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2017/0062



# **DEPOSITORS' COMPENSATION SCHEME**

**(in relation to the Compensation of Depositors Regulations 2008)**

**ANNUAL REPORT  
OF THE SCHEME MANAGER  
FOR THE YEAR ENDED  
31 MARCH 2017**

# **DEPOSITORS' COMPENSATION SCHEME**

**(in relation to the Compensation of Depositors Regulations 2008)**

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# **DEPOSITORS' COMPENSATION SCHEME**

**(in relation to the Compensation of Depositors Regulations 2008)**

## **SCHEME MANAGER**

In accordance with Section 5 (1) of the Compensation of Depositors Regulations 2008, made under Section 25 of the Financial Services Act 2008, the Isle of Man Financial Services Authority ("the Authority") ("the Scheme Manager") is charged with the administration of the Depositors' Compensation Scheme.

The Transfer of Functions (Isle of Man Financial Services Authority) Order 2015 states "*the Authority shall consist of not less than seven qualified persons appointed by the Treasury, subject to the approval of Tynwald*".

Tynwald has approved the following persons to be members of the Authority:

	<i><b>Date first elected</b></i>
Mr G Karran	November 2015
Mr A Smith	November 2015
Mr R Butler	November 2015
Mr P Wright	November 2015
Ms L Boyle	November 2015
Mr D Stacey	November 2015
Mr P Kenny	November 2015 (resigned 31 July 2016)
Mr M Waterhouse	November 2015
Ms K Badgerow	November 2015
Mr J Clarke	March 2016

# **DEPOSITORS' COMPENSATION SCHEME**

(in relation to the Compensation of Depositors Regulations 2008)

## **OFFICERS AND PROFESSIONAL ADVISERS**

### **SECRETARY**

Mr A Kermode  
Financial Services Authority  
P O Box 58  
Finch Hill House  
Bucks Road  
Douglas  
Isle of Man  
IM99 1DT

### **ADVOCATES**

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15-19 Athol Street  
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IM1 1LB

### **AGENT**

KPMG LLC  
P O Box 93  
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41 Athol Street  
Douglas  
Isle of Man  
IM99 1HN

### **PRINCIPAL BANKER**

Isle of Man Bank Limited  
2 Athol Street  
Douglas  
Isle of Man  
IM99 1AN

### **AUDITOR**

Deloitte LLP  
The Old Court House  
Athol Street  
Douglas  
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IM1 1LD

### **SCHEME MANAGER**

Isle of Man Financial Services Authority  
PO Box 58  
Finch Hill House  
Bucks Road  
Douglas  
Isle of Man  
IM99 1DT

# **DEPOSITORS' COMPENSATION SCHEME**

**(in relation to the Compensation of Depositors Regulations 2008)**

## **REPORT OF THE SCHEME MANAGER**

### ***INTRODUCTION***

This is the ninth Annual Report by the Authority in its role as Scheme Manager of the Compensation of Depositors Regulations 2008, known as the Depositors' Compensation Scheme ("the Scheme" or "the DCS"). The Isle of Man Financial Services Authority ("the Authority") ("the Scheme Manager") is charged with the administration of the Depositors' Compensation Scheme.

### ***LEGISLATION***

On 9 October 2008, the Treasury Department, Isle of Man Government ("Treasury"), in exercise of the powers conferred on it by Section 25 of the Financial Services Act 2008, made the Compensation of Depositors Regulations 2008 ("the Regulations") (SD 826/08). The Regulations were approved by Tynwald on 9 October 2008 and came into operation on the same date.

The Regulations provided for the establishment of a fund out of which compensation was to be paid on eligible protected deposits if a Scheme participant licensed under the Financial Services Act 2008 was deemed to have defaulted. The Regulations further provided for the levying of contributions on other Scheme participants (subject to an overall aggregate limit of £200m throughout the life of the Scheme in respect of all defaults occurring on or after 23 October 2008 and before 23 October 2010) and funding from Treasury in respect of all defaults occurring before 23 October 2010 not exceeding £150m, in order to provide monies for the establishment of the Scheme, upon a default by a Scheme participant.

On 23 October 2010 the 2008 Regulations were revoked and replaced by the Depositors' Compensation Scheme Regulations 2010 ("2010 Regulations") except that they shall continue to apply for the purposes of the Scheme established following the default of Kaupthing Singer & Friedlander (Isle of Man) Limited in liquidation ("KSF") in respect of which the Scheme Manager made a determination on 27 May 2009.

### ***ACTIVATION OF THE SCHEME***

On 27 May 2009, the Authority, as Scheme Manager, determined that KSF was in default in terms of Regulation 3 of the Regulations. This followed the making of a winding-up order by the High Court in the Isle of Man in respect of the affairs of KSF in the Island. The Scheme was activated on the same day.

### ***SUBMISSION OF CLAIMS***

The statutory cut-off date for the submission of claims was on 27 November 2010.

# **DEPOSITORS' COMPENSATION SCHEME**

(in relation to the Compensation of Depositors Regulations 2008)

## **REPORT OF THE SCHEME MANAGER (CONTINUED)**

### ***LEVIES***

During the year ended 31 March 2017, no levies were made against the Scheme Participants in accordance with the Regulations (2016: £nil).

### ***DIVIDEND DISTRIBUTION***

During the year ended 31 March 2017, the Joint Liquidators of KSF declared no dividends (2016: 0.0p in the £). A total of £Nil (2016: £37,910) has been received into the Scheme. The amount that has been recognised as income represents the dividends received in respect of accounts assigned to the Scheme Manager. Dividends received on assigned accounts where no claim has been received by the Scheme Manager have not been recognised as income but have been accrued as a liability as explained in notes 3(e) and 7 of the financial statements.

### ***EXCESS RECOVERIES***

The Scheme was assigned all the rights associated with the Eligible Protected Deposits for which KSF depositors made a claim under the Scheme. These rights include the right to receive dividends paid by the liquidator in respect of the assigned balances. As a result the DCS will be in receipt of dividends in excess of the compensation paid in a number of cases. Dividends in excess of DCS compensation totalling £Nil (2016: £Nil) were paid to claimants during the year.

### ***RETIREMENT / APPOINTMENT OF MEMBERS***

During the year ended 31 March 2017, and to the date of signing the report, the following members resigned, with effect from 31 July 2016:

Mr P Kenny

During the year ended 31 March 2017, and to the date of signing the report, no new members were appointed.

# **DEPOSITORS' COMPENSATION SCHEME**

(in relation to the Compensation of Depositors Regulations 2008)

## **REPORT OF THE SCHEME MANAGER (CONTINUED)**

### ***RETIREMENT / APPOINTMENT OF MEMBERS (CONTINUED)***

The Scheme Manager adopts a strict policy in determining and managing the conflicts of interest which may arise between members of the Authority and Scheme Participants. Information regarding Authority members' conflicts of interest is available from the Authority's website [www.ionfsa.im](http://www.ionfsa.im).

### ***RETIREMENT / APPOINTMENT OF SECRETARY***

There have been no changes during the year and to the date of signing the report and financial statements for the year ended 31 March 2017.

### ***PAYMENT OF COMPENSATION***

During the year, the Scheme Manager made compensation payments (net recoveries) totalling £656 (2016: £17,910).

### ***DISTRIBUTION OF SURPLUS FUNDS AND APPORTIONMENT OF COMPENSATION COSTS***

As explained in Note 9, following consultation between the Scheme Manager, Scheme Participants and the Treasury, the Scheme Manager exercised its discretion as laid down in the Regulations in the apportionment of the compensation costs and any distribution of surplus funds that has arisen in relation to the compensation fund.

During the year the Scheme Manager returned levies to the Scheme Participants totalling £Nil (2016: £Nil).

# **DEPOSITORS' COMPENSATION SCHEME**

(in relation to the Compensation of Depositors Regulations 2008)

## **REPORT OF THE SCHEME MANAGER (CONTINUED)**

### ***DISTRIBUTION OF SURPLUS FUNDS AND APPORTIONMENT OF COMPENSATION COSTS (CONTINUED)***

Until such time as the final distribution from the KSF liquidation is known, there is uncertainty in relation to the amount of Treasury funding as at 31 March 2017 that will ultimately be repaid and any further surplus that may be distributable to the Scheme Participants.

### ***PARTICIPATING DEPOSIT TAKERS***

Appendix A to this report lists all participants in the Depositors' Compensation Scheme, in relation to the default of Kaupthing Singer & Friedlander (Isle of Man) Limited under the 2008 Regulations in respect of the year ended 31 March 2017.

### ***FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017***

The audited financial statements for the year ended 31 March 2017 are set out as part of this annual report.

### ***GOING CONCERN***

As at 31 March 2017, the Scheme is in a deficit (2016: deficit) position and has a net deficit of £1,186,737 (2016: £1,047,770). The Scheme has cash balances of £1,371,226 (2016: £1,178,284) (refer note 13). Whilst there is a current liability of £1,499,403 (2016: £1,499,403) in respect of Treasury funding, ultimate repayment of this amount and any further return of levies to Scheme Participants, as detailed in regulation 16A of the Regulations, is at the discretion of the Scheme Manager, having regard to the sources of funding from which the compensation payments were made (see note 9).

The Treasury has also confirmed in writing that it will not seek to demand repayment of any funds which would render the Scheme unable to meet its obligations to creditors before at least December 2018.


The Scheme Manager therefore has a reasonable expectation that the Scheme has adequate resources to meet its ongoing costs and to continue in operational existence for the foreseeable future and, therefore, continues to adopt the going concern basis in preparing the annual report and financial statements.

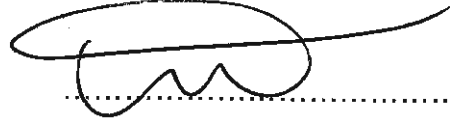


**DEPOSITORS' COMPENSATION SCHEME**  
(in relation to the Compensation of Depositors Regulations 2008)

**REPORT OF THE SCHEME MANAGER (CONTINUED)**

**APPROVED BY THE FINANCIAL SERVICES AUTHORITY AS SCHEME  
MANAGER OF THE DEPOSITORS' COMPENSATION SCHEME ON 5  
OCTOBER 2017 AND SIGNED ON ITS BEHALF BY:**

Mr G Karran  
  
.....  
MEMBER

Ms K Badgerow  
  
.....  
MEMBER

**DEPOSITORS' COMPENSATION SCHEME**  
(in relation to the Compensation of Depositors Regulations 2008)

Financial Statements

For the year ended 31 March 2017

# **DEPOSITORS' COMPENSATION SCHEME**

**(in relation to the Compensation of Depositors Regulations 2008)**

## **Statement of Scheme Manager's responsibilities**

The Scheme Manager is responsible for preparing the Scheme Manager's Report and the financial statements in accordance with applicable Isle of Man law and regulations.

The Scheme Manager is responsible for preparing financial statements for each financial year in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" to the extent that they do not conflict with the Accounts and Audit Regulations 2013 and the Audit Directions 2008, as required by the Audit Act 2006, and the Compensation of Depositors Regulations 2008 made under the Financial Services Act 2008. Under the Audit Act 2006 the Scheme Manager must not approve the financial statements unless it is satisfied that they give a true and fair view of the state of affairs of the Scheme and of the net compensation cost or recovery of the Scheme for that period. In preparing these financial statements, the Scheme Manager is required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Scheme will continue in operation.

The Scheme Manager is responsible for keeping adequate accounting records that are sufficient to show and explain the Scheme's transactions and disclose with reasonable accuracy at any time the financial position of the Scheme and enable them to ensure that the financial statements comply with the Accounts and Audit Regulations 2013 and the Audit Directions 2008, as required by the Audit Act 2006, and the Compensation of Depositors Regulations 2008 made under the Financial Services Act 2008. The Scheme Manager is also responsible for the system of internal control, for safeguarding the assets of the Scheme and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Scheme Manager is responsible for the maintenance and integrity of the corporate and financial information included on the Scheme's website. Legislation in the Isle of Man governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**By order of the Scheme Manager**  
**5 October 2017**



**Mr A Kermode**  
**Secretary**

## **Independent Auditor's Report to the Scheme Manager of the Depositor's Compensation Scheme (in relation to the Compensation of Depositors Regulations 2008)**

We have audited the financial statements of the Isle of Man Depositors' Compensation Scheme ("the Scheme") for the year ended 31 March 2017 which comprise the Comprehensive Income and Expenditure Account, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 15. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS102 "The Financial reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the Scheme Manager in accordance with the Audit Act 2006. Our audit work has been undertaken so that we might state to the Scheme Manager 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 Scheme Manager for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of Scheme Manager and auditor**

As explained more fully in the Statement of Scheme Manager's Responsibilities, the Scheme Manager is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Scheme Manager; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Independent Auditor's Report to the Scheme Manager of the Depositor's Compensation Scheme (in relation to the Compensation of Depositors Regulations 2008) (continued)**

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the Scheme's financial affairs as at 31 March 2017 and of its net fund expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Accounts and Audit Regulations 2013 and the Audit Directions 2008, as required by the Audit Act 2006, and the Compensation of Depositors Regulations 2008 made under the Financial Services Act 2008.

**Emphasis of Matter**

In forming our opinion, which is not modified, we have considered the adequacy of the disclosures made in note 9 to the financial statements concerning the amount that will ultimately be repaid to Treasury in relation to its funding. Until the total dividend distribution to be received from the KSF liquidation is known, and the final net cost of the Scheme is also known, the final repayment in relation to the Treasury Funding amount may differ from the amount at which it is stated in the financial statements. This also creates significant uncertainty in relation to the final surplus that may be distributable to the Scheme Participants.

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Audit Act 2006 requires us to report to you if, in our opinion:

- the application by or on account of the Scheme of money provided by Tynwald, the payment or application of money or other property held or received by or on account of the Scheme, or a transaction effected by or on account of the Scheme is or will be contrary to law; or
- the internal organisation of the Scheme, and the internal controls maintained by it, are such as to secure the proper management of the finances of the body and the economy and efficiency in the use of its resources.

*Deloitte LLP*

**Deloitte LLP**  
Douglas  
Isle of Man

**9 October 2017**

# DEPOSITORS' COMPENSATION SCHEME

(in relation to the Compensation of Depositors Regulations 2008)

## Comprehensive Income and Expenditure Account for the year ended 31 March 2017

	Note	2017 £	2016 £
<b>Income</b>			
Bank levies received	3b,4	-	-
Dividends received from Liquidator	6	-	37,910
Bank interest receivable	3a	-	-
		<hr/>	<hr/>
		-	37,910
<b>Expenditure</b>			
Compensation paid (including payments 1 and 2 under the Early Payments Schemes)	10	656	17,910
Excess recoveries paid to claimants	6	-	-
Levies repaid	3b,9	-	-
Legal and professional fees	3a	27,302	15,633
Scheme Agent's costs	3a	69,704	79,472
Scheme Manager's costs	3a,12	5,817	6,000
Liquidator distribution write off		20,000	-
Printing, postage and sundries	3a	-	480
Audit fee	3a	15,000	15,000
Bank charges	3a	488	1,901
		<hr/>	<hr/>
		138,967	136,396
<b>Net fund expenditure for the year</b>		<b>(138,967)</b>	<b>(98,486)</b>
Compensation fund deficit brought forward		<b>(1,047,770)</b>	<b>(949,284)</b>
		<hr/>	<hr/>
<b>Compensation fund deficit carried forward</b>		<b>(1,186,737)</b>	<b>(1,047,770)</b>
		<hr/>	<hr/>

The notes on pages 17 to 26 form part of these financial statements. There is no other comprehensive income or expenditure for the year other than that presented above. All operations are continuing.

# DEPOSITORS' COMPENSATION SCHEME

(in relation to the Compensation of Depositors Regulations 2008)

## Balance Sheet

as at 31 March 2017

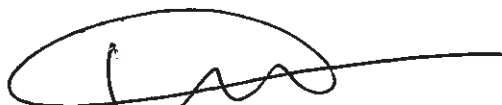
	Note	2017 £	2016 £
<b>Current assets</b>			
Cash at bank	13	1,371,226	1,178,284
Sundry debtors	8	3,208	42,869
		<u>1,374,434</u>	<u>1,221,153</u>
<b>Current liabilities</b>			
Other creditors	7	1,061,768	769,520
Treasury funding	9, 12	1,499,403	1,499,403
		<u>2,561,171</u>	<u>2,268,923</u>
<b>Net current liabilities</b>		<u>(1,186,737)</u>	<u>(1,047,770)</u>
<b>Represented by</b>			
Compensation fund deficit		<u>(1,186,737)</u>	<u>(1,047,770)</u>

These financial statements were approved by the Scheme Manager on 5 October 2017 and signed on its behalf by:



Mr G Karran

Member



Ms K Badgerow

Member

The notes on pages 17 to 26 form part of the financial statements.

## **DEPOSITORS' COMPENSATION SCHEME**

(in relation to the Compensation of Depositors Regulations 2008)

### Statement of Changes in Equity *for the year ended 31 March 2017*

	<i>Note</i>	<b>2017</b> <b>£</b>	<b>2016</b> <b>£</b>
Compensation fund deficit at 1 April		<b>(1,047,770)</b>	<b>(949,284)</b>
Net fund expenditure for the year		<b>(138,967)</b>	<b>(98,486)</b>
Compensation fund deficit at 31 March		<b>(1,186,737)</b>	<b>(1,047,770)</b>

The notes on pages 18 to 26 form part of the financial statements.



# DEPOSITORS' COMPENSATION SCHEME

(in relation to the Compensation of Depositors Regulations 2008)

## Cash Flow Statement

for the year ended 31 March 2017

	<i>Note</i>	2017 £	2016 £
<b>Cash flows from operating activities</b>			
Net fund expenditure for the year		(138,967)	(98,486)
Creditor reclassification	13	388,332	-
(Decrease)/Increase in other creditors	13	(96,084)	(94,392)
Decrease/(increase) in sundry debtors		39,661	(11,658)
		<hr/>	<hr/>
<b>Net cash flows from operating activities</b>		<b>192,942</b>	<b>(204,536)</b>
<b>Cash flows from financing activities</b>			
Repayment of Treasury funding		-	-
		<hr/>	<hr/>
<b>Net cash flow for the year</b>	<b>11</b>	<b>192,942</b>	<b>(204,536)</b>
		<hr/>	<hr/>

The notes on pages 17 to 26 form part of the financial statements.

# **DEPOSITORS' COMPENSATION SCHEME**

**(in relation to the Compensation of Depositors Regulations 2008)**

## **Notes to the financial statements**

*(forming part of the financial statements for the year ended 31 March 2017)*

### **1 Basis of preparation**

These financial statements and related notes have been prepared under the historic cost convention and in accordance with UK Accounting Standards including Financial Reporting Standard 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS102"), to the extent that it does not conflict with the Accounts and Audit Regulations 2013 and the Audit Directions 2008, as required by the Audit Act 2006, and the Compensation of Depositors Regulations 2008 made under the Financial Services Act 2008. See note 15 for further details.

### **2 Constitution**

The Depositors' Compensation Scheme ("the Scheme" or "DCS") was constituted under the Financial Services Act 2008 on 17 June 2008 and is governed by the Compensation of Depositors Regulations 2008 ("the 2008 Regulations"). The Scheme was activated by declaration of an act of default by Kaupthing Singer & Friedlander (Isle of Man) Limited in liquidation ("KSF") on 27 May 2009.

On 23 October 2010 the 2008 Regulations were revoked and replaced by the Depositors' Compensation Scheme Regulations 2010 ("2010 Regulations") except that they shall continue to apply for the purposes of the Scheme established following the default of KSF in respect of which the Scheme Manager made a determination on 27 May 2009.

### **3 Accounting policies**

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and preceding year.

#### *a Interest receivable and expenditure incurred*

Interest receivable and expenditure incurred have been accounted for on an accruals basis. No interest is payable on levies, Treasury funding, compensation paid or excess recoveries payable to claimants.

# DEPOSITORS' COMPENSATION SCHEME

(in relation to the Compensation of Depositors Regulations 2008)

## Notes to the financial statements (continued)

(forming part of the financial statements for the year ended 31 March 2017)

### 3 Accounting policies (continued)

#### b Levies

- a. Levies receivable from Scheme Participants are credited to the income and expenditure account in the period in which they are levied.
- b. Levies repaid by the Scheme Manager are debited to the income and expenditure account in the period in which they are repaid.

#### c Compensation payments to eligible protected depositors

Compensation payments made to depositors are charged to the Income and Expenditure Account when agreed by the Scheme Manager. Compensation on claims agreed but not paid is charged to the Income and Expenditure Account in the period when the agreement is made. Interest is not accrued on compensation claims.

#### d Excess recoveries payable to claimants

Surplus dividends received by the Scheme in excess of the DCS compensation entitlement are paid to claimants in the year in which they are received.

#### e Dividends received from Liquidator

Dividends received from the Liquidator comprise distributions related to those KSF accounts that have been assigned directly to the Scheme and those KSF accounts that have been assigned to the Scheme as a result of claims under the Early Payment Schemes 1 and 2 ("EPS") which provided early payments by Treasury of up to £10,000 per depositor. These distributions are accounted for on an accruals basis for dividends declared by the Liquidator as at the balance sheet date. However, dividends on assigned accounts are only recognised as income where claims have been agreed by the Scheme Manager.

#### f Presentation currency

The Scheme is denominated in pounds sterling ("GBP" or "£") and the financial statements adopt GBP as the presentation currency.

#### g Translation of foreign currency

Foreign currency transactions are translated into sterling at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at the balance sheet date.

# DEPOSITORS' COMPENSATION SCHEME

(in relation to the Compensation of Depositors Regulations 2008)

Notes to the financial statements (continued)  
(forming part of the financial statements for the year ended 31 March 2017)

## 3 Accounting policies (continued)

### h *Going concern*

As explained in the Scheme Manager's report on page 7, the financial statements have been prepared on the going concern basis.

### i *Basic financial instruments*

#### *Financial assets and liabilities*

Financial assets and liabilities are recognised when the Scheme becomes a party to the contractual provisions of the instrument.

No financial assets or liabilities are offset in the statement of financial position.

Financial assets are derecognised only when the contractual rights to the cash flows from the financial asset expire or are settled.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Financial assets comprise:

Cash and cash equivalents which relate to cash balances and call deposits. Cash and cash equivalents are recognised at transaction prices.

Debtors are recognised at transaction prices less attributable transaction costs. No debtors are impaired as at the year end date.

Financial liabilities comprise:

Creditors are recognised at transaction price plus attributable transaction costs. All creditors are on normal terms.

Treasury funding which is recognised at transaction price plus attributable transaction costs. All terms and conditions on the loan funding have been met. Note that excess recoveries paid and levies repaid are only recognised as a liability when agreed by the Scheme Manager.

# DEPOSITORS' COMPENSATION SCHEME

(in relation to the Compensation of Depositors Regulations 2008)

Notes to the financial statements (continued)  
(forming part of the financial statements for the year ended 31 March 2017)

## 4 Levies

The Scheme Manager is permitted under section 6(3)(a) of the 2008 Regulations governing the Scheme to make successive annual levies on each Scheme Participant that was a participant at the date of default of another participant, to meet compensation costs of the Scheme as defined under paragraph 4 of the 2008 Regulations, which includes all associated operating costs, except for the total amount by which the compensation payable in respect of each claimant exceeds £20,000 which shall be paid by Treasury as laid out in section 12A of the 2008 Regulations.

The annual levy, as defined in section 12 of the 2008 Regulations is equivalent to 0.125% of a Scheme participant's deposit liabilities at a date or dates specified by the Scheme Manager, subject to a maximum levy of £350,000 per annum.

The aggregate of all the amounts which may be levied on participants by the Scheme Manager throughout the life of the Scheme in respect of all defaults occurring on or after 23 October 2008 and before 23 October 2010 shall not exceed £200,000,000.

## 5 Taxation

The Scheme is not subject to Income Tax and no relief is available for any expenditure.

## 6 Dividends received from Liquidator

The Liquidator has not declared any dividends in the year (2016: Nil in the £).

The dividends received during the prior year arise from the payment of previously declared dividends by the liquidator in respect of claims that had prior queries that have now been resolved and have been applied as follows:-

	2017	2016
	£	£
Repayment of compensation under the 2008 Regulations	-	37,910
Excess recoveries paid to claimants	-	-
	<hr/>	<hr/>
	-	37,910
	<hr/>	<hr/>

# DEPOSITORS' COMPENSATION SCHEME

(in relation to the Compensation of Depositors Regulations 2008)

Notes to the financial statements (continued)  
*(forming part of the financial statements for the year ended 31 March 2017)*

## 6 Dividends received from Liquidator (continued)

The Scheme was assigned all the rights associated with the eligible protected deposits for which KSF depositors made a claim under the Scheme.

The rights assigned to Treasury arising from the payments made by the Isle of Man Government under Early Payments Schemes 1 and 2 have also been assigned to the Scheme (see note 9).

These rights include the right to receive dividends paid by the liquidator in respect of the assigned balances. As a result the DCS will be in receipt of dividends in excess of the compensation paid in a number of cases. Such excess recoveries are paid to claimants.

## 7 Other creditors

	2017 £	2016 £
Compensation agreed but not paid	483,442	132,309
Excess recoveries agreed but not paid	17,435	27,706
Dividends received from liquidator on assigned accounts where claims have either not been received or have not been agreed by the Scheme Manager	484,525	535,475
Other creditors	76,366	74,030
	<hr/> 1,061,768	<hr/> 769,520

## 8 Sundry debtors

	2017 £	2016 £
Recoverable VAT	3,208	20,319
Liquidator distribution receivable	-	22,550
	<hr/> 3,208	<hr/> 42,869

# DEPOSITORS' COMPENSATION SCHEME

(in relation to the Compensation of Depositors Regulations 2008)

Notes to the financial statements (continued)  
*(forming part of the financial statements for the year ended 31 March 2017)*

## 9 Treasury funding

Treasury funding comprises of the following:

	2017 £	2016 £
EPS payments made in advance of the Scheme activation	65,949,181	65,949,181
Cash advance	130,000,000	130,000,000
	<hr/>	<hr/>
Total funding	195,949,181	195,949,181
Cash repayments	(194,449,778)	(194,449,778)
	<hr/>	<hr/>
Net funding	1,499,403	1,499,403
	<hr/>	<hr/>

As laid out in S11 (2), of the Compensation of Depositors Regulations 2008 the funding for compensation payments to individuals of more than £20,000 but under £50,000 is provided by Treasury. By resolution of Tynwald, funding that otherwise would have been provided by levies on Scheme participants over a period of years, was provided by Treasury in advance.

Payments made by the Isle of Man Government under Early Payment Schemes 1 and 2 have been assigned to the Scheme and have been treated as if the funding had also been provided by way of a loan from Treasury to the Scheme and the compensation payments made by the Scheme.

The funding given by Tynwald was not subject to any terms and conditions regarding its ultimate repayment and is therefore disclosed as a current liability. However, further repayments to Treasury are dependent upon future distributions from the Liquidator.

Dividends received from the liquidator of KSF will be retained by the Scheme to the extent necessary to meet its obligations and operating expenses.

# **DEPOSITORS' COMPENSATION SCHEME**

**(in relation to the Compensation of Depositors Regulations 2008)**

## **Notes to the financial statements (continued)**

*(forming part of the financial statements for the year ended 31 March 2017)*

### **9 Treasury funding (continued)**

Although the Treasury funding is not subject to any terms and conditions, there is an expectation that amounts will be repaid as follows:

- Further dividends received after all other obligations of the Scheme have been met will be applied to repay the Treasury funding until such time as the advances made in respect of the Scheme Participants' levies ("the advances") have been repaid. Thereafter such recoveries will be shared between the Scheme Participants and Treasury. These advances have now all been repaid.
- In accordance with regulation 16A of the Regulations, any surplus remaining, once the Treasury funding in relation to advances to Scheme Participants' levies has been repaid and all other obligations of the Scheme have been met, will be distributed between Scheme Participants and the Treasury on such a basis as appears to the Scheme Manager to be appropriate having regard to the sources of funding from which the compensation payments were made. Consultation has taken place between the Scheme Manager, Scheme Participants and the Treasury, preparatory to the Scheme Manager exercising its discretion.
- Post this consultation the Scheme Manager concluded that in the exercise of its discretion in accordance with Regulation 16A of the 2008 Regulations, it should base the apportionment of Compensation Expenses having regard to the obligations of the Treasury and Scheme Participants under regulations 12A and 12 respectively of the 2008 Regulations. As a result the Scheme Manager decided upon a basis for the apportionment of Compensation Expenses and Surplus Funds and communicated that basis to the Scheme Participants and Treasury in September 2012.
- During the year, the Scheme Manager exercised its discretion and returned levies to the Scheme Participants totalling £Nil (2016: £Nil) and repaid £Nil (2016: £Nil) to Treasury.



# DEPOSITORS' COMPENSATION SCHEME

(in relation to the Compensation of Depositors Regulations 2008)

Notes to the financial statements (continued)  
*(forming part of the financial statements for the year ended 31 March 2017)*

## 9 Treasury funding (continued)

Until the total dividend distribution received from the KSF liquidation is known, there is significant uncertainty in relation to the amount of Treasury funding, currently shown as £1,499,403 in the financial statements as at 31 March 2017 (2016: £1,499,403), that will ultimately be repaid to Treasury. There is also significant uncertainty in relation to the final surplus that may be distributable to the Scheme Participants. At this stage no formal final estimate of the net cost has been made by the Scheme Manager.

The Treasury has confirmed that they will not seek to recall their funding until such time as the Scheme is in a position to do so.

## 10 Compensation paid

The amount of compensation payable under the Scheme in respect of an eligible protected deposit, as laid out in section 11 (2) of the 2008 Regulations, is 100% of the eligible protected deposit, subject to the following limits:

- a. where the depositor is an individual beneficially entitled to the deposit, £50,000;
- b. in any other case, £20,000.

	2017 £	2016 £
Compensation paid under the DCS and EPS	<u>656</u>	<u>17,910</u>
Included in the total compensation paid are the following EPS payments:		
Paid by Treasury under EPS for which no DCS claim has been made	-	(20,000)
Paid by Treasury under EPS where DCS claims have been made and agreed by the Scheme Manager	-	20,000
Total EPS paid	<u>-</u>	<u>-</u>

# DEPOSITORS' COMPENSATION SCHEME

(in relation to the Compensation of Depositors Regulations 2008)

notes to the financial statements (continued)  
 (forming part of the financial statements for the year ended 31 March 2017)

## 10 Compensation paid (continued)

The re-allocation of EPS payments results from the completion of additional compensation claims during the year ended 31 March 2017 where such claims had previously not been adjudicated or where compensation claims had not yet been made.

Certain conditions exist where joint accounts have been assigned to the Scheme Manager in full, and where the joint holders have not claimed for compensation. In a number of cases, the account holders will have been in receipt of EPS payments. Where the Scheme Manager has received dividends from the liquidator in respect of those accounts where claims have not been made, provision for paying the balance of receipts above the amount of EPS paid (and which is properly recoverable by the Scheme Manager) has been made (see note 7).

## 11 Analysis and reconciliation of net debt

	Net debt at 31 March 2016 £	Creditor reclassification £	Cash flow in year £	Net debt at 31 March 2017 £
Cash at bank (note 13)	1,178,284	388,332	(195,390)	1,371,226
Treasury funding	(1,499,403)	-	-	(1,499,403)
<b>Net debt</b>	<b>(321,119)</b>	<b>388,332</b>	<b>(195,390)</b>	<b>(128,177)</b>

### Reconciliation of net cash flow movement in net debt

	2017 £
Increase in cash in year (note 13)	192,942
Debt repaid	-
<b>Movement in net debt</b>	<b>192,942</b>
<b>Net debt at 1 April 2016</b>	<b>(321,119)</b>
<b>Net debt at 31 March 2017</b>	<b>(128,177)</b>

# DEPOSITORS' COMPENSATION SCHEME

(in relation to the Compensation of Depositors Regulations 2008)

## Notes to the financial statements (continued)

*(forming part of the financial statements for the year ended 31 March 2017)*

### 12 Related Parties

The Authority in its role as Scheme Manager and the Treasury are both considered to be related parties of the Scheme, as the Authority is an Independent Statutory Body overseen by the Treasury, and the Treasury is a department of the Isle of Man Government. The transactions relating to these parties are disclosed throughout these financial statements. Refer to note 9 in respect of Treasury funding and page 13, Comprehensive Income and Expenditure Account in respect of Scheme Manager fees for the current and prior years.

### 13 Cash at bank

Cash at bank of £1,371,226 (2016: £1,178,284) as at 31 March 2017 is shown net of £236,304 (2016: £650,444) relating to unrepresented cheques. These unrepresented cheques are in respect of compensation and surplus payments made to claimants and include such payments made throughout the period of the Scheme from inception. At the current year end £388,332 (2016: £nil) of unrepresented cheques have been reclassified to compensation agreed but not paid (note 7) as the counterparty had cheques outstanding for over the statutory proof period of 6 years. This has resulted in cash presented in the balance sheet being £388,332 higher than it would have otherwise been, with scheme creditors being higher by the same amount.

### 14 Critical accounting judgments

The Scheme Manager has not applied any significant judgments in applying the Scheme's accounting policies. Note 9 sets out a detailed statement of the Treasury funding and the significant uncertainty relating to the circumstances under which repayment might not take place. The Scheme Manager continues to report the full value of the funding liability until such time as the significant uncertainty is removed.

### 15 Post balance sheet events

On 16 June 2017 the High Court of Justice of the Isle of Man ruled that the surplus assets that remain in the liquidation of Kaupthing Singer & Friedlander (Isle of Man) Limited should be distributed at the statutory rate of interest of 4% per annum calculated for the whole period from 9 October 2008 until the date of distribution and then divided pro rata to unsecured creditors. As a result of this judgement the Scheme will receive further distributions from the Liquidator of Kaupthing Singer & Friedlander (Isle of Man) Limited in respect of assigned account balances for payment. No distributions have been received post year end.

# DEPOSITORS' COMPENSATION SCHEME

(in relation to the Compensation of Depositors Regulations 2008)

## Appendix A

### Scheme Participants

The scheme participants in the Depositors' Compensation Scheme during the year ended 31 March 2017, in relation to the default of Kaupthing Singer & Friedlander (Isle of Man) Limited under the 2008 Regulations, were as follows:

#### Current class 1 licenceholders (who were participants)

Bank of Scotland plc  
Barclays Bank PLC  
Cayman National Bank & Trust Company (Isle of Man) Limited  
Conister Bank Limited  
HSBC Bank plc  
Isle of Man Bank Limited  
Lloyds Bank International Limited (*formerly Lloyds TSB Offshore Limited*)  
Nedbank Private Wealth Limited (*formerly Fairbairn Private Bank (IOM) Limited*)  
Permanent Bank International Limited (*formerly Irish Nationwide (I.O.M.) Limited*)  
Standard Bank Isle of Man Limited  
The Royal Bank of Scotland International Limited  
The Royal Bank of Scotland plc

#### Former class 1 licenceholders (who were participants)

AIB Bank (CI) Limited (**licence surrendered on 29 November 2013**)  
AIB International Savings Limited (*formerly Anglo Irish Bank Corporation (International) PLC (licence surrendered on 30 June 2013)*)  
Alliance & Leicester International Limited (**licence surrendered on 7 May 2013**)  
Bank of Ireland (I.O.M.) Limited (**licence surrendered on 2 June 2015**)  
Bank of Scotland International Limited (**licence surrendered on 1 January 2010**)  
Barclays Private Clients International Limited (**licence surrendered on 19 December 2016**)  
Barclays Private Bank & Trust (Isle of Man) Limited (**Class 1 licence surrendered on 30 September 2015**)  
BNP Paribas Securities Services SCA (*formerly BNP Paribas Securities Services S.A.*) (**licence surrendered on 20 June 2015**)  
Bradford & Bingley International Limited (**licence surrendered on 5 August 2011**)  
Britannia International Limited (**licence surrendered on 31 March 2015**)  
Coutts & Co (Manx) Limited (*formerly RBS Coutts Bank (Manx) Limited*) (**ceased to be a participant in the Scheme under the 2010 Regulations from March 2011, licence surrendered on 31 March 2016**)  
Duncan Lawrie (IOM) Limited (**Class 1 licence surrendered on 31 July 2017**)  
Habib European Bank Limited (**licence surrendered on 31 July 2016**)  
HSBC Bank International Limited (**licence surrendered on 31 December 2012**)  
Irish Permanent (IOM) Limited (**licence surrendered on 30 November 2010**)  
Kleinwort Benson Bank (Isle of Man) Limited (*formerly Close Bank (Isle of Man) Limited*) (**licence surrendered on 23 January 2016**)  
Nationwide International Limited (**licence surrendered on 28 February 2015**)  
Zurich Bank International Limited (**licence surrendered on 30 April 2017**)

## **DEPOSITORS' COMPENSATION SCHEME** **(in relation to the Compensation of Depositors Regulations 2008)**

### **Appendix A (continued)**

The obligations of participants at the time of the default of KSF under the 2008 Regulations continue until the conclusion of the Scheme in relation to this default, irrespective of whether they continue as participants under the 2010 Regulations or as continuing licence holders.

