



ISLE OF MAN  
FINANCIAL SERVICES AUTHORITY

*Lught-Reill Shirveishyn Argidoil Ellan Vannin*

ISLE OF MAN FINANCIAL SERVICES AUTHORITY  
**ANNUAL REPORT**  
**2017/18**



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Geoff Karran MBE, TH - Chairman

## CHAIRMAN'S STATEMENT

**I am writing these remarks at the end of my last term as Chairman of the Authority.**

I joined the Financial Supervision Commission in 2007. I became Chairman of the Commission in 2012 and since 2015 I have been the Chairman of this Authority after the merger of the Financial Supervision Commission and the Insurance and Pensions Authority.

These last years have been particularly rewarding as I was able to see the benefits of having one regulator for financial services on the Island and to guide in its development. When the merger of the two predecessor regulators was first announced there were many questions about what kind of regulator the new Authority would be. Would it be a merger of equals, would the interests of all industries be given the due consideration by the Authority?

Since the merger we have worked diligently to bring our teams together, establish a sense of culture and identity which is unique to the Authority, but reflective of the positive contribution of the predecessor organisations.

**As an Authority we have been deliberate in our outreach to the industry to ensure that our views were informed by well rounded, thoughtful representation from across the industry and that our approach remained proportionate.**

We have continued to advance many of the key initiatives started by our predecessor organisations like the Insurance Core Principle project and bank reform and have introduced and reenergised some new initiatives such as the one data system project, a common fitness and propriety assessment process for all regulated entities and have bedded in some of our newer responsibilities around oversight of Designated Businesses in relation to their AML/CFT compliance, and the oversight of the Beneficial Ownership Register. These advances have all occurred at a time when the Island itself has been faced with numerous

external challenges such as MoneyVal and the 'anti-offshore' agenda being pursued by some persons and bodies internationally. In this regard I am proud of the work of the team at the Authority to ensure that in the face of these challenges the Island retained its reputation as a well-regulated and responsible jurisdiction.

When I look back over these past years the theme of partnership comes to mind. We had to partner as a new Board to make sure that we were focused on the right priorities and to build an organisation that was sustainable and resilient, we had to partner across our teams to make sure that the voices of all the staff and industry sectors were well represented throughout this time of change and that no one interest dominated another. We also had to partner with various government and industry stakeholders to ensure that the Authority remained responsive and acted proportionately to the challenges both domestically and internationally while recognising our very independent mandate.

I want to thank the Board for their hard work and support over these last two and a half years. The vast range of industry experience and skills manifested themselves in sometimes very long board meetings but ultimately in outcomes that were well-supported and reflective of the hard work by the entire organisation. Finally I want to thank the Executive and staff of the Authority. The work of the Board can only be as good as that of its Executive staff and the staff has provided excellent support to the Board in helping us achieve our overarching objectives. It has been wonderfully rewarding to be part of the journey of the Authority and I will follow with great interest their future achievements.

Slane Ihiu





## CHIEF EXECUTIVE OFFICER'S STATEMENT

Karen Badgerow – Chief Executive

We are experiencing more demands to respond to changes in the external environment and the need to demonstrate ongoing adherence to international standards and norms. This comes at a time when the Authority is moving forward on key priorities aimed to modernise our frameworks and more effectively undertake the discharge of our mandate. Ever present is the need to acknowledge how these changes impact those that we regulate and oversee and better understand the business of these stakeholders. Our engagement programme over this last year was central to achieving this and during this time we sought the views and guidance of the industry via formal consultations, meetings and industry lunches and, finally and most recently, an industry wide survey. Some of these have presented some challenging contrasts to our views but were necessary to find that essential balance between business and regulation and to recognise the uniqueness of the business models operating

in or from the Isle of Man. We are aware that changes that are being introduced now will have a lasting impact on the jurisdiction and care has been taken to provide reasonable periods of consultation, dialogue and transition time for the industry. I welcome the level of open dialogue that we have been able to achieve with the industry and see it as beneficial to our learning as an organisation.

We are poised for more change and the period 2017/2018 marked the achievement of some significant milestones in advancing key priorities, including our work, in conjunction with Treasury, on developing a bank resolution framework, cornerstone policies around conduct of business for life insurance companies and the start of a dialogue with the pension industry around changes to how we regulate and supervise administrators and functionaries to the retirement benefits schemes. The year also marked accelerated progress towards achieving our goal of one data system for the Authority which when

completed will harness the power of digital technology for the collection and analysis of information. Better consumer outcomes and clarity around supervisory outcomes are just a few of the benefits to be achieved by these advancements.

The industry has equally responded in an open and productive manner to these changes. Never shy to share their views, our work has benefitted from a frank and open exchange of issues and through our collective contribution we have achieved better results. The efforts of the industry in supporting some very critical work around enhanced AML data speaks to their commitment and concern for the well-being and sustainability of the jurisdiction as a well respected International Financial Centre.

Also key to the success of the Authority and the jurisdiction is our partnerships with other arms of Government. We have gained from a renewed relationship with the Department for Enterprise which has allowed for a healthy and at times rigorous exchange of views and ideas while respecting our different mandates and responsibilities. Treasury continues to be a key partner and together we collaborate and confer on important matters of policy while mindful of the independence of the Authority and at the same time our statutory accountability to them. Our work with Cabinet Office and in particular the AML/CFT Policy Office reflects the Authority's commitment to ensuring that our jurisdiction remains unwelcome to financial crime and is recognised as a well-regulated jurisdiction.

Notwithstanding the positive business environment that we have worked to foster, the Authority remains committed to taking remediation and enforcement action as necessary. This last year marked the first time that the Authority levied a civil penalty and through this process we were able to engage collectively with the regulated entity in a reasonable plan of remediation.

We seek to understand, collaborate and follow a reasonable path of remediation to achieve the right outcomes. Enforcement is pursued where remediation is not possible or not appropriate.

Non-compliant regulated entities, while small in number, create an unlevel playing field for those regulated entities that dedicate the time and resources to have sound systems and processes; and the actions of the few can cause significant damage to the reputation of the jurisdiction.

We also acknowledge that some industries face strong headwinds either as a result of challenges outside of our control such as the de-risking agenda or changing international standards and norms, and we will need to be mindful of this as we consider our plans and priorities.

**All of our achievements over this past year could not have been possible without the commitment and contribution of the staff at the Authority. We have collectively worked to create an environment that encourages the sharing of ideas and views and which allows staff to continue to develop through engaging work experience.**

Our potential as an Authority is only realisable through the harnessing of our talent. I want to thank the team at the FSA for the continued enthusiasm, talent and professionalism they bring to the job each day.

We can reasonably assume that the challenges of change will continue. The ongoing digitisation of financial services will present both opportunities to ease the way in which consumers transact and regulated entities engage in business and create more uncertainty about the regulatory perimeter. These profound changes will undoubtedly stretch the capacity of the Authority but I believe we have proven our adaptability and willingness to work with our stakeholders to respond to these changes with an open mind. I am very proud of how the Authority has progressed and matured this last year and look forward to our next year.



# THE YEAR AT A GLANCE

## In 2017/18 we:

- Continued work on the Insurance Core Principle (ICP) project, and brought the Insurance (Amendment) Act into operation, 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.
- Successfully took the Credit Unions (Amendment) Bill through Tynwald.
- Trialled a new process for conducting fitness and propriety assessments.
- Licensed the first deposit taker (class 1(3)) under the Alternative Banking Regime.
- Focused attention on actions resulting from recommendations made by MONEYVAL in its 2016 evaluation of the Isle of Man, including substantially enhancing the information routinely gathered from industry through the introduction and analysis of the first cross sector dedicated AML/CFT return designed to better understand risk and vulnerability to financial crime at a sector, industry and firm level.
- Introduced a quarterly return to routinely collect detailed jurisdictional information about the financial flows into and out of the financial system in the Island to better understand the potential threats and vulnerabilities of money flowing through the Island ultimately being used to finance terrorist activities.
- Issued a final policy on DSIBs and undertook the first round of assessments.
- Maintained a robust supervisory programme with on-site visits, complemented by annual business meetings, thematic reviews and attendance at supervisory colleges.
- Continued selected and proportionate enforcement action including the utilisation of certain powers for the first time.
- Engaged expert consultants to review our cyber security controls in order to mitigate the evolving risks.
- Supported the work of others through ongoing domestic working partnerships with the Treasury, Department for Enterprise, 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 Multi-lateral Memoranda of Understanding.



*T.E. Brown (1830 – 1897), scholar, teacher and poet, Douglas*



# THE ISLE OF MAN FINANCIAL SERVICES AUTHORITY

**The Authority is an independent statutory board, established on 1 November 2015 by article 4 of the Transfer of Functions (Isle of Man Financial Services Authority) Order 2015.**

This 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 2017 to 31 March 2018, 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 7, including a chairperson, deputy-chairperson and the Authority’s CEO. The membership of the Authority’s Board for the period is set out in Appendix B.

Board Members are appointed for terms of 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. 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 beneficial ownership, audit and company officer disqualification. Appendix A provides further information on the Authority’s functions.

## GOVERNANCE AND BOARD COMMITTEE STRUCTURE BOARD AND COMMITTEE MEETINGS

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

The Board of the Authority meets approximately every six weeks. In addition, a quorum of the Board (comprising a minimum of three members) meets separately, as and when required, to consider applications for authorisation.

The following meetings have been held between 1 April 2017 and 31 March 2018:

Meetings of the Isle of Man Financial Services Authority	10
Authorisations Meetings	2

There are two standing committees of the Board – the Risk and Control Committee<sup>1</sup> and the Human Resources and Compensation Committee<sup>2</sup>.

The following meetings of these committees have been held between 1 April 2017 and 31 March 2018:

Meetings of the Risk and Control Committee	8
Meetings of the HR and Compensation Committee	2

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

<sup>1</sup>Lillian Boyle, Roger Butler, Paul Wright, Juan Clarke  
<sup>2</sup>Alan Smith, David Stacey, Mark Waterhouse



# STAKEHOLDER ENGAGEMENT

## MEETINGS AND UPDATES

The Authority holds periodic meetings with various industry associations; these meetings were held at both officer level and through less formal updates with the Authority's board. The Authority also engages across a range of regulatory topics through written updates and where necessary through the establishment of working groups (including for certain AML/CFT matters).

Periodic meetings are also held with other Government agencies covering areas of common interest. These agencies include the Office of Fair Trading / Financial Services Ombudsman, Department for Enterprise, Treasury, and Financial Intelligence Unit.

A key example of engagement across Government is the new consumer initiative 'Pension Matters' which was launched in April 2018 on pensions and financial advice, and is aimed towards local residents. The campaign started with a leaflet drop to Manx households. It has featured in newspapers, magazines and social media, on the radio, on billboards and buses, and a free consumer seminar was also held. The Pension Matters website ([www.PensionMatters.im](http://www.PensionMatters.im)) also holds a wealth of information about pensions for Isle of Man consumers.

In addition, the Authority continued to contribute to, and monitor the results of, the work of the UK Department for Work and Pensions, in relation to the requirement for UK financial advice for transfers from UK Defined Benefit Pensions Schemes where a member is an Isle of Man resident.

The Authority continues to engage with other regulatory bodies regarding specific groups through attendance at regulatory colleges and bilateral meetings. For example, over this period it attended joint meetings with Jersey, Guernsey and the UK authorities focused specifically on UK Banking Reform matters.

Internationally, the Authority attended meetings of the Enlarged Contact Group of Supervisors of Collective Investment Schemes, meetings of IOSCO and GIFCS, and the AGMs of the IAIS and GIICS.

## SEMINARS AND BRIEFINGS

The Authority held its annual Anti-Money Laundering & Financial Fraud Conference in December 2017. Invitations were issued to all regulated entities, designated businesses and other stakeholders, and 366 people attended. Speakers from outside the Island included Dr Jonathan Brewer, Visiting Professor Kings College London, who spoke about the financing of the Proliferation of Weapons of Mass Destruction; David Zimmerman, Assistant Legal Attaché, and Damian Bricko, Deputy Legal Attaché, both of the US Federal Bureau of Investigation, who spoke about the role of the FBI and terrorist financing.

Speakers from the Island included Elisabeth Rattigan of HM Attorney General's Chambers who spoke about the recently formed International Co-operation and Asset Recovery Team, Iain Macmillan and Kirsty Knight, both of the Isle of Man Financial Intelligence Unit who spoke about the FIU, and Paul Mylchreest of the Authority's Enforcement Division who spoke about enforcement matters.

Staff from the Authority have supported Ballakermeen High School in delivering the level 3 Certificate in Financial Studies from the

London Institute of Banking and Finance, equivalent to an A/S level qualification. The qualification is focused on giving students the skills to understand how the financial system works and how to manage their own finances and investments for their future. The students took the qualification in addition to their A level studies and we were delighted that 22 students passed with three achieving a B grade and one an A grade.

In addition, the following stakeholder engagement took place:

- Two beneficial ownership seminars, organised by the Association of Corporate Service Providers, were held and presentations given by officers to approximately 400 individuals from the TCSP sector.
- A beneficial ownership seminar was held for the accountancy profession and a presentation given to approximately 35 attendees.
- A beneficial ownership seminar, organised by the Isle of Man Law Society, was held for its members and a presentation given to approximately 50 advocates.
- A presentation on AML/CFT was given to the Isle of Man Law Society's MLRO masterclass, with approximately 50 advocates attending.
- A radio interview and subsequent press release took place on the subject of unlicensed regulated activity.
- The trial of the new AML/CFT return with a small number of firms across all sectors, with the finalised return being launched to industry via 23 presentations in September 2017, attended by over 350 delegates.
- Four feedback sessions were held through April and May 2018 to over 350 industry attendees to provide an overview of the initial findings from the analysis of AML/CFT statistical data and to consider what this means for firms in their ongoing management of financial crime risk.

*Sir Thomas Henry Hall Caine, poet and novelist, Douglas*



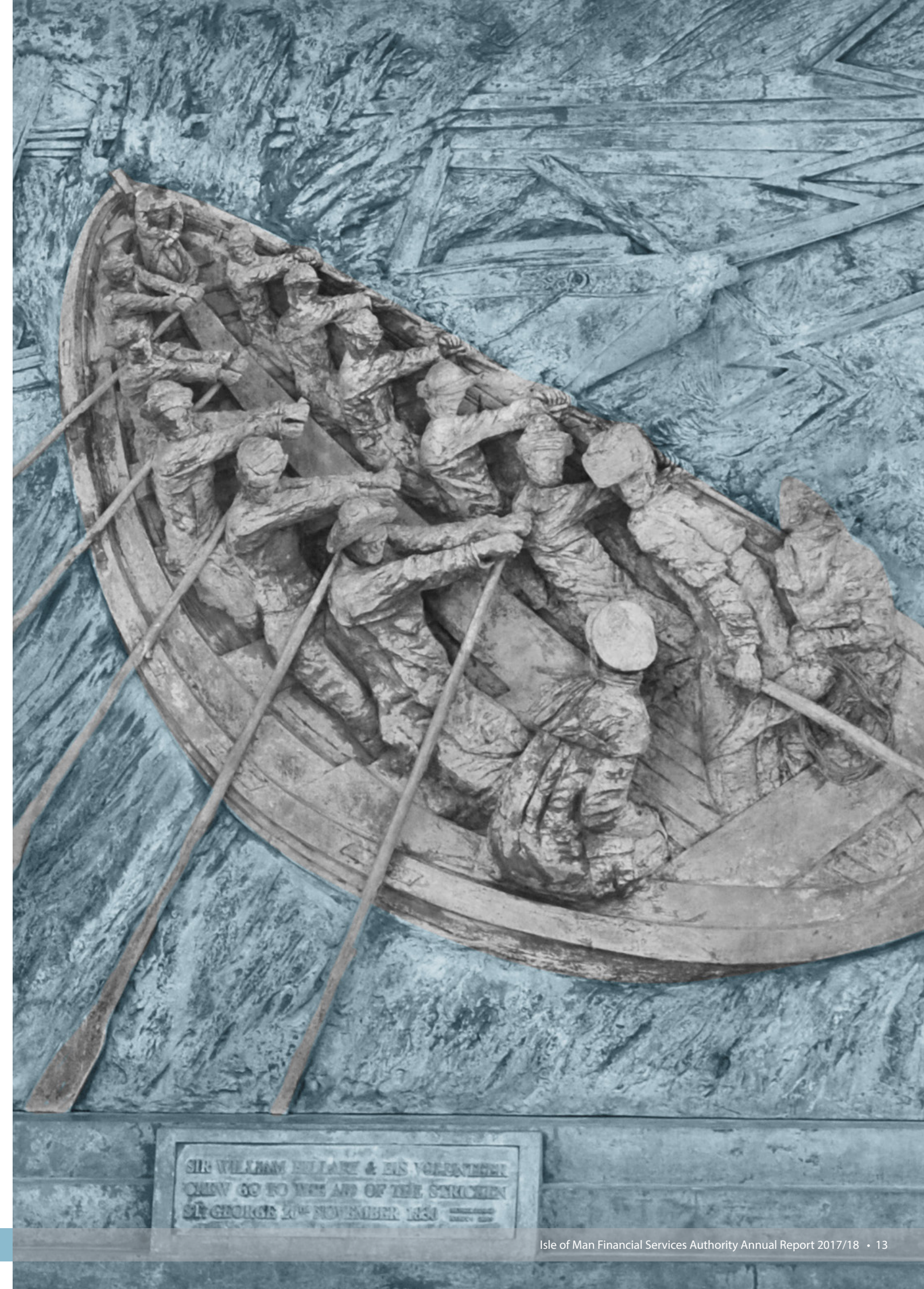
## CONSULTATION

The Authority has issued 17 consultations over the period of this report, two of which remained open at the year-end. These consultations included proposed amendments to legislation, including changes to enable the implementation of the new capital and solvency framework and updated governance framework for insurers, in addition to invitations to participate in surveys and discussions on high-level proposed changes, such as the Discussion Paper regarding proposals to enhance the Island's regulatory framework for private pensions and their providers.

In November 2017 the Authority sought the assistance of a number of regulated entities from across the various sectors to trial a new process for the undertaking of individuals' fitness and propriety assessments. It was considered important to trial such changes with industry, so that the feedback provided could be used to enhance the process so that it works as effectively as possible, and to also test whether the linked documentation and guidance is sufficiently clear.

The trial initially ran for three months and the feedback received enabled the Authority to further refine the process. In March 2018 the Authority launched a consultation on necessary amendments to the Rule Book resulting from the changes to the fitness and propriety assessment process, and sought wider industry feedback on the proposed forms and documentation. Meanwhile the entities trialling the new process agreed to continue the trial, which is very much appreciated.

Similarly, in 2017 the Authority continued its programme of Quantitative Impact Studies with both life and non-life insurers, to assess the impact of the proposed updates to capital and solvency requirements on the balance sheet of the companies in question and provide a basis for further refinement of the proposals. The significant input from industry in the successful completion of these exercises is again acknowledged and very much appreciated.





# REGULATION AND SUPERVISION

In 2018/19 the Authority will be undertaking a full assessment and review of its supervisory methodology and approach, with a view to having a consistent, proportionate and transparent framework covering all sectors supervised by the Authority.

## AUTHORISATIONS

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. Additionally the process seeks to strike a balance between prudence and compliance and the encouragement of innovation.

Applications from new financial services 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, 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 for its consideration in respect of the application.

Authorisations staff also 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 history 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 and the adequacy and existence of the relevant expertise in the additionally requested sector.

Authorisations staff administer 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 343 such applications were considered. Many of these result from changes within licenceholders as well as from new business applications. The process for conducting fitness and propriety assessments is currently under review to ensure it is focused 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. 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 for Enterprise (formerly 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.

*Steve Hislop (1962 – 2003), 11 times TT winner, Onchan*



## SUPERVISION

### SUPERVISORY APPROACH

The Authority's supervision is risk-based, pro-active and event driven. Its knowledge and understanding of any regulated entity, its activities and the principal risks to which it is exposed, develops on an ongoing basis through a combination of desk-based analysis and review, meetings with regulated entities and discussions with their management, on-site inspection visits and thematic reviews. On-site inspections and thematic work is undertaken based on perceived areas of risk at a sector or entity level, but also taking into account size and impact.

The Authority recognises the importance of having one consistent framework to assess risks across the regulated entities and has moved to consider six core risk categories for all sectors:

- Strategy and business model
- Prudential (including solvency and liquidity as well as the safety of client money and assets)
- Governance and management (including ownership)
- Operational
- Conduct
- AML/CFT

In 2018/19 the Authority will be undertaking a full assessment and review of its supervisory methodology and approach, with a view to having a consistent, proportionate and transparent framework covering all sectors supervised by the Authority.

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, including more recently enhanced AML/CFT data.

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)
- Fund Services (fund administrators and managers, fund custodians, and collective investment schemes)
- Investment Services (financial advisers, investment and asset managers, stockbrokers, custody (non-fund), 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. During the period, a key piece of desk-based work has involved new reporting by relevant regulated entities of their compliance with Client Assets Requirements, which has included independent audit verification. The first returns were received in this period. A risk-based approach to future audits is in place, ranging from annually to every three years.

Further information on each sector is provided separately.

### Regulatory Permissions

The following table identifies permissions held by category. Some financial services licenceholders are permitted to conduct more than one class of regulated activity, which means that the totals given are permission totals, rather than licence totals. For information, the total licences issued under section 7 of the FSA08 at 31 March 2018 was 204:

Regulated activity under the FSA08	Number of licenceholders conducting the following regulated activities as at 31 March	
	2018	2017
Class 1 – Deposit taking	14	19
Class 2 – Investment business	46	46
Class 3 – Services to collective investment schemes	48	54
Class 4 – Corporate services	139	153
Class 5 – Trust services	103	111
Class 6 – Crowdfunding platforms	0	0
Class 7 – Management & administration	9	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	
	2018	2017
Credit Unions	1	1
Permissions under the IA08 and RBSA00	Number of regulated entities conducting the following activities as at 31 March	
	2018	2017
Authorised insurers – life	13	16
Authorised insurers – non-life	107	111
Permitted insurers – life	8	9
Permitted insurers – non-life	9	9
Insurance managers – life	11	11
Insurance managers – non-life	11	11
General insurance intermediaries	21	22
Administrators – pensions	50	50



Regulatory Actions

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

	Year ended 31 March	
	2018	2017
Directions – under sections 14 and 18 of the FSA08	22 – of which 2 were remedial	30 – of which 6 were remedial
<b>Civil Penalties</b>		
Fixed penalties relating to late filings	14	19
Discretionary penalties relating to regulatory breaches	1	0
Section 11 – warning notices	2	0
Section 23 – reporting accountant	1	0
Section 22 – successful application to court for the appointment of a business manager	0	0
FSA08 licences (or classes thereof) suspended	0	1
FSA08 licences (or classes thereof) 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	
	2018	2017
Section 11A – not fit and proper	0 The Authority issued a ‘minded to issue’ notice in relation to this power, but the power was not used because the application for the appointment of the individual was withdrawn	0
Section 11B – prohibitions	0	0
Section 11F – warning notices	0	0
Section 12 – directions	0	4
Section 13 – appointment of an adviser to a fund	0 Although no new appointments were made in the period, variations to existing appointments occurred	2
Section 13 – appointment of a person to assume control of a fund	0 Although no new appointments were made in the period, variations to existing appointments occurred	2
Section 15 – successful application to court for winding up and appointment of a liquidator to a fund	1	3
Section 16 – successful application to court for the appointment of an inspector to a fund	0	1
Section 19A – civil penalty	0	0

The following table sets out remedial and other regulatory actions taken under the IA08 and RBSA00 during the period:

	Year ended 31 March	
	2018	2017
Section 33 – imposition of requirements	0	2
Section 29 – not fit and proper direction	1	1
Schedule 5 – information request	0	1
<b>RBSA00</b>		
Section 19 – not fit and proper direction	0	1

BANKING AND MONEY TRANSMISSION SERVICES

Over the period of this report five licenceholders surrendered their deposit taking licences. Of these only three were undertaking active business. The reasons for their closure on the Island were due to a range of factors specific to each group.

In addition to ongoing desk-based supervisory work, the team undertook a series of annual business meetings with banks. In addition, formal quarterly meetings were also held with the largest banking groups. These annual and quarterly meetings covered a range of topics including:

- Strategy and business plans
- Key risks and threats (to the firm)
- Conduct matters, including any remediation programmes
- Governance, compliance and risk management
- AML/CFT developments

The team also undertook specific on-site visits to money service businesses covering AML/CFT compliance (bureau de change and agency activity) and business model/governance (a payment services firm).

Additionally, in the period, the team monitored the orderly wind down of three banks: Nationwide Building Society, Duncan Lawrie (IOM) Limited, and Permanent Bank International Limited; and continued to work on a number of initiatives, which included:

Basel III – Capital

New capital requirements for banks incorporated in the Isle of Man came into effect from 1 July 2017, which took into account Basel III principles, and banks have reported under this method from September 2017. Banks also have to report a leverage ratio.

A Framework for Domestic Systemically Important Banks in the Isle of Man

A final policy was issued on 30 June 2017 and the first round of assessments was undertaken, the results of which were communicated to banks, and their home regulators, during 2018.

We are in the process of updating our approach to supervising banks more generally and for those banks assessed as systemic (the highest impact) this will include more regular formal engagement on specific areas of risk or importance. We will also be developing our understanding of the recovery planning, resolution planning and resolution strategy for these banks, both at a local and a group level; this links to the wider policy work on introducing a bank recovery and resolution framework suitable for the Island.

UK Banking Structural Reform and its Impact in the Isle of Man

Liaison continued 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 Authority published Questions & Answers for consumers on UK Banking Reform during the period, which can be found on its website.



### The Isle of Man's Alternative Banking Regime

In August 2016 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 slightly wider than for class 1(1).

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

During the period, discussions were held with a number of parties interested in applying for class 1(2) or class 1(3) licences, using the published guidance to assist with the process. No final class 1(2) applications were received in the period, but one class 1(3) application was made over this period, and its licence was issued shortly after the end of the period in May once certain conditions had been met by the applicant.

### INVESTMENT SERVICES (FINANCIAL ADVISERS, ASSET MANAGERS AND STOCKBROKERS)

Over the period of this report, in addition to ongoing desk-based supervisory work, the team undertook a series of annual business meetings with financial advisers, investment managers, stockbrokers, and investment platforms.

A number of on-site visits were also undertaken, some of which focused on areas such as AML/CFT compliance, suitability of advice and disclosure, whilst others were of a general supervisory nature.

With regard to financial advisers, the Authority undertook thematic work in the form of questionnaires focused on obtaining updated information on the market generally, and also specific information focused on advice in respect of pensions. This latter information was helpful in understanding the current market position and practice ahead of the pensions announcements made by Treasury in its February 2018 budget.

The team also dealt with a number of business acquisitions or transfers during the period, and an increase in enquiries relating to greater use of technology by regulated entities.

### FUNDS SERVICES (FUND MANAGERS, FUND ADMINISTRATORS AND FUND CUSTODIANS)

Over the period of this report, in addition to ongoing desk-based supervisory work, the team undertook a series of annual business meetings with fund managers/administrators, with a specific focus on the fund clients they provide services to. This was particularly relevant as the Authority published specific governance guidance for funds in October 2017. This thematic work highlighted some key findings relevant to the Authority's forward looking priorities in the following areas:

- Scope and extent of fund risk assessments
- Management and risk mitigation in relation to complex fund structures
- Identification and management of significant conflicts of interest, including where an employee of a fund manager/administrator is also a member of the governing body (a director) of a scheme that it provides services to
- Fund performance management: processes and reporting, including tolerance checks and benchmarking
- Pricing and valuation of illiquid assets, including appropriateness of the fund structures
- Suspended funds and their monitoring.

The team also continued to deal with a number of detailed remediation or complex cases. This included managing/reviewing the wind down of the regulated activity of The Premier Group (Isle of Man) Limited and the resultant revocation of that firm's financial services licence. It also included ongoing review of regulatory interventions made in respect of some funds.

In October 2017 the Authority issued a guidance note in respect of Governance for Collective Investment Schemes. This guidance is focused on the importance of the role of governing bodies of Isle of Man schemes and sets out the Authority's expectations of those persons. The Authority encourages governing bodies to self-assess funds' governance with reference to the guidance.



## 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. These included Annual Business Review meetings with all the life insurers and insurance managers. 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.

The ICP project team, in conjunction with the insurance team, held a series of workshops with insurance managers relating to the QIS4 exercise for non-life insurance.

## 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.

During the year the pension industry continued to expand and the need to complete desk-based supervision has been a priority. The number of new pension schemes continues to grow, and as the population of schemes (and internal sub-schemes) increases so has the level of enquiries and related review work.

A new pension system was developed and introduced during the year to cater for data distribution and collection. Similarly towards the end of the year the introduction of a new form of tax approved pension scheme option led to a stream of new pension enquiries and registrations; and the Authority's 'pension matters' programme has been a matter the team has been proactively involved with.

It is anticipated that the on-site visit programme will be resumed in the forthcoming period.

## FIDUCIARY SERVICES

Over the period of this report, the team undertook annual business meetings with corporate and trust service providers. The team undertook a thematic on-site visit programme relating to physical client assets. This covered 20 licenceholders. A high-level thematic report will be issued in the coming year.

In addition, the team also undertook a number of non-thematic supervisory visits to consider specific issues as they arose.

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 in the previous year included 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.

During the year the Authority participated in a regulatory college for one international TCSP group. Additionally a member of the team is part of the team conducting the first assessment of a GIFCS member against its TCSP regulation standards.



*Two Kings of Mann, Ramsey*



## CO-OPERATION AND CO-ORDINATION

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.

### SUPERVISORY

The Authority is committed to establishing new, and developing further its existing working relationships, including proactively seeking foreign assistance, 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 its legislative framework in respect of AML/CFT, the Authority 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.

Also, where the Authority has concerns of money laundering, terrorist financing or breaches of targeted financial sanctions, from undertaking its responsibilities, these would be referred to the Financial Intelligence Unit for dissemination to the relevant authorities.

### 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 organisations, both domestically and internationally, are supported by many bilateral MOUs with organisations from across the globe.

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 confidential, together with the circumstances in which that information may be shared further if it is appropriate to do so.

### IAIS and IOSCO Multi-lateral Memoranda of Understanding (MMOUs)

The 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, six requests were received from four 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 eight 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. One such case is currently being investigated.

## PREVENTION OF MONEY LAUNDERING AND COUNTERING THE FINANCING OF TERRORISM

### AML UNIT

Over the period of this report, the AML Unit in conjunction with the Business Change team has focused its attention on actions resulting from recommendations made by MONEYVAL in its 2016 evaluation of the Isle of Man. The AML Unit has also continued to provide AML/CFT advice and support to stakeholders.

### Financial Flows

Over the course of 2017/18 the Authority has worked with the Isle of Man Bankers Association to develop and implement a mechanism to assist in the assessment of money laundering and terrorist financing threats at a national level. This is achieved through the collection, analysis and evaluation of jurisdictional data of the volume and value of financial flows into and out of the Island's financial systems.

Through collaboration a new quarterly financial flow return was agreed with the Isle of Man Bankers Association and this was issued with the first returns being required by 31 December 2017 in respect of the quarter ended 30 September 2017. In future this information will be shared with the Island's Financial Intelligence Unit to assist it in the assessment of the cross border threats relating to financial crime.

### AML/CFT Return and Analysis

A considerable focus of the work of the Authority over the course of 2017/18 was to enhance our understanding of the AML/CFT risk across the financial services industry and this was primarily achieved through the launch and subsequent analysis of the Authority's first cross sector dedicated AML/CFT return.

The AML/CFT return was initially trialled with a small number of firms across all sectors with the finalised return being launched through cross sector outreach in September 2017. The return was accompanied by detailed guidance with submissions requested by the end of November 2017.

Detailed statistical information was collected from all regulated firms, all lawyers and estate agents as well as a small sample of other designated businesses in respect of:

- Customers' risk and jurisdictional profile
- Products
- Distribution channels
- PEPs
- Jurisdictional profile of beneficial owners
- Use of simplified due diligence
- The extent of face-to-face business activities, reliance on eligible introducers and chains
- Information as to whether to a firm understands who has met the client face-to-face
- Suspicious Activity Reports and Targeted Financial Sanction reports
- Payment methods
- The AML/CFT controls adopted by firms.

This information is analysed and is utilised to:

- enhance further the Authority's understanding of where a particular firm sits in relation to its peers and the rest of the sector
- inform the Island's National Risk Assessment of Money Laundering and the Financing of Terrorism, updates to the Anti-Money Laundering and Countering the Financing of Terrorism Code 2015 as well as relevant guidance
- provide feedback of the results to industry so that firms may better understand their risk profile in comparison to the sector profile
- to allocate resources for the oversight of AML/CFT risk on a risk sensitive basis, including enhancing supervision where inherent risks are identified.



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.

An updated AML/CFT Handbook was published in January 2018. This update primarily consisted of amendments and additions intended to clarify and refine the guidance, including FAQs regarding customer risk assessments, updated guidance on PEPs, updated specified non-profit organisation sector specific guidance, a new appendix on Terrorist Financing and updated jurisdiction lists.

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.

During the period of this report, a member of the AML Unit, who had previously undertaken evaluator training, was part of the team that undertook the MONEYVAL evaluation of Ukraine.

DESIGNATED BUSINESS

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 of 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.

Registrations

Since April 2017 there have been a further 39 registrations and 28 de-registrations, which can be broken down as follows:

Registrations:

- 0 law firms
- 16 accounting firms<sup>3</sup>
- 2 estate agents
- 2 money lenders
- 14 convertible virtual currency providers
- 3 specified non-profit organisations
- 0 high value goods dealers
- 1 safe custody
- 1 payroll agent

De-registrations

- 4 law firms
- 14 accounting firms<sup>4</sup>
- 1 estate agent
- 5 money lenders
- 3 convertible virtual currency providers<sup>5</sup>
- 0 specified non-profit organisations
- 0 high value goods dealers
- 1 payroll agent

<sup>3</sup>The 16 registered designated businesses listed under accounting firms include businesses carrying out the following services: audit, external accountant, payroll and lender x 1; audit and tax advisor x 1; external accountant x 8; external accountant and payroll x 3; external accountant, payroll and tax advisor x 1; and tax advisor x 2.

<sup>4</sup>The 14 de-registered designated businesses listed under accounting firms were providing the following services: audit, external accountant and tax advisor x 3; external accountant x 4; external accountant and payroll x 1; external accountant and tax x 2; external accountant, tax advisor and payroll x 2; and tax advisor x 2.

<sup>5</sup>One of the de-registered convertible virtual currency providers had their designated business registration revoked by the Authority in accordance with section 11(1)(a) and (f) of the DBROA15.



There are currently a total of 330 designated business registered with the Authority, which can be broken down as follows:

- 1 safe custody firm
- 36 law firms
- 172 accounting firms<sup>6</sup>
- 20 estate agents
- 57 money lenders
- 20 convertible virtual currency providers
- 6 specified non-profit organisations
- 3 high value goods dealers
- 15 payroll agents

(Entities may undertake more than one category of designated business)

The DBROA15 states that the Authority must refuse to register a 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 not refused to register any applicants. 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 current and potential designated businesses, as well as professional advisors to the sectors affected by the legislation.

AML/CFT compliance oversight visits continued to take place in 17/18 and shall continue indefinitely. The visits, aimed across the different business sectors, are undertaken by a dedicated team within the AML Unit.

## BENEFICIAL OWNERSHIP ACT 2017 – OVERSIGHT

The Beneficial Ownership Act 2017 ('BOA17'), the majority of which came into effect on 1 June 2017, gave the Authority responsibility for issuing guidance in relation to certain terms used in the BOA17 and also for oversight of compliance with the obligations and requirements of that Act.

Within the Authority the day to day exercise of the Authority's responsibilities under the BOA rests within the Enforcement Division.

The guidance in respect of certain terms used in the BOA17 was prepared, laid before Tynwald and published to coincide with 1 June 2017, and a program of review and inspection was instigated in order to assess compliance with the statutory obligations and requirements of nominated officers and companies.

During the year the Authority has conducted a significant number of BOA17 compliance oversight visits, during the course of which advice and recommendations have been provided in respect of the obligations and requirements set out in that Act. No material breaches of obligations and requirements have been identified to date and no nominated officers or companies reported for breach.

<sup>6</sup>The 172 registered accounting firms consists of the following: external accountant x 52; audit x 2; external accountant and payroll x 15; external accountant and audit x 9; external accountant, audit and payroll x 2; external accountant, audit, payroll and lender x 1; external accountant, audit and tax advisor x 7; external accountant, audit, tax advisor and payroll x 11; audit and tax advisor x 1; external accountant and tax advisor x 36; external accountant, tax advisor and payroll x 23; tax advisor x 12; and tax advisor and payroll x 1.

## ENFORCEMENT

### REGULATORY ENFORCEMENT ACTION

Last year's report alluded to the time required to complete enforcement investigations (criminal, regulatory and civil), particularly where certain actions taken by the Authority are subject to appeal.

Within this reporting period certain of the Authority's investigations were concluded and actions taken by the Authority made public. This includes the prohibition of two individuals and the issuance of a discretionary civil penalty. Details of these can be found on the Authority's website. Other ongoing matters remain *sub judice*.

The Authority has developed its 'Enforcement Handbook'. It is anticipated that its publication will further improve the transparency of the Authority's decision-making and enforcement powers and processes.

### COMPANY LAW MEASURES

The Authority has sole power under the Island's company legislation to make application to the High Court for the winding-up of companies in the public interest. No such application has been made in this period.

However, in the absence of an Official Receiver for the Isle of Man, and in common with any other applicant for compulsory winding-up by the Isle of Man High Court, the Authority is sometimes required, as a practical measure, to provide financial support to the insolvency practitioners appointed following its application. The Authority has provided financial support to appointed insolvency practitioners in respect of four companies previously ordered to be wound up on the application of the Authority, pending the insolvency practitioners reaching a position where funds are available to permit payment from liquidation assets.

In addition the winding-up of 12 additional companies, previously ordered to be wound up on the application of the Authority, continue without calling upon funding by the Authority.

The Authority's application, several years ago, to wind-up certain of the 'Louis Group' companies was challenged at that time by the ultimate beneficial owner of those companies, Mr Alan Louis. The Authority successfully made an application to the Court that Mr Louis be ordered jointly and severally liable with the companies for the costs of their application to wind-up. During the period under review the Authority has successfully pursued Court proceedings in England to obtain possession of a UK property owned by Mr Louis in order to enforce its debt against him. The Authority now has possession of this property, which is currently being marketed for sale.

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.

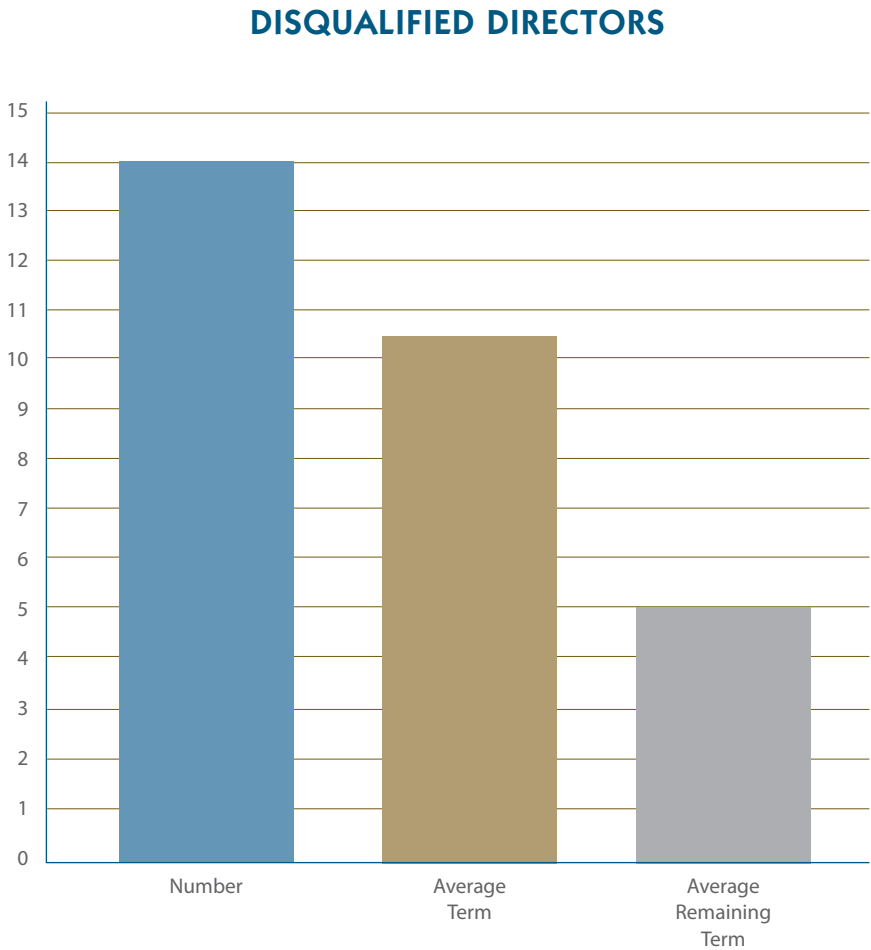
During the past five years, five people were disqualified from acting as company officers. Two of these disqualifications were imposed by way of a successful application to the High Court which, as a result of a number of adjournments sought by the defendants, has taken a number of years to reach a conclusion. A lengthy and detailed judgment in the case was handed down in January 2018 which adds an additional resource to the sizable body of local precedent guiding those holding corporate office, as to the standards of acceptable conduct in the Isle of Man. The remaining three disqualifications arose from Statutory Undertakings offered by the defendants and accepted by the Authority. Statutory Undertakings have exactly the same effect as court disqualification orders, however, where unfitness is admitted and an Undertaking offered and accepted it saves on court time and on the imposition of court costs upon the defendant. The Authority currently has ongoing proceedings under CODA09 against a further 7 individuals.



The current list of disqualified directors can be viewed at:

<http://www.iomfsa.im>

The graph below details the number of persons currently disqualified from acting as directors in the Isle of Man, the average term of each period of disqualification and the average remaining term of the disqualification period.



# 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 2018, saw the first class 1(3) (deposit taking representative office) licenceholder being approved for a licence following the introduction of the ‘Alternative Banking Regime’; the licence itself was issued shortly after this period once certain conditions were met.

A number of items of secondary legislation were made or amended over the period (see Appendix F), including the various 2017 fees legislation, disclosure of information legislation, legislation changing the definition of collective investment scheme to include certain types of closed-ended investment companies, and insurance related legislation resulting from amendments made to the Insurance Act 2008 by the Insurance (Amendment) Act 2017.

In addition, staff were involved in the production of consumer focused material on the ‘Pension Matters’ initiative.

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

### Changes to Fitness and Propriety Assessments for all Regulated Entities

The Authority commenced a review of its process used to assess the fitness and propriety of certain individuals and controllers of its regulated entities. The purpose is to harmonise the existing process and to make it more efficient and effective.

In undertaking the process review, the various roles that will require assessment have been streamlined and are described as Controlled Functions. These Controlled Functions fall into two categories. One category will be ‘notified and accepted Controlled Functions’ which are those requiring pre-notification and acceptance by the Authority, and the other category is ‘notified only Controlled Functions’ which will become post notification. Because some of the roles that require assessment are changing to post notification, minor changes to the Rule Book have also been prepared to facilitate this.

### Credit Unions

Over this period the Authority has taken the Credit Unions (Amendment) Bill through the Branches of Tynwald. The Bill is now being reviewed by the UK’s Ministry of Justice before it can receive Royal Assent. The Authority is now developing the necessary secondary legislation in order to bring the new regulatory regime into operation.



### Collective Investment Schemes – Developments

Following consultation, and detailed discussions with the IOMWFSA, legislation was introduced over this period that extended the definition of collective investment scheme to include certain types of closed-ended investment companies, namely those promoted with the intention of becoming available to the public or any section of the public. The effect of this is that any such companies that henceforth fall mandatorily into the definition of scheme, or that opt to do so, must be established as a Regulated Fund. As a result, the Collective Investment Schemes (Regulated Fund) Regulations were revoked and replaced in 2017 to ensure that the provisions could apply equally to closed-ended as well as open-ended companies.

The Financial Services (Exemptions) Regulations 2011 were also amended in 2017 to introduce new exemptions in respect of Specialist Funds only. This provides for an exemption for managers, asset managers or investment advisers to Specialist Funds which is conditional upon certain requirements being met.

### Insurance Supervisory Framework

The Island's regulatory framework for insurance supervision is set out in the Insurance Act 2008.

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 Insurance Act 2008 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 updates having been issued at the end of January 2018 and July 2018. 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 a continuing 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 G lists the consultative documents issued over the period of this Annual Report. Responses from interested parties to consultations are invaluable, and the Authority appreciates the input of all respondents.

## LEGISLATION AND GUIDANCE

The Authority's main regulatory primary legislation comprises the Financial Services Act 2008, the Insurance Act 2008, the Collective Investment Schemes Act 2008 and the Retirement Benefits Schemes Act 2000. Beneath this primary legislation is secondary legislation which contains the Authority's detailed requirements. The legislation that has come into effect over the period of this report can be found in Appendix F.

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

## OTHER ACTIVITIES

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



# EMERGING RISKS AND INTERNATIONAL

**During the year focus has been placed on identifying the risks, and defining the threats, to the Authority's objectives, both regulatory and strategic. The risks and threats have been quantified at both the inherent (gross) and residual levels, with a focus on the controls in place to either reduce the likelihood of the risk occurring in the first instance, or its impact if it does materialise.**

The Risk and Control Committee regularly discusses the Authority's most significant risks and how they are being managed and controlled in order to bring them to a level where they are at an acceptable level. That Committee also meets periodically with the Head of each Division to discuss the divisional risk registers.

The approach is to capture both medium-term and near-term risks on the registers so that those risks can be managed either within the operational day-to-day business of the Authority or as distinct projects.

# BUSINESS CHANGE

The work of the Business Change Division over the period concentrated on three principal workstreams:

- the continued development of the Authority's new IT system (ATLAS) and portal (CASCADE) to support the efficient supervision of entities, using common methodologies of approach as well as supporting the operations of the Authority
- the development, trialling, implementation and analysis of a new cross sector AML/CFT return to enhance our understanding of the money laundering and terrorist financing risks of the sectors
- the collation and analysis of the financial flows information to better understand the money laundering and terrorist financing threats at a national level.

## DEVELOPMENT OF ATLAS AND CASCADE

Over the course of the year under review the project team for the development of ATLAS and CASCADE collated and documented the formal requirements of the business enabling the procurement process for a supplier to commence, a key milestone in the delivery of this strategically important development.

It is anticipated that a key benefit arising from CASCADE will be that all entities overseen by the Authority will be able to submit information electronically. 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 continuing through 2018 into 2019.

## AML/CFT RETURN AND FINANCIAL FLOWS

The work of the Division in respect of the AML/CFT Return and Financial Flows analysis is more fully described earlier in this Report.



# 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 Treasury.

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 Appendix E. The Authority is audited in accordance with the Audit Act 2006.

Income from registration and licence fees was marginally below the budgeted figure for the year. Income was also generated from the Authority's annual Anti-Money Laundering and Financial Fraud conference, attended by industry representatives.

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 largely results 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

The Authority has a permanent staff establishment of 66 (full time equivalent).

During the year staff turnover was approximately 8%. All the vacancies, resulting from leavers, have successfully been filled. A need for an internal Legal Counsel, who will oversee Corporate Governance within the Authority, has been identified. This is a new role but is being funded from the Authority's existing budget.

The Authority has always actively supported staff development. To ensure that the Authority continues to provide appropriate development opportunities to meet its needs, now and in the future, it has embarked on a comprehensive review of training and development. The work will continue for the next 2 years and will look at all aspects of development. During the year training undertaken by staff has included ILM management courses supported by the IoM Government's Learning, Education and Development team, study for professional qualifications and focused training by external providers in specialist areas relevant to the various functions of supervisory oversight. Where possible the Authority has joined with other agencies across Government to engage appropriate training resources and to share the cost.

During the year the Authority ran a staff satisfaction survey, open to all staff, and a Board assessment process, completed by Board Members and the executive's senior management team. The results of both exercises recorded high levels of positive responses. Room for improvement was identified in specific areas and action plans are now under development to ensure that the good results are maintained or improved upon for the future.

## COMPLAINTS AGAINST THE AUTHORITY

The Authority's website sets out the procedure for dealing with complaints made against the Authority. The procedure provides for consideration and response by the CEO. If the complainant considers their complaint has not been fully addressed, they may seek a further review by the Authority's Board.

Five complaints were made against the Authority during the year. Of these, four were not upheld and one was still in progress at the year-end. No requests for reviews of complaints by the Board were received during the year.

## INFORMATION TECHNOLOGY

Due to the plans for the new supervisory support system there have been no major developments on the Authority's existing IT systems.

Following the gathering of views from website users during 2016/17, the Authority launched its new website in August 2017. The new website is hosted on an improved technical platform, provides improved navigation for users and is compatible with mobile devices.

During the year, the Authority engaged expert consultants to undertake a review of its cyber security controls. The review proved useful with positive aspects highlighted and improvements subsequently implemented where potential vulnerabilities were identified. The increased threat of cyber-attack is recognised by the Authority and it continues to work with other relevant agencies within the Government to suitably mitigate the evolving risks.



# LOOKING FORWARD

**The following section provides details of some ongoing initiatives taking place over the period of the next report:**

## AML/CFT statistics

The Authority has carried out a comprehensive exercise to collect statistics from regulated entities and designated businesses on matters relating to AML/CFT. Following consideration of the feedback received across sectors the Authority will seek to finalise the format of the annual return in June 2018.

The data will improve the Authority's AML/CFT supervisory capabilities; for example, by assisting it to carry out thematic visits to those businesses for which the theme is most relevant, and will enable the Authority to build a time series of data to monitor trends.

In addition, learnings from the statistics gathered will be fed into the Island's refresh of the National Risk Assessment of Money Laundering and the Financing of Terrorism planned mid-2018.

## Fitness and Propriety Assessments

Taking into account responses received to the consultation on the new fitness and propriety assessment process, the Authority is implementing a common standard and process for the assessment of the fitness and propriety of individuals in controlled functions in all regulated entities. This is anticipated to come into effect on 1 August 2018.

## Banking and Money Transmission Services

The Authority will be finalising a number of workstreams in 2018/19 including:

- Its assessment of banks' systemic importance to the Island's economy and the approach to supervising such banks (with reference to its policy published in June 2017)
- Updated capital planning (ICAAP) guidance for Isle of Man incorporated banks
- Working with banks and other regulatory authorities in relation to implementation of UK Banking Reform measures, the effective date of which is 1 January 2019
- Utilising new AML/CFT data reporting, including data on payment flows (money in and out of the Isle of Man banking sector), as part of assessing banks' and money service providers' inherent AML/CFT threats and risks
- Publishing aggregate data in relation to banks' lending activity.

The Authority will also be commencing work on the following supervisory areas:

- Proposals for revised liquidity standards and reporting (Basel III)
- Bank recovery planning (as part of a wider Treasury/Authority project covering Bank Recovery and Resolution, which is already underway).

Other changes to the risk-weighted assets framework for capital adequacy, published by the Basel Committee on Banking Supervision in December 2017, will also need to be considered in the future (the implementation date for larger jurisdictions is 1 January 2022).

## Investment services

The Authority will be finalising a number of workstreams in 2018/19 including:

- A consumer awareness campaign, in conjunction with the Personal Finance Society, on pensions and financial advice
- Improving pensions sale guidance for financial advisers, in conjunction with providing feedback following a 2017/18 questionnaire exercise
- Improving guidance for investment managers in relation to suitability and record keeping.

The Authority will also be commencing work on the following supervisory areas:

- Understanding in more depth the extent of use of technology and third parties (outsourcing) for investment and asset management business, and the risks this may pose.

Utilising the work undertaken on the consumer campaign for pensions, the Authority will also ascertain how it may extend this into other consumer matters, including in the areas of financial advice and investments.

## Funds services

The Authority has been working on a number of initiatives covering how it supervises the funds services sector, and the legislative framework that applies to the funds themselves. In 2018/19 the Authority plans to undertake the following, building on the thematic work it started through a series of fund focused annual business meetings in 2017/18:

- Undertake a series of visits focused on areas such as: regulatory responsibilities of functionaries to funds on a number of scheme types, the governance of the funds, and those functionaries' compliance with scheme particulars and material agreements
- Update its internal framework for risk assessing certain funds types (including gathering additional information) and the impact of those funds on the licenceholders' risk assessment
- Embedding new AML/CFT data reporting into the assessment of fund managers/administrators' inherent AML/CFT threats and risks.

The Authority will also be commencing work on reviewing aspects of the legislative framework for funds, noting this work will be over a two to three year period.

## Insurance

The Authority will continue its engagement with relevant stakeholders as it continues to complete the work programme of the ICP project and implement the new framework. As part of stakeholder engagement the Authority will hold workshops with independent non-executive directors of captive insurers to discuss proposed changes to the non-life insurance framework.



## Pensions

In 18/19 the Authority plans to continue a modernisation of the Retirement Benefits Schemes framework, which commenced in Q1 2018, and it will continue to engage with all relevant stakeholders as it updates this framework.

## Enforcement

A project has recently started in the Enforcement Division in relation to unlicensed regulated activity. The first phase of the project involves media coverage and outreach. Additionally, various news articles, and a Manx Radio interview have covered the project. In the coming period it is anticipated that individuals and/or businesses that are suspected of carrying out regulated activity without the relevant authorisations will be contacted by the Authority and dealt with accordingly.

## Policy

It is anticipated that the methods and criteria for the calculation and charging of regulatory fees will be subject to a comprehensive review, with the intent of applying an appropriate, consistent and fair methodology across all of the Authority's regulated entities.

## System

It is anticipated that the Authority will implement ATLAS over a number of phased delivery cycles throughout the forthcoming period and into 2019/20. We expect to engage with industry and other stakeholders through this period as we move toward delivery of the portal, CASCADE.

## Industry survey

Towards the end of the year under review the Authority launched its first industry-wide survey which was conducted on its behalf by Island Global Research Limited. This is the first time we have commissioned such a survey to obtain the views of industry on the effectiveness of the Authority in the performance of its functions, including views on the interaction and engagement between firms and the Authority.

The survey is being conducted in two separate phases. Phase 1 is the completion of the online survey by industry participants launched in March 2018 running for a five week period. The second phase commenced in June 2018 and explores areas of interest arising from the results of phase 1 through confidential face-to-face or telephone interviews with a small sample of senior management selected from across the sectors. The Authority is committed to a confidential survey of industry and the resulting report will present responses in summary form and without attribution. As part of the Authority's commitment to transparency and accountability, the final report will be posted on the Authority's website later on in the year.





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
- the Companies Act 1931
- the Income Tax Act 1970
- the Companies Act 1974
- the Companies Act 1982
- the Building Societies Act 1986
- the Insurance Act 2008
- the Retirement Benefits Schemes Act 2000
- the Life Assurance (Insurable Interests) Act 2004
- the Collective Investment Schemes Act 2008
- the Credit Unions Act 1993
- the International Business Act 1994
- the Limited Liability Companies Act 1996
- the Companies (Transfer of Domicile) Act 1998
- the Insider Dealing Act 1998
- the Online Gambling Regulation Act 2001
- the Companies Act 2006
- the Company Officers (Disqualification) Act 2009
- the Terrorism and Other Crime (Financial Restrictions) Act 2014
- the Incorporated Cell Companies Act 2010
- the Foundations Act 2011
- the Payment Services Act 2015
- the Designated Businesses (Registration and Oversight) Act 2015
- the Beneficial Ownership Act 2017



## MEMBERSHIP OF THE FINANCIAL SERVICES AUTHORITY

### Geoff Karran MBE, TH (Chair)

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



### Lillian Boyle (Deputy Chair)

Lillian Boyle was appointed Deputy Chair of the Financial Services Authority in November 2015. She is a lawyer, a Chartered Fellow of the Securities & Investment Institute, a Fellow of the Chartered Insurance Institute (CII) and a Chartered Insurer as well as a Trust & Estate Practitioner.

Having been Managing Director and Chairman of Isle of Man based International Life Companies Lillian has held various non-executive roles in the investment and trust sectors on the Island as well as in UK life assurance. 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 and has also been Chairman of several Audit & Risk Committees as well as local professional and educational bodies.

She is a former UK President of the CII and currently sits on professional standards and ethics committees and is a Trustee Director of a UK based charity.



### Karen Badgerow

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



### Roger Butler

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



### Juan Clarke

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



### Alan Smith

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



### David Stacey

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

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





Mark Waterhouse

Mark Waterhouse was appointed in November 2015. He has 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 Non Executive Director of ZBI Limited, which was formerly Zurich Bank International Limited. Mark was CEO of this bank until 2017.



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 nearly five years, having previously held the same position in 2000. He is also currently President of the Isle of Man Centre of the London Institute of Banking & Finance and is a Fellow of the Institute of Directors and currently serves on the Committee of its local branch in the Isle of Man.

Paul Wright

Paul Wright was appointed to the predecessor organisation in May 2012. He spent most of his career with the Bank of England where, among other roles, he had supervisory responsibility for global institutions. He was alternate Executive Director at the IMF in the early 1990s. He worked in the UK FSA for ten 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 its business is conducted in accordance with the law and proper standards, and for developing and operating internal controls to ensure that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.

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

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

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

The control environment within which the Authority operates includes:

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

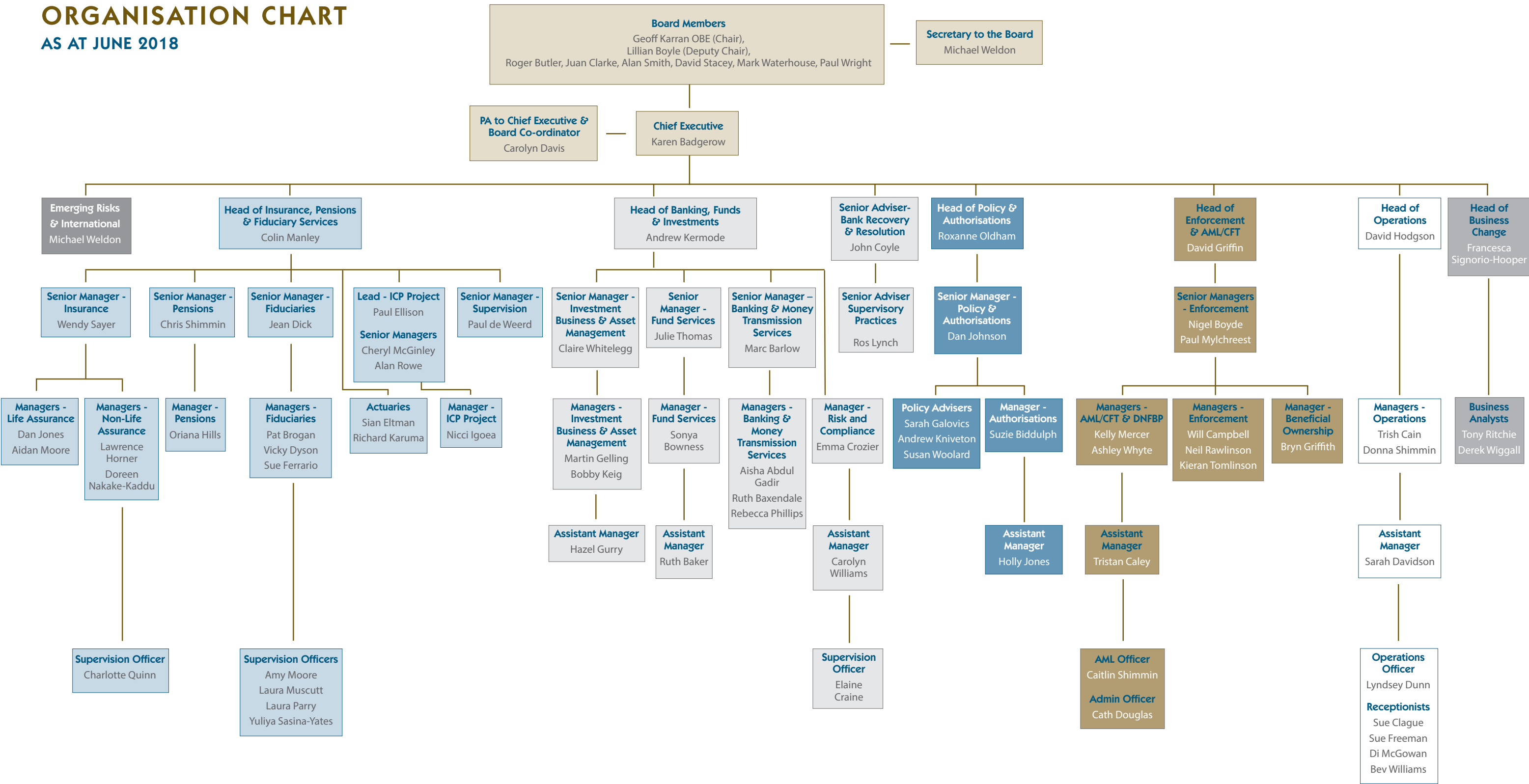
The control environment sets the overall structure for internal control and the exercise of the responsibilities of the Authority's Board Members, CEO, senior management and officers in regard to all matters, including such areas as the:

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

Whilst responsibility and accountability for internal control is vested with the CEO, the Treasury has a role in reviewing the adequacy of the Authority's internal controls through use of internal audit processes. The existing memoranda of understanding with Treasury continue to set out the framework for co-operation between the Treasury and the Authority. The memoranda establish arrangements to ensure that the Authority is accountable to Treasury for its actions and clarify the circumstances in which liaison and dialogue can flow between both parties. The Authority intends to enter into an updated memorandum of understanding with the Treasury in due course.



ORGANISATION CHART  
AS AT JUNE 2018





INDUSTRY STATISTICS

LICENCEHOLDERS

NUMBER OF LICENCES UNDER SECTION 7 OF THE FINANCIAL SERVICES ACT 2008

The number and classes of licences under section 7 of the Financial Services Act 2008 can be found at page 17 of the main body of the report.

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 2018 (current year) and 31 March 2017 (prior year). The data includes figures relating to overseas branches of Isle of Man incorporated banks.

	Current year <i>(year-ends between 1 April 2017 and 31 March 2018)</i>		Prior year <i>(year-ends between 1 April 2016 and 31 March 2017)</i>	
Income	£'m	£'m	£'m	£'m
Net interest income	366		451	
Other banking income (including FX income, fees, commissions and charges)	89		102	
<i>Total banking income</i>		455		553
<i>Total non-banking income</i>		18		35
<b>Total income</b>		<b>473</b>		<b>588</b>
Expenses				
<i>Total operating expenses</i>	207		278	
<i>Total other expenses</i>	0		1	
<b>Total expenses</b>		<b>(207)</b>		<b>(279)</b>
Profit before tax and impairment (bad debts)		266		309
Impairment (bad debt) charge		(12)		(15)
<b>Profit before tax</b>		<b>254</b>		<b>294</b>

ASSETS AND LIABILITIES OF LICENSED BANKS

The data includes figures relating to overseas branches of Isle of Man incorporated banks.

	At 31 March			At 31 March	
Assets	2018	2017	Liabilities	2018	2017
	£'bn	£'bn		£'bn	£'bn
Money market assets, due from banks and building societies	27.7	34.5	Deposits due to banks and building societies**	7.6	10.6
Loans, advances and assets leased*	7.8	7.5	Deposits due to customers	28.7	31.0
Investments	1.8	0.9	Other deposits (held as security and interest payable) including deposits due to public sector bodies	0.5	0.3
Other assets	0.4	0.4	Other liabilities	0.2	0.4
			Capital and Reserves	0.7	1.0
<b>Total assets</b>	<b>37.7</b>	<b>43.3</b>	<b>Total liabilities</b>	<b>37.7</b>	<b>43.3</b>

\* At 31 March 2018, 47.4% of loans, advances and assets leased were classified as being secured on residential property (31 March 2017: 51.3%). The above figures relating to loans and advances are net of impairment charges.

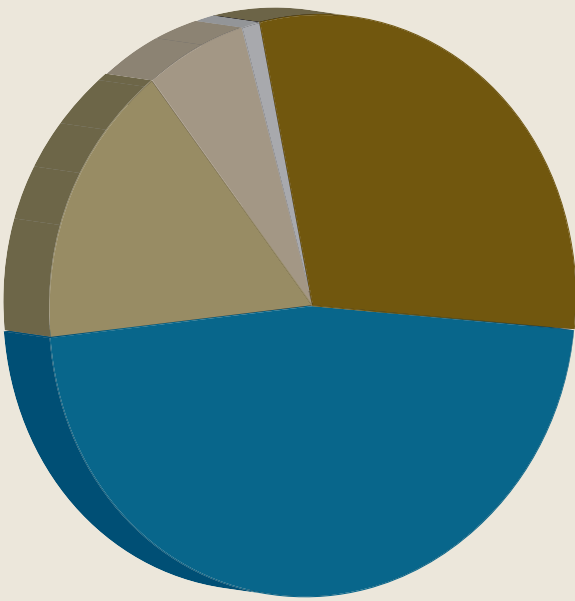
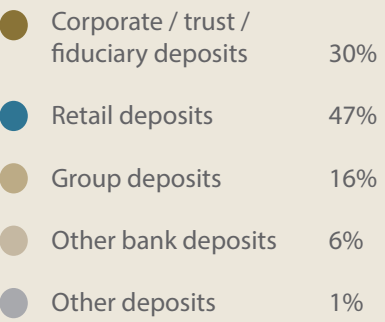
\*\* Includes deposits/loans received from other Isle of Man banks of £1.29bn (2017: £2.01bn).

GEOGRAPHICAL SOURCE OF NON-BANK DEPOSITS

Country	31 March 2018	31 March 2017	31 March 2016
Isle of Man	35%	35%	25%
United Kingdom	28%	29%	41%
European Union (excluding UK)	6%	6%	6%
Europe (Non-EU)	2%	2%	2%
Middle and Far East	7%	7%	6%
North America	5%	4%	4%
Other	17%	17%	16%



SECTOR ANALYSIS OF DEPOSITS\* INCLUDING INTER-ISLE OF MAN BANKS AS AT 31 MARCH 2018



\*These figures represent desposits 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 2018			
Country	Total	Subsidiaries	Branches
United Kingdom	7	1	6
Spain	1	0	1
South Africa	3	2	1
Cayman Islands	1	1	0
Sub total	12	4	8
Isle of Man	1		
	13		

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

DISTRIBUTION OF LOCALLY INCORPORATED BANKS BY TOTAL CAPITAL RATIO

The capital adequacy of Isle of Man incorporated banks is measured on a risk-weighted basis in accordance with applicable international standards. The higher the ratio, the greater is the level of capital adequacy relative to risk-weighted assets. The statutory minimum total capital ratio is 10% (with a minimum common equity tier 1 ratio of 8.5%) 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 total capital ratio falls, or is expected to fall, within at least 1% of their minimum ratio. All banks therefore have a notification level of 11% or above.

At the end of March 2018 all Isle of Man incorporated banks held more than the statutory minimum total capital ratio (TCR).

Minimum prescribed TCR	Number of locally incorporated banks*	Actual TCR	Number of locally incorporated banks
Less than 10%	N/A	Less than 10%	0
From 10% to less than 15%	5	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	0
Total	5	Total	5

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



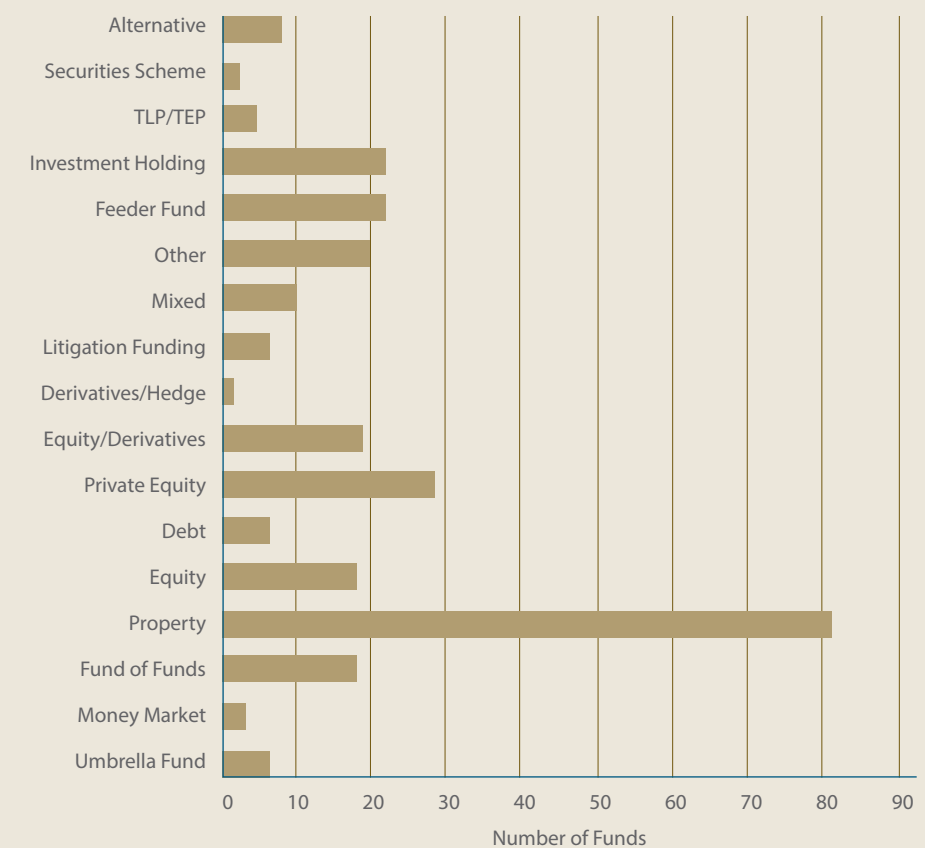
**COLLECTIVE INVESTMENT SCHEMES  
AND SERVICES TO SCHEMES**  
**TYPES OF SCHEME AND ASSET VALUES**

Category of Collective Investment Scheme	Number of Schemes March 2018 (March 2017)	As at 31 March 2018 Net Asset Value of funds under management/ administration US\$	As at 31 March 2017 Net Asset Value of funds under management/ administration US\$
<b>Authorised Schemes</b> (retail)	4(5)	330.52m	668.69m
<b>Regulated Fund</b> (can be retail)	4 (4)	172.10m	131.48m
<b>Specialist Fund</b>	15 (17)	1.39bn	1.06bn
<b>Qualifying Fund</b>	8 (11)	282.33m	387.56m
<b>Full International Scheme</b> (retail legacy fund)	3 (3)	94.33m	70.71m
<b>Experienced Investor Funds ('EIF')</b> (legacy funds)			
<b>Closed EIF</b>	7 (8)	24.11m	41.51m
<b>Legacy EIF</b>	5 (5)	185.13m	185.08m
<b>Qualifying EIF</b>	2 (7)	48.15m	66.87m
<b>Exempt Schemes</b>	121 (128)	4.40bn	4.08bn
<b>Overseas Schemes</b>	46 (56)	5.26bn	5.63bn
<b>Services to overseas managers or administrators of schemes (previously Inward Outsourcing)</b>	6 (3)	808.76m	637.98m
<b>Closed-Ended Investment Companies* (CEIC)</b>	53 (41)	7.78bn	4.72bn
<b>Total</b>	<b>274 (288)</b>	<b>20.74bn</b>	<b>17.68bn</b>
<b>% Change</b>	<b>-4.86</b>	<b>+17.31</b>	

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

	As at 31 March 2018	As at 31 March 2017
Authorised Schemes	2%	4%
Full International Schemes	0%	0%
Regulated Funds	1%	1%
Specialist Funds	7%	6%
Qualifying Funds	1%	2%
Experienced Investor Funds (legacy funds)	1%	1%
Exempt Schemes	21%	23%
Overseas	25%	32%
Closed-Ended Investment Companies	38%	27%
Services to overseas managers or administrators of schemes	4%	4%

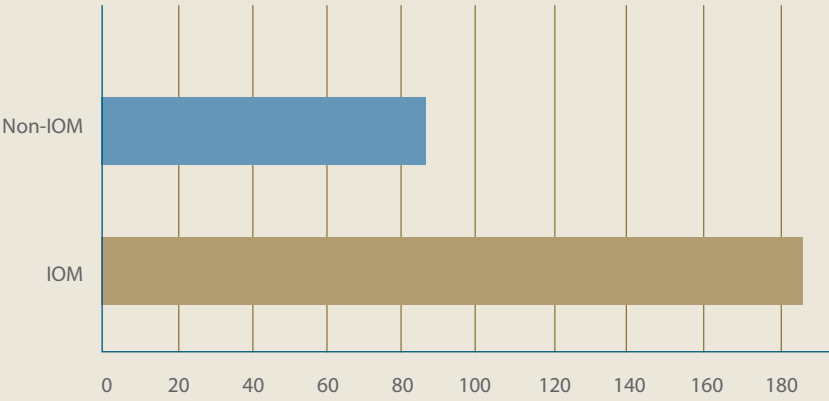
**ASSET CLASSES OF SCHEMES**





**GEOGRAPHICAL ORIGIN OF SCHEMES  
(AS AT 31 MARCH 2018)**

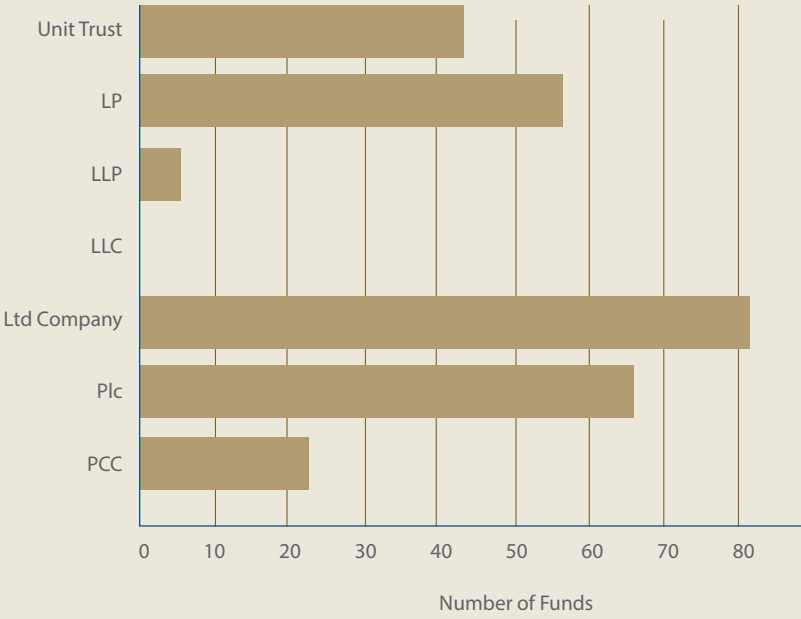
Domicile of collective investment schemes administered in the IOM including services to overseas managers or administrators of schemes.



Origin of non-Isle of Man schemes:

Cayman	59
BVI	16
Jersey	3
UK	4
Bermuda	1
Ireland	2
Guernsey	2
Gibraltar	1

**LEGAL CONSTITUTION OF COLLECTIVE INVESTMENT  
SCHEMES ADMINISTERED IN THE ISLE OF MAN  
(AS AT 31 MARCH 2018)**



**CORPORATE AND TRUST SERVICES**  
**COMPANIES, TRUSTS AND PARTNERSHIPS**  
**UNDER ADMINISTRATION**

Companies, partnerships and foundations			
	2017/18	2016/17	Movement
1931 Act Companies	8,380	9,051	-7.4%
2006 Act Companies	8,742	8,097	+8%
Isle of Man public limited companies	112	162	-31%
Public companies incorporated elsewhere	9	66	-86%
Non-public limited companies with more than 50 shareholders	27	19	+42%
Overseas companies not registered under the Foreign Companies Act 2014	11,371	13,748	-17%
Overseas companies registered under the Foreign Companies Act 2014 (a.k.a. 'F-Registered')	494	562	-12%
Limited Liability Companies	332	304	+9%
Partnerships	439	436	+0.7%
Foundations	130	105	+24%

Trusts			
	2017/18	2016/17	Movement
Trusts	16,531	16,410	+1%
Private Trust Companies	227	183	+24%

**RETIREMENT BENEFITS SCHEMES**  
**REGISTRATIONS UNDER THE RETIREMENT BENEFITS SCHEMES ACT**  
**AS AT 31 MARCH 2018**

	31 March 2018	31 March 2017
Professional Retirement Benefits Schemes Administrators	20	21
In-House Administrators	30	29
Domestic Schemes	993	904
International Schemes	145	128
Recognised Schemes	53	52
Permitted Schemes	2	2

As at 31 March 2018, a total of 50 corporate and in-house administrators held a registration issued by the Financial Services Authority under section 36 of the Retirement Benefits Schemes Act 2000 (the "Act"). A total of 1138 retirement benefits schemes were registered as authorised pursuant to s. 3 of the Act; an increase of 10.3% in the period since 31 March 2017 (1032 schemes).

**AUTHORISATIONS UNDER THE INSURANCE ACT 2008**  
**NUMBER OF AUTHORISATIONS IN RESPECT OF THE**  
**INSURANCE ACT 2008 AS AT 31 MARCH 2018**

	31 March 2018	31 March 2017
Life Insurers	13	16
Non-Life Insurers	107	111
Permit Holders - Life	8	9
Permit Holders - Non-Life	9	9
Insurance Managers - Life	11	11
Insurance Managers - Non-Life	11	11
General Insurance Intermediaries	21	23
<b>Total</b>	<b>180</b>	<b>190</b>



PREMIUM AND ASSETS UNDER MANAGEMENT

	31 December 2017 £bns	31 December 2016 £bns
Funds Under Management – Life	68.9	66.6
Funds Under Management – Non-Life (inc non-EU permit holders)	6.48	6.56
Gross Premiums – Life	6.7	5.8
Gross Premiums – Non-Life (inc non-EU permit holders)	1.41	1.53

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.

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 2018 made under the Audit Act 2006. In addition, the Authority has elected to prepare the accounts in accordance with the UK Accounting Standards including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland as applicable to the Authority.

The Members of the Authority must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Authority and of the income or expenditure of the Authority for that period.

In preparing these Accounts, the Chief Executive, is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland as applicable to the Authority have been followed;
- assess the Authority’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Authority or to cease operations, or have no realistic alternative but to do so.

The Members are responsible for ensuring that the Authority keeps accounting records that are sufficient to show and explain its transactions and disclose with reasonable accuracy at any time the financial performance of the Authority and enable them to ensure that the financial statements comply with the Accounts and Audit Regulations made under the Audit Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of Accounts that are free from material misstatement, whether due to fraud or error, and have 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.

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF THE  
ISLE OF MAN FINANCIAL SERVICES AUTHORITY

Opinion

We have audited the Accounts of the Isle of Man Financial Services Authority (“the Authority”) for the year ended 31 March 2018 which comprise the Income and Expenditure Account and related notes, including the accounting policies in note 1.

In our opinion the Accounts:

- give a true and fair view of the state of the Authority’s Income and Expenditure for the year ended 31 March 2018;
- have been properly 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
- have been properly prepared in accordance with the provisions of the Accounts and Audit Regulations 2018 made under the Audit Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Authority in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Chief Executive’s report

The Chief Executive is responsible for the Chief Executive’s report. Our opinion on the Accounts does not cover that report and we do not express an audit opinion thereon.

Our responsibility is to read the Chief Executive’s report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the Chief Executive’s report.

Chief Executive’s responsibilities

As explained more fully in their statement set out on page 2, the Chief Executive is responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Authority’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Authority or to cease operations, or have no realistic alternative but to do so.

Auditor’s responsibilities

Our objectives are to obtain reasonable assurance about whether the Accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor’s report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Accounts.

A fuller description of our responsibilities is provided on the FRC’s website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Authority’s members, as a body, in accordance with the Accounts and Audit Regulations 2018 made under 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 and the Authority’s members as a body, for our audit work, for this report, or for the opinions we have formed.

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 2018

Income	Notes		2017-18 £		2016-17 £
Fee Income	1(b), 2		3,191,885		3,380,057
Civil Penalties	2		22,500		5,500
Government Grant	12		2,875,954		2,516,199
Other Income	3		28,936		146,442
Total Income	1(b)		6,119,275		6,048,198
Expenditure					
Salaries	4	4,556,556			4,212,020
Members' Remuneration	5	166,464			169,233
Recruitment		27,319			67,383
Agency Staff		8,353			2,100
Premises		300,599			304,085
Training		79,289			57,521
Travel and Subsistence		52,649			48,041
Professional Fees and External Consultancy	6	611,761			806,282
Operating Expenses		49,762			42,776
Information Technology		130,798			131,976
Professional Subscriptions		76,030			66,487
Other expenses		10,426			12,997
Loan Charges	7	22,900			11,500
Bad Debts	8	369			115,797
Reimbursements to/ (from) Internal Funds	8	26,000			-
Total Expenditure	1(c)	(6,119,275)			(6,048,198)
Surplus/(deficit) for the period	12	-	-		-

The income and expenditure account was approved by the Financial Services Authority on the 28 June 2018 and signed on its behalf by Mr Geoff Karran, Chairman and Ms Karen Badgerow, Chief Executive.

The notes on page 68 – 70 form part of these Accounts

NOTES

to the accounts for the year ended 31 March 2018

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 2018, 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 (“the SORP”) on accounting for entities subject to the Audit Act 2006 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 when paid. No prepayments or accruals are recognised by the Authority consistent with the policy that no assets or liabilities are recognised by the Authority (note 1(a)).

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 Service 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 Designated Businesses.

To differentiate between different sources of income, income from administrative civil penalties levied on regulated entities and civil penalties levied on designated businesses is shown separately from fee income.

3. Other Income

Other Income was generated from the Authority’s Anti-Money Laundering and Financial Fraud Conference held during the year. The significant decrease from prior year Other Income relates to an amount in respect of legal expenses paid by the Authority in 16/17 on behalf of an Isle of Man fund which required external oversight. Costs were recharged to the fund but, as the expectation was that the fund had no assets, the amount was written off at the end of 16/17.

4. Salaries

Included within salaries are employer pension contributions of £449,267.

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

	At 31 March 2018 Total number of employees	At 31 March 2017 Total number of employees
£0 - £99,999	72	71
£100,000 - £199,999	4	4
£200,000 - £300,000	1	1
	77	76

The 77 members of staff equate to a full time equivalent of 71 employees.

Treasury has asked the Authority to take on an additional role for a two year period to determine the Island’s approach to Bank Recovery and Resolution. An additional headcount, over and above the Authority’s agreed staffing level, has been established for this advisory role and an appointment was made during the year. The associated expenditure is included in the Authority’s final salary figure. Treasury has agreed to cover any overspend in the Authority’s staffing budget resulting from this additional temporary appointment and this has been reflected as an increase to the Authority’s budget at the year-end.

5. Members’ Remuneration

In the year 2016-17 the board membership reduced as one member left part way through the year. It was determined by Treasury that it was not appropriate to appoint a replacement at that time.



## 6. Professional Fees and External Consultancy

Professional fees and external consultancy includes expenditure on actuarial, accountancy, legal and consultancy services procured by the Authority. The Authority continues to experience a significant number of cases requiring external legal advice, and costs in relation to the engagement of these legal services are a significant contributor to total expenditure in the area.

## 7. Loan Charge

At the end of 2015/16, 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. Contingency Fund

Treasury agreed a transfer of £26,000 to the Isle of Man Government contingency fund in respect of two continuing projects. Expenditure has already been committed for these projects but payment will not arise until 2018/19. The Authority will draw down these funds during 2018/19.

## 9. 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.

## 10. 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.

## 11. 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 £121,830. This compares to £89,360 for the prior year.

## 12. 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 2017 sitting, and published in the same month within the Isle of Man Government's "Budget Report and Estimates 2017-18". This grant secured the provision of up to £2,863,936 to cover any shortfall.

The allocation of a final grant figure above the Tynwald approved budget relates to the additional temporary appointment requested by Treasury (note 4.). Treasury's agreement to cover the cost of this appointment is reflected by an increase to the Authority's budget at the year-end.

# LEGISLATION COMING INTO EFFECT BETWEEN 1/4/17 AND 31/3/18

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

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

- **SD no. 2017/0034 effective 1 April 2017 – Collective Investment Schemes (Fees) Order 2017.** This Order specifies the application fees and periodical fees payable by schemes under the Collective Investment Schemes Act 2008.
- **SD no. 2017/0035 effective 1 April 2017 – Financial Services (Fees) Order 2017.** This Order specifies the application fees and annual fees payable in respect of the licensing of regulated activities under the Financial Services Act 2008. This Order provides for fees to be pro-rated, where applicable, if a licence is granted or changed during a period.
- **SD no. 2017/0036 effective 1 April 2017 – Insurance (Fees) Regulations 2017.** These Regulations make changes to the fees charged under section 47 of the Insurance Act 2008. Specifically, the Regulations make increases to the application and annual fees charged to certain entities regulated by the Financial Services Authority under the Insurance Act 2008.
- **SD no. 2017/0037 effective 1 April 2017 – Registered Schemes Administrators (Fees) Order 2017.** This Order makes increases to the application and annual fees charged to registered schemes administrators registered with the Isle of Man Financial Services Authority.
- **SD no. 2017/0178 effective 22 June 2017 – Financial Services Tribunal (Amendment) Rules 2017.** These Rules amend the Financial Services Tribunal Rules 2015 by amending the definition of an "appeal" which may be referred to that Tribunal, so as to include appeals made under section 34 of the Beneficial Ownership Act 2017.
- **SD no. 2017/0242 effective 1 November 2017 – Financial Services (Disclosure of Information) Order 2017.** This Order adds to paragraph 2(1A) of Schedule 5 to the Financial Services Act 2008 the Estate Agents Act 1975, so as to permit the disclosure of information which may otherwise be restricted to the Isle of Man Office of Fair Trading in connection with an existing information gateway. The Order also designates both the Cabinet Office and the Financial Intelligence Unit as authorities for the purposes of paragraph 2(2) of Schedule 5 to the Financial Services Act 2008, so as to permit the disclosure of information which may otherwise be restricted to those bodies for the purpose of enabling or assisting them in relation to any of their functions.
- **SD no. 2017/0243 effective 1 November 2017 – Designated Businesses (Disclosure of Information) Order 2017.** This Order adds to paragraph 1(2) of Schedule 2 to the Designated Businesses (Registration and Oversight) Act 2015 the Estate Agents Act 1975, so as to permit the disclosure of information which may otherwise be restricted to the Isle of Man Office of Fair Trading in connection with an existing information gateway. The Order also designates both the Cabinet Office and the Financial Intelligence Unit as authorities for the purposes of paragraph 2 of Schedule 2 to the Designated Businesses (Registration and Oversight) Act 2015, so as to permit the disclosure of information which may otherwise be restricted to those bodies for the purpose of enabling or assisting them in relation to any of their functions.

- **SD no. 2017/0244 effective 1 November 2017 – Insurance (Disclosure of Information) Order 2017.** This Order designates both the Cabinet Office and the Financial Intelligence Unit as authorities for the purposes of paragraph 2(4) of Schedule 6 to the Insurance Act 2008, so as to permit the disclosure of information which may otherwise be restricted to those bodies for the purpose of enabling or assisting them in relation to any of their functions.
- **SD no. 2017/0260 effective 1 November 2017 – Collective Investment Schemes (Definition) Order 2017.** This Order specifies the type of arrangements which do not amount to a collective investment scheme under section 1 of the Collective Investment Schemes Act 2008. It revokes the Collective Investment Schemes (Definition) Order 2008.
- **SD no. 2017/0261 effective 1 November 2017 – Collective Investment Schemes (Regulated Fund) Regulations 2017.** These Regulations set out the requirements for regulated funds, including those constituted as closed-ended investment companies, and should be read together with the Collective Investment Schemes Act 2008 and Schedule 2 to that Act.
- **SD no. 2017/0262 effective 1 November 2017 – Financial Services (Exemptions) (Class 3) (Amendment) Regulations 2017.** These Regulations amend the Financial Services (Exemptions) Regulations 2011 to insert a new exemption from paragraphs (1), (6) or (7) of Class 3 for persons undertaking the functions of either a manager, asset manager or investment adviser to a specialist fund if certain conditions, as specified in the exemption, are met.
- **SD no. 2017/0263 effective 1 November 2017 – Collective Investment Schemes (Recognised Schemes) (Ireland) Order 2017.** This Order designates the Republic of Ireland for the purposes of paragraph 1(1) of Schedule 4 to the Collective Investment Schemes Act 2008 in respect of collective investment schemes authorised as UCITS by the Central Bank of Ireland. It repeals and replaces the Collective Investment Schemes (Recognised Schemes) (Ireland) Order 2011.
- **SD no. 2017/0323 effective 1 January 2018 – Recognised Auditor (Fees and Miscellaneous) (Amendment) Regulations 2017.** These Regulations increase the fees payable by Recognised Auditors from £1,000 to £1,170 on application and from £750 to £880 annually, as well as introducing a fee of £100 for each new Responsible Individual. The Regulations also amend the registrar's name from Financial Supervision Commission to Isle of Man Financial Services Authority in each of Register of Recognised Auditor Regulations 2010; Accounting (Recognised Auditors) Regulations 2010 and Public Oversight of Recognised Auditors Regulations 2010.
- **SD no. 2017/0343 effective 13 January 2018 (except regulation 49B) – Payment Services (Amendment) Regulations 2017.** These Regulations amend the Payment Services Regulations 2015 ("the 2015 Regulations") to implement EU Directive 2015/2366 and certain amending Directives so as to bring into scope transactions in which one of the payment service providers involved in the transaction is outside the relevant area and enhance the consumer protection elements of the 2015 Regulations.
- **SD no. 2017/0344 effective 1 January 2018 – Regulated Activities (Amendment) Order 2017.** This Order amends the Regulated Activities Order 2011 (a) to remove an exclusion for a person carrying on Class 3(11) regulated activity, as well as the related interpretation. This exclusion has been replaced by the exemption in the Financial Services (Exemptions) (Miscellaneous) (Amendment) Regulations 2017; (b) to amend some exclusions relating to Class 8 as a result of the implementation of the Payment Services Directive 2; and (c) to amend certain definitions in Schedule 2 to the Financial Services Act 2008, including the definition of "investment" so that it includes personal pensions. It also provides transitional arrangements for persons advising on rights under a personal pension.
- **SD no. 2017/0345 effective 1 January 2018 – Financial Services (Exemptions) (Miscellaneous Amendments) Regulations 2017.** These Regulations amend the Financial Services (Exemptions) Regulations 2011 (a) in respect of an exemption for Class 2 nominee companies and requirements of the Financial Services Rule Book; (b) to add additional conditions for functionaries of certain collective investment schemes; and (c) to clarify property holding in relation to a Class 4 exemption certain related definitions.
- **SD no. 2018/0001 effective 1 February 2018 – Insurance (Amendment) Act 2017 (Appointed Day) (No1) Order 2018.** This Order provides for the commencement of certain provisions in the Act. Amongst other things, these provisions remove the requirement for notifications in respect of connected persons to be prescribed, make the principal control officer and company secretary notifiable roles, clarify that insurance contracts should not be regarded as gaming or wagering contracts under the Gaming, Betting and Lotteries Act 1988 and amend the regulation making powers in Schedule 7.
- **SD no. 2018/0002 effective 1 February 2018 – Insurance Intermediaries (General Business) (Amendment) Regulations 2018.** These regulations omit regulation 5 from the Insurance Intermediaries (General Business) Regulations 1999 which prescribed the particulars of directors, controllers and chief executives to be served on the Authority. As a result of amendments made to the Insurance Act 2008 by the Insurance (Amendment) Act 2017, such particulars are no longer required to be prescribed by regulations.
- **SD no. 2018/0003 effective 1 February 2018 – Insurance (Amendment) Regulations 2018.** These regulations omit regulation 5 from the Insurance Regulations 1986 which prescribed the particulars of directors, controllers, chief executives and managers to be served on the Authority. As a result of amendments made to the Insurance Act 2008 by the Insurance (Amendment) Act 2017, such particulars are no longer required to be prescribed by regulations.



CONSULTATIVE DOCUMENTS  
ISSUED BETWEEN 1/4/17 AND 31/3/18

Title of consultation	Date consultation published	Date consultation closed
4th Quantitative Impact Study for Life Insurers	7 April 2017	30 June 2017
Collective Investment Schemes: Closed-ended investment companies and other matters	28 April 2017	26 May 2017
Conduct of Business Code for Long Term Insurance	5 May 2017	16 June 2017
Draft Guidance Note - Governance of Collective Investment Schemes	19 May 2017	14 July 2017
Information Gateways - Amend the exceptions from restrictions on Disclosure of Information under various acts	13 June 2017	25 July 2017
General Insurance Intermediaries Consultation Paper	28 July 2017	6 October 2017
4th Quantitative Impact Study for Non-Life Insurers	31 July 2017	31 October 2017
Draft Amendments to the Regulated Activities Order 2011 and the Financial Services (Exemptions) Regulations 2011	25 August 2017	6 October 2017
Corporate Governance Code of Practice for Insurers	30 August 2017	17 November 2017
Group supervision	9 October 2017	1 December 2017
Conduct of Business Code for Non-Long Term Insurance	14 November 2017	2 February 2018
Regulatory Fees 2018	17 November 2017	5 January 2018
Insurance (Long-Term Business Valuation and Solvency) Regulations 2018	12 December 2017	16 February 2018
Insurance Regulations 2018	12 December 2017	16 February 2018
Survey for businesses selling insurance alongside other goods and services	12 January 2018	28 February 2018
Information on changes to fitness and propriety assessments for all regulated entities	5 March 2018	13 April 2018
Proposals to enhance the Island's regulatory framework for private pensions and their providers	5 March 2018	27 April 2018

OTHER INFORMATION

The Authority's website [www.iomfsa.im](http://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 for Enterprise, St George's Court, Upper Church Street, Douglas, Isle of Man, IM1 1EX** or can be downloaded from <http://www.whereyoucan.com/finance>

# GLOSSARY

AML	Anti-Money Laundering
Authority	Isle of Man Financial Services Authority
BOA17	Beneficial Ownership Act 2017
CEO	Chief Executive Officer
CFT	Countering the Financing of Terrorism
CISA08	Collective Investment Schemes Act 2008
CODA09	Company Officers Disqualification Act 2009
DBROA15	Designated Businesses (Registration and Oversight) Act 2015
Designated businesses	Persons registered with the Authority under the DBROA15
EU	European Union
FATF	Financial Action Task Force
FSA08	Financial Services Act 2008
GIFCS	Group of International Finance Centre Supervisors
IA08	Insurance Act 2008
IAIS	International Association of Insurance Supervisors
IOMWFSA	Isle of Man Wealth & Fund Services Association
IOSCO	International Organisation of Securities Commissions
Island	Isle of Man
IT	Information Technology
MMOU	Multilateral Memorandum of Understanding
MONEYVAL	Committee of Experts on the Evaluation of Anti-money Laundering Measures
RBSA00	Retirement Benefits Schemes Act 2000
Rule Book	Financial Services Rule Book
UK	United Kingdom