 March 2017
CP17-02/T03 - Credit Unions (Amendment) Bill 2017	10 March 2017	25 April 2017

OTHER INFORMATION

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

Publications relating to financial services activities in general are available from the **Department of Economic Development, St George's Court, Upper Church Street, Douglas, Isle of Man, IM1 1EX** or can be downloaded from <http://www.wheretheycan.im/resources>.

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

GLOSSARY

AML	Anti-Money Laundering
AML/CFT Code	Anti-Money Laundering and Countering the Financing of Terrorism Code 2015
Authority	Isle of Man Financial Services Authority
CEO	Chief Executive Officer
CFT	Countering the Financing of Terrorism
CODA09	Company Officers (Disqualification) Act 2009
DBROA15	Designated Businesses (Registration and Oversight) Act 2015
Designated Businesses	Persons registered with the Authority under the DBROA15
DSIBs	Domestic Systemically Important Banks in the Isle of Man
EEA	European Economic Area
EU	European Union
FATF	Financial Action Task Force
FSA08	Financial Services Act 2008
FSC	Financial Supervision Commission
GIFCS	Group of International Finance Centre Supervisors
IA08	Insurance Act 2008
IAIS	International Association of Insurance Supervisors
ICPs	Insurance Core Principles
IMF	International Monetary Fund
IOMWFSA	Isle of Man Wealth & Fund Services Association
IOSCO	International Organisation of Securities Commissions
IPA	Insurance and Pensions Authority
Island	Isle of Man
IT	Information Technology
MMOU	Multilateral Memorandum of Understanding
MONEYVAL	Committee of Experts on the Evaluation of Anti-Money Laundering Measures
MOU	Memorandum of Understanding
RBSA00	Retirement Benefits Schemes Act 2000
Rule Book	Financial Services Rule Book
UK	United Kingdom