ISLE OF MAN
FINANCIAL SERVICES AUTHORITY
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Preventing Financial Crime

Analysis of firms' data

(2017 and 2018)

FUND MANAGERS / ADMINISTRATORS

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Contents

1. Introduction and Key Findings for Fund Managers / Administrators

1.1 This report is focused on those firms whose primary business, or a material part of its business, is that of being a Fund Manager / Administrator. For this purpose it specifically excludes those firms whose primary business is the provision of trust & company services (TCSPs), but who also provide management or administration services to exempt collective investment schemes ("funds"); this is mainly because:

- Data in respect of TCSPs is covered in a separate sector report; and
- For the period covered in this report not all relevant TCSPs provided specific data in respect of their services to exempt funds.

Reports for other sectors are also produced.

1.2 The population of Fund Managers / Administrators varies in terms of the types and numbers of funds they provide services to. Some are focused on only a small number of retail type funds, whereas others focus on servicing a wider range of clients including IOM qualifying funds, experienced investor funds, specialist funds, and exempt funds, together with services to overseas funds or to overseas managers/administrators.

1.3 This report provides an analysis of two years of data and covers areas such as the geographical profile of customers and beneficial owners (at fund and investor level), Fund Managers / Administrators' assessment of customer risk (at fund and investor level), reporting and monitoring of financial crime and sanctions, and the use of introducers and third parties.

1.4 **Table 1** below provides information on the population of Fund Managers / Administrators (**"FMA Firms"**) who were required to submit the annual AML/CFT data return for December 2018 and December 2017.

Table 1: Population of FMA firms for the purpose of this Report

	December 2018	December 2017
Number of FMA Firms[1]	14	14

[1] The population includes one firm that is also included in the investment business sector report, in respect of its investment management activity, and two firms that are also included in the TCSP sector report, in respect of their trust and company business.

1.5 A factor specific to the FMA sector is that the Island's AML/CFT framework applies not only to the FMA Firms, but also to funds established in the Isle of Man. These funds are customers of the FMA Firms, whereas investors in the funds are customers of the funds. In practice, the governing body of an Isle of Man fund will delegate the majority (if not all) of AML/CFT activities to an FMA Firm. It is therefore important that FMA Firms have clear arrangements in place with funds in relation to AML/CFT matters.

1.6 Relatively few foreign PEPs were reported by the sector (for example in comparison to banks), and the risk of doing business with sanctioned persons appears to be remote. However, it was evident that the number of foreign PEPs has increased in the period covered by this report, although this was driven by one FMA Firm.

1.7 The analysis confirms that the investor base (in funds managed or administered) is relatively diverse, with a geographical spread of investors by type, residency, and beneficial ownership. There is therefore a material cross border aspect to the sector; noting however concentrations domestically, to the UK and South Africa (the latter being for natural persons). The data also confirms that nearly all business is conducted on a non face to face basis, although the reliance on introducers (at fund investor level) is relatively low. The geographical spread and non face to face nature of the sector are aspects that can increase inherent risk.

1.8 The above profile, coupled with the nature of services offered results in a medium inherent risk of FMA Firms being exposed to a range of money laundering / terrorist finance threats. It is therefore important that FMA Firms have strong and effective monitoring and control frameworks in place to manage these risks.

2. Background to the AML/CFT data return

2.1 The Isle of Man Financial Services Authority's ("the Authority") regulatory objectives[2] include "*the reduction of financial crime*". In its **2018-2021 Strategic Plan** the Authority sets out its *long term goals* and *strategic objectives* which include:-

Long term goal	Strategic objective
Continue to develop our identity and culture and to operate as a forward looking integrated regulator	*Enhance the framework to protect consumers and deter financial crime*
Fully implement a risk-based supervisory approach for every entity within our remit, including vulnerability to financial crime	*Encourage innovation and continuous improvement in all that we do*
Be an International Financial Centre which is recognised as effectively deterring financial crime	

2.2 During 2016-2017 the Authority consulted on, and subsequently introduced, a pilot annual AML/CFT data return, designed to obtain information from regulated and registered entities to help the Authority monitor AML/CFT threats and trends in, and across, sectors. The table below shows the scope of returns to date and the planned returns for submission in 2020 and thereafter:

Responders	Annual reporting period	Basis for the information	Submission deadline
All regulated entities[3] Sample of registered entities[4]	31 December 2016	Best endeavours[5]	29 November 2017
All regulated and registered entities (firms)	31 December 2017	Part actual data, part best endeavours	31 December 2018
All firms	31 December 2018	Part actual data, part best endeavours	31 December 2019
All firms	31 December 2019	Part actual data, part best endeavours	30 September 2020, contingency to 31 December 2020
All firms	31 December 2020 and thereafter	Actual data (unless by exception)	30 June 2021 and 30 June thereafter

2.3 Based on the original pilot exercise (December 2016 data), high level results were presented to industry groups during 2018. The Authority has now also analysed the

[2] as set out in the Financial Services Act 2008 ("FSA08")
[3] Regulated under the FSA08, the Insurance Act 2008 and the Retirement Benefits Schemes Act 2000
[4] Registered under the Designated Businesses (Registration and Oversight) Act 2015.
[5] Refer Annex 1: Data Quality.

2017 and 2018 data and developed, for the first time, a collective industry view across sectors[6], excluding gambling, that are subject to the Island's AML/CFT framework. The Authority will use this information to help with its risk assessment of sectors, and individual firms.

3. Objectives

3.1 The gathering and analysis of data from all firms about AML/CFT helps the Authority to achieve the regulatory objective of "*the reduction of financial crime*".

3.2 The data informs the Authority's understanding of the ***inherent risks*** that firms, and sectors, may pose, and supports the Authority's AML/CFT supervisory work utilising a risk based approach. Some information provided also relates to a firm's ***control environment***. The information that must be reported is dependent on the type of activity a firm undertakes, for example a bank must report more information when compared to a financial advisory firm. Key areas of focus include:-

- The jurisdictional risk profile of the customer base and ultimate beneficial owners;
- The extent of non-face to face and introduced business undertaken by firms;
- Identification and reporting of suspicious activity for both money laundering and terrorist financing;
- Monitoring and screening processes adopted, including for sanctions;
- How firms categorise customer risk;
- The level of politically exposed persons in the system, and how these are identified;
- The compliance and internal audit mechanisms;
- Outsourcing of AML/CFT processes;
- The payment methods accepted by firms in relation to incoming and outgoing transfers; and
- The types of client or product / services provided.

3.3 The data underpins the Island's understanding of the wider financial crime environment and forms a key part of the National Risk Assessment process, alongside the specific quarterly financial flow data that the Authority receives from the Island's banking sector.

[6] The data does not include information from the small number of firms who are regulated only for bureau de change, agency payment services, or cheque cashing. These firms currently submit different AML/CFT statistical data which is analysed separately.

4. Customer risk profile – FMA Firms

A. Geographical profile – residency

4.1 Firms are required to report their customer relationships according to the residency of the customer, based on the ISO country code standard. This information enables the Authority to consider jurisdictional risk, and the extent to which customers are linked to higher-risk jurisdictions, when assessing sectors and firms.

4.2 FMA Firms provide information at two levels: funds, and investors into all funds (on a combined, rather than per fund basis). The residency of the **fund structures** reported were **86 Isle of Man** and **72 non-Isle of Man (*2017: 83 IOM and 55 non-IOM*). This excludes some exempt funds data.** Further statistical information about funds is available through the Authority's website at https://www.iomfsa.im/statistics/.

4.3 The total number of **investors** reported by FMA Firms as at 31 December 2018 was **8,249** (***2017: 15,960***), of which **31.1%** are resident in the UK (***2017: 29.3%***), and **13.8%** in the Isle of Man (***2017: 22.8%***).

At the end of 2018, FMA Firms reported that **60.6%** of investors were natural persons (***2017: 73.6%***).

The number of investors reported for 2018 was substantially lower because of the finalisation of some fund liquidations in the period, including one overseas fund with circa 5,000 investors (reported in the data for 2017).

Further, in 2017, one FMA Firm was not able to report investor residency data split between natural and non-natural persons, and reported the majority of the investors as "natural persons" despite this not being the case. This has meant that the residency data for natural persons – IOM, is overstated in 2017 (see below).

Of the investors who are natural persons, only **3.1%** are resident in the Isle of Man (***2017: 21.7%***) and **40.9%** in the UK (***2017: 31.3%***). There were also **27.4%** resident in South Africa (***2017: 19.8%***). Some of these investors may be customers of more than one firm that reports data. Over **75%** of natural persons were reported as being residents across only 5 countries for both 2018 and 2017 (**see table 2b**).

Of the investors who are non-natural persons, the most common residency (of the legal arrangement) was the Isle of Man at **30.4%** (***2017: 26.1%***). The UK made up a further **16%** (***2017: 23.8%***).

The data reported by FMA Firms on the residency of non-natural investors (legal arrangements) is not unexpected with the majority being from countries with strong fund sector connections.

Tables 2a and 2b below provide a more detailed breakdown[7].

Table 2a: Total percentage of investor relationships based on residency of the customer[8]

	Investor relationships: natural persons (% of total customers)		Investor relationships: Non-natural persons[9] (% of total customers)		Total investor relationships (% of total)	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Isle of Man	1.9%	15.9%	11.9%	6.9%	13.8%	22.8%
Channel Islands	1.0%	0.8%	3.5%	2.8%	4.5%	3.6%
UK	24.8%	23.1%	6.3%	6.2%	31.1%	29.3%
EU (excludes EEA and Switzerland)	5.4%	9.1%	8.6%	4.0%	14.0%	13.1%
Other Europe	1.3%	1.1%	2.7%	1.7%	4.0%	2.8%
Africa	18.1%	16.7%	1.6%	1.5%	19.7%	18.2%
Americas	1.8%	1.5%	3.8%	2.8%	5.6%	4.3%
Asia (including Middle East)	5.2%	4.4%	0.9%	0.4%	6.1%	4.8%
Oceania	1.1%	1.0%	0.1%	0.1%	1.2%	1.1%
TOTAL	**60.6%**	**73.6%**	**39.4%**	**26.4%**	**100%**	**100%**

[7] The data excludes two FMA Firms as their residency data (reported on a whole firm basis) predominantly relates to non-fund business (one is investment business related, and one is TCSP related).

[8] Note that this table, for non-natural persons, also includes the residency of funds (non-natural) and a small number of TCSP clients. However, these figures do materially impact the overall figures which predominantly represent investors.

[9] For a corporate or trust customer the residency will likely be reported as the country of incorporation / establishment of that company or trust (or of the trustee).

Table 2b: Top 5 countries by residency of the investor

Country of residence	Natural Persons (% of total natural persons)		Country of residence	Non-natural persons (% of total non-natural)	
	2018	2017		2018	2017
UK	40.9%	31.3%	Isle of Man	30.4%	26.1%
South Africa	27.4%	19.8%	UK	16.0%	23.8%
Japan	4.5%	2.3%	Ireland (new in top 5 for 2018)	7.4%	n/a
Isle of Man	3.1%	21.7%	Guernsey	6.6%	8.1%
Belgium (new in top 5 for 2018)	2.0%	n/a	Luxembourg	6.1%	5.1%
Spain (not in top 5 for 2018)	n/a	2.2%	South Africa (not in top 5 for 2018)	n/a	5.5%
TOTAL	**77.9%**	**77.3%**		**66.5%**	**68.6%**

The jurisdictional profile of the investor base for FMA Firms does not exhibit material higher risk features although there is a relatively wide geographic spread with some significant exposure to South Africa resident individuals, noting the majority of this is concentrated in one firm.

B. Geographical profile – residency of ultimate beneficial owners (of investors in funds)

4.4 FMA Firms provide services to funds, whose investors include non-natural customers ("entities"). FMA Firms, on behalf of the funds they provide services to, are normally required to understand who the beneficial owners of such entities (investors) are.

In some cases, these entities are institutional investors and will not have distinct beneficial owners as defined in legislation – FMA Firms have therefore reported the residency for beneficial ownership as being the same as the residency of the corporate entity in some situations, for example this could include investments made by IOM life companies into funds.

Of the non-natural investor book, **28.2%** of beneficial owners are resident in the Isle of Man ***(2017: 23.0%)***, followed by the UK at **22.2%** (***2017: 24.4%)***.

Note: one firm was not able to report complete residency data on beneficial owners of non-natural customers, as it reported the majority of the investors as "natural persons" despite this not being the case. This was more pronounced in 2017 as its investor book was larger.

Tables 3a and 3b below provide a more detailed breakdown[10]

Table 3a: Residency of the beneficial owners of non-natural customers

	Residency at 31 December 2018		Residency at 31 December 2017	
	Beneficial owners	Entities	Beneficial owners	Entities
Isle of Man	28.2%	30.4%	23.0%	26.1%
Channel Islands	7.7%	8.8%	9.4%	10.5%
UK	22.2%	16.0%	24.4%	23.8%
EU (excludes EEA and Switzerland)	18.0%	21.7%	14.1%	15.1%
Other Europe	8.2%	6.9%	9.2%	6.4%
Africa	7.5%	4.0%	9.8%	5.8%
Americas	3.6%	9.6%	5.5%	10.6%
Asia (including Middle East)	4.5%	2.4%	4.5%	1.4%
Oceania	0.1%	0.2%	0.1%	0.3%
TOTAL	**100%**	**100%**	**100%**	**100%**

Table 3b: Top 5 countries by residency of the beneficial owner (of entities)

	Country of residence of the beneficial owner (% of total number of beneficial owners)	
	2018	2017
Isle of Man	28.2%	23.0%
UK	22.2%	24.4%
South Africa	6.6%	8.8%
Guernsey	5.7%	7.1%
Switzerland	4.1%	4.6%
TOTAL	**66.8%**	**67.9%**

The jurisdictional profile of the beneficial owners of investors who are non-natural customers for **FMA Firms** is relatively wide in its scope, albeit with a particular concentration of UBOs (of investors) being resident in the Isle of Man and UK. However, there are constraints to this data as described above.

C. Politically exposed persons and other high risk customers

4.5 **Tables 4a and 4b** show customer relationships, as assessed by FMA Firms, deemed to pose a higher risk of money laundering, and the level of politically exposed persons ("PEPs") among the customer base, at both fund and investor level. PEPs[11] include

[10] The data excludes two FMA Firms as their residency data (reported on a whole firm basis) predominantly relates to non-fund business (one is investment business related, and one is TCSP related).

[11] PEP is defined in the Anti-Money Laundering and Countering the Financing of Terrorism Code 2019.

people with prominent public jobs who may be in a position to abuse their role for private gain.

4.6 At the end of 2018 FMA Firms reported that **46 PEPs**, including **44 foreign PEPs**, were directly associated to funds (***2017: 24***). At the investor level, FMA Firms reported **206 investors who are, or are associated with, a PEP** (***2017: 144***), including **200 related to foreign PEPs** (***2017: 141***). Firms are required to identify PEPs at the start of a business relationship and, through effective monitoring, if any persons subsequently become PEPs. Firms are required by law to undertake enhanced checks and monitoring of all customers who are, or are associated with, foreign PEPs and any domestic PEPs who the Firm assesses as posing a higher risk.

The increase in the number of foreign PEP relationships at both fund and investor level was driven substantially by one FMA Firm.

Table 4a: PEP relationships

	Number of PEP relationships (and as a % share of all relationships for investors)	
	31 December 2018	**31 December 2017**
At fund level		
Total PEPs associated with funds[12]	46	24
Of which are foreign PEPs	*44*	*24*
Of which are domestic PEPs	*2*	*0*
At investor level[13]		
Total investors who are / are associated with PEPs	206 (2.50%)	144 (0.90%)
Of which are foreign PEPs	*200*	*141*
Of which are domestic PEPs	*6*	*3*

4.7 At the end of 2018, **all 14 FMA Firms** confirmed that they screen for PEPs at the start of a business relationship, and screen their customer records on a periodic basis to determine if an investor or party to a fund has become a PEP. For the latter, the frequency of screening varied but **50% undertook automated daily monitoring**. Further, **all 14** confirmed they always screen their customer records at the occurrence of a trigger event.

[12] There could be more than one PEP associated with a single fund structure.
[13] The actual number of individual (natural) PEPs may be lower than the number of investors reported.

4.8 At the end of 2018 FMA Firms reported **19 high risk funds** (***2017: 24***). They also reported that the **number of investors** in funds classified as high risk was **385** (***2017: 661***); this includes investors who are categorised as being higher risk for reasons other than being a PEP. Where firms identify that customers (funds or investors) pose a higher risk, either at the outset of a business relationship, or through an event that occurs during the business relationship, they are legally required to conduct enhanced customer due diligence.

Table 4b: High-risk customer relationships

	Number of high risk customer relationships (total and new) (and as a % share of total / new customer relationships)	
At fund level	**December 2018**	**December 2017**
Total high risk customers (funds) (*includes any PEP associated funds assessed as higher risk*)	19 (12.02%)	24 (17.39%)
New high risk customers (funds) on-boarded in the reporting period (*includes any PEP associated funds assessed as higher risk*)	1 (4.0%)	7 (43.75%)
At investor level		
Total high risk investors (*includes any PEP investors assessed as higher risk*)	385 (4.67%)	661 (4.14%)
New high risk investors on-boarded in the reporting period (*includes any PEP investors assessed as higher risk*)	33 (1.43%)	27 (3.57%)

4.9 The total number of investors, including high risk investors, decreased substantially in 2018 as a result of the natural termination / liquidation of some funds, including one overseas fund connected to circa 5,000 investors. The number of new investors into funds assessed as high risk remained relatively low as a proportion of total investors.

4.10 Overall, PEPs and other high risk customers represent a **relatively small proportion** of the total investor base of FMA Firms (**less than 5%**). Note that the same individual customers may appear more than once in these figures because individuals and businesses may have multiple financial relationships.

4.11 FMA Firms also reported that they review the customer risk assessment and CDD information for all high risk (including higher risk PEPs) relationships at least annually.

5. Tackling Financial Crime – FMA Firms

A. Resourcing the fight against financial crime

5.1 To effectively monitor and address the risk that persons abuse the financial system for money laundering and terrorist financing requires a significant amount of firms' time and resources. As at 31 December 2018 FMA Firms reported that they collectively employ or utilise **220 staff[14] in the Isle of Man** (***2017: 220***), of which **41 (18%)** were reported as being in compliance and prevention of financial crime roles (***2017: 42 / 19%***).

It should be noted that compliance roles are not solely focused on financial crime, with conduct risk, and oversight of the general compliance of funds with the regulatory framework also being key features of the FMA sector.

5.2 Relevant staff require ongoing training to ensure they have the effective knowledge to help detect and prevent their firm from being misused by criminals. In the year ended 31 December 2018, FMA Firms reported that **187 general refresher or induction / detailed training places were filled** (***2017: 183***). This effectively represented **85%** of total staff employed or utilised (including directors) (***2017: 83%***).

In addition, FMA Firms reported that **24 staff** (**11%**) received specialist training (***2017: 26 / 12%***).

B. Outsourcing of processes to group entities or third parties

5.3 Information is obtained on the outsourcing of certain activities or functions to group entities or third parties. Where outsourcing occurs firms should have robust monitoring and control processes in place, as responsibility remains with the firm. Information is requested in respect of the following:-

- Customer on-boarding (including for risk assessments, collection of due diligence, screening, and business acceptance);
- Ongoing monitoring;
- MLRO and Compliance activity (for AML/CFT); and
- Staff screening and take-on.

5.4 It was evident from the reporting by FMA Firms that they do not generally outsource the activity relating to the above. Any outsourcing was mostly limited to either group companies or to a third party who are themselves a regulated business in the Isle of

[14] This includes IOM individuals employed through a group company but working for the FMA Firm.

Man providing management services. One firm utilised an external third party for ongoing monitoring reviews. There was slightly more use of pure third party outsourcing for the screening of staff at take-on. **Table 5** below provides more information (for 2018 only).

Table 5: Outsourcing of AML/CFT activity

Description	Undertaken by the Firm	Outsourced to Group	Outsourced to Third Parties[15]
Client on-boarding			
Customer risk assessments	Yes - 12	Yes - 1	Yes - 1
Collection of customer due diligence	Yes - 12	Yes - 1	Yes - 1
Customer screening	Yes - 12	No	Yes - 1
Customer acceptance[16]	Yes - 13	No	No
Ongoing monitoring	Yes - 12	No	Yes - 2
MLRO & Compliance activity			
MLRO / DMLRO activity	Yes - 12	Yes - 1	Yes - 1
Compliance activity	Yes - 13	Yes - 2[17]	Yes - 1
Staff screening and take-on	Yes - 10	Yes - 2	Yes - 2

C. Monitoring for, and reporting of, financial crime

5.5 The law requires employees of firms to report knowledge or suspicion of money laundering within their firm, to their MLRO. In the year ended 31 December 2018, **14** cases of concern, suspicion or knowledge of money laundering were either identified by staff, generated through automated processes, or identified from other intelligence sources, and reported to the firms' MLROs (***2017: 6***). In addition, **no** reports were raised which were terrorism related (***2017: zero***).

5.6 MLROs must consider these reports, and decide whether a formal submission to the **Isle of Man Financial Intelligence Unit**[18] ("FIU") is justified, and must be registered with the FIU's "Themis" system to be able to make reports. At the end of 2017 and 2018, of the **14** FMA Firms, **12** reported they were registered on "Themis". The two firms that were not reported as being registered are part of wider Isle of Man financial services groups that have their main operating entity registered on Themis.

[15] This was limited, with the exception of staff screening and one case of ongoing monitoring, to a regulated business in the Isle of Man with permission to provide management services.
[16] One firm did not provide any response to this question, but its business was very limited.
[17] In addition to compliance activity undertaken by the firm.
[18] See https://www.fiu.im/

5.7 In 2018, after investigation by MLROs, **9** cases of knowledge or suspicion of money laundering were reported to the FIU (***2017: 7***). **No** reports were made that were terrorism related (***2017: zero***). Further, FMA Firms reported **1** case to the FIU regarding general intelligence (***2017: zero***).

5.8 In 2018 FMA Firms handled **3** requests from law enforcement and other competent authorities (***2017: 1***). Of these, **none** explicitly related to money laundering or terrorism (***2017: 1***).

5.9 Engagement between the FIU, other law enforcement agencies and financial firms is a crucial component that supports investigations and prosecutions, not only in the Isle of Man but as part of international cooperation. The generally low levels of reporting for the FMA sector is not unexpected taking into account the nature of the services provided, and the maturity and size of the sector. Further, the data in table 5 may include disclosures made by the two TCSP firms within the population for this report that relate to TCSP business, rather than fund business.

Table 6: Liaising with the authorities

Description	**Year ended 31 Dec 2018**	**Year ended 31 Dec 2017**
Internal Money Laundering disclosures to the MLRO	14	6
External Money Laundering disclosures to the Financial Intelligence Unit	9	7
Internal Terrorist Financing disclosures to the MLRO	0	0
External Terrorist Financing disclosures to the Financial Intelligence Unit	0	0
Section 24 disclosures to the Financial Intelligence Unit	1	0
Enquiries received from law enforcement authorities	**1**	**1**
Of which were Money Laundering related	*0*	*1*
Of which were Terrorism related	*0*	*0*
Enquiries received from other competent authorities	**2**	**0**
Of which were Money Laundering related	*0*	*0*
Of which were Terrorism related	*0*	*0*

D. Refusing and blocking services because of financial crime risk

5.10 Concerns relating to financial crime may lead to firms turning away a prospective customer. In the year ended 31 December 2018 FMA Firms reported that they **did not decline any** potential new relationships because of financial crime, terrorism or sanctions related concerns, at fund or investor level (***2017: zero***).

5.11 Firms are required to monitor ongoing business relationships and may cease to provide services because of their own financial crime risk appetite, or may terminate relationships under certain circumstances, including liaising with the FIU if a matter is subject to "consent"[19]. During the year ended 31 December 2018 FMA Firms **did not terminate** any existing relationships at fund or investor level because of financial crime, terrorism or sanctions related concerns (***2017: zero***).

5.12 In addition to terminating relationships, firms may be requested by law enforcement agencies to block or freeze accounts, or may themselves put additional controls around accounts if information is required from a customer. As at the end of 2018 there were **33 "**accounts" blocked or frozen for money laundering or terrorism (***2017: zero***) – this was primarily as a result of specific remediation projects.

Table 7: disrupting provision of services

Description	Year ended 31 Dec 2018		Year ended 31 Dec 2017	
	Number	Asset Value £'000	Number	Asset Value £'000
Number of potential new customer relationships (funds and investors) declined for ML/FT or sanctions purposes	0		0	
Number of customer relationships terminated for ML/FT or sanction purposes (funds and investors)	0		0	
Blocked or frozen accounts for AML/CFT purposes – subject to consent including restraint orders etc.	33	9,369	0	0
Blocked or frozen accounts for any other purpose (e.g. gone away)	60	3,452	53	2,132

E. The Isle of Man banking system as gatekeeper

5.13 When it comes to the material flow of funds into and out of the Island, the banking sector plays an important gatekeeper role. FMA Firms reported the extent to which they use (themselves or for their clients[20]) the Island's banking system. In addition to using the Island's banking sector, firms may also hold bank accounts for themselves, or their clients, outside the Island. Firms are also requested to explain the types of payment method they accept (for inward and outward remittance, where relevant) and the extent to which they are utilised.

[19] Section 154 of the Proceeds of Crime Act provides a reporting mechanism called "an authorised disclosure", which is a means by which a defence against money laundering can be obtained by a firm. Making an authorised disclosure can be used as the vehicle to seek consent to commit a prohibited act (i.e. possessing, acquiring, moving known or suspected criminal property).

[20] For example subscription and redemption accounts.

5.14 **12** FMA Firms confirmed they only use the Island's banking sector for their own company banking needs (i.e. excluding banking arrangements for funds). Of the other **2**, the use of banks outside the Isle of Man was predominant (one of these firms is part of a group with operations outside the Isle of Man). Where a FMA Firm is permitted to hold or manage clients' funds, **5** reported that they hold funds outside the Isle of Man's banking system, with 4 of those being to a material extent.

5.15 The predominant payment method accepted by FMA Firms were bank transfers, with some occasional use of cheques and in specie property transfers. Cash was not accepted.

5.16 The above shows that FMA Firms bank to a relatively large extent in the Isle of Man, albeit with a small number of exceptions, and mainly utilise very standard methods of payment, with no cash activity.

5.17 The Island's banks report the value and number of transactions by country (for money flowing in and out of the Island) on a quarterly basis. Further information is contained in the Preventing Financial Crime report for the banking sector.

6. Managing and reporting of sanctions – FMA Firms

6.1 It is important that firms have robust controls in place to ensure they comply with local and international sanctions. In order to help achieve this firms must have appropriate monitoring and screening tools to identify whether any of their customers (at fund and investor level, existing or prospective) are sanctioned individuals or organisations, and also to make sure funds paid / received are not made to / from sanctioned individuals or organisations.

6.2 At the end of 2018, **all 14** FMA Firms confirmed that they screen for sanctions at the commencement of a business relationship, and **all 14** screen their customer records on a **periodic basis** to determine if a customer has become subject to sanctions. For the latter, the frequency of screening varied but **50% undertook automated daily monitoring**. Further, **13 of the 14** confirmed they always screen their customer records at the point where sanctions lists are updated (the one exception undertook daily screening to achieve the same outcome).

This was broadly consistent with the profile reported for 2017.

6.3 There is always potential that firms hold the funds of sanctioned individuals or organisations, mainly because such individuals / organisations will not have been subject to sanctions when they were originally accepted as a customer. In such cases, firms may be required to block or freeze assets for financial sanctions purposes. As at the end of 2018 there was **1** account blocked or frozen for financial sanctions purposes (***2017: zero***), with an aggregate value of **£40,000** (***2017: £zero***).

6.4 The law requires firms to identify and report any suspected breach of sanctions[21] to the **Financial Intelligence Unit**. In practice, these reports will be made by a firm's MLRO or Deputy MLRO using Themis (with processes in place internally for employees to report to the MLRO / Deputy MLRO). In the year ended 31 December 2018, **no disclosures** were made for suspected breaches of sanctions (***2017: zero***).

Table 8: managing and reporting sanctions

Description	Year ended 31 Dec 2018		Year ended 31 Dec 2017	
	Number	Asset Value £'000	Number	Asset Value £'000
Number of disclosures made for suspected breach of sanctions	0		0	
Accounts blocked or frozen in the year for financial sanctions purposes	0	0	0	0
Blocked or frozen accounts for financial sanctions purposes released in the year	0	0	0	0
Number and value of blocked or frozen accounts for financial sanctions purposes as at the year end	1	40	0	0

7. Delivery of services: face to face, use of introducers and third parties – FMA Firms (in respect of investors)

7.1 How a firm delivers its products and services to customers can range from direct relationships with face to face interaction before a business relationship is established, or an occasional transaction conducted, to situations where relationships are established remotely directly by the customer, or through introducers / third parties (and sometimes through more than one layer of introducer / third party).

[21] With reference to the "Sanctions List", which means the list of persons who are currently subject to international sanctions which apply in the Isle of Man: this list is maintained by the Customs and Excise Division of the Treasury of the Isle of Man.

7.2 In 2018, FMA Firms reported **2,309** new investor relationships (***2017: 756***). Of these new customers, **95%** was reported as direct business (including client referrals) (***2017: 85%***), whereas introduced business accounted for only **5%** (***2017: 15%***).

The increase in "new investors" in 2018 included some transfer of investors from one FMA Firm to another.

7.3 In 2018, on a "best endeavours basis", FMA Firms reported that **over 98%** of new investors (including through introducers) were established on a non face to face basis (***2017: 97%***).

7.4 For the small amount of introduced business, the main sources of introductions were from regulated firms located in the Isle of Man and South Africa.

Annex 1 – Data Quality

The following matters should be noted in relation to the data provided in this report:-

- Parts of some firms' data is provided on a "best endeavours basis" and therefore cannot be considered as 100% accurate.
- One firm was unable to split out its investor base between "natural" and "non-natural" persons for the purpose of reporting residency information.
- The figures for customer numbers, including PEPs, is based on a simple sum of individual firms' data. A customer (investor) of one firm may also have relationships with another and be counted twice in this data.
- The population of firms (14) includes some firms that also undertake investment business or trust and company services provision. Data pertaining to these activities is primarily covered in the relevant sector reports.