



ANNUAL REPORT 2020/21



ISLE OF MAN
FINANCIAL SERVICES AUTHORITY

Lught-Reill Shirveishyn Argidoil Ellan Vannin

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CHAIR'S OPENING REMARKS

“It would be strange in preparing an annual review of our work if we did not acknowledge the issues we have all faced since our last report in 2020. Karen Badgerow our CEO and I talked then in our introductory video about the “first COVID-19” lockdown and though we didn’t know it at the time we were sadly proved right about the lockdown of spring and summer 2020 being only the first that we would all experience.”

LILLIAN BOYLE, CHAIR OF THE ISLE OF MAN FINANCIAL SERVICES AUTHORITY

Within the Isle of Man, we were fortunate in the way that the Isle of Man Government steered our COVID-19 recovery process and our two further lockdowns were comparatively brief. Nevertheless, the Authority along with all businesses on the Island, faced challenges on each occasion as we all once again invoked working from home. Each time we were more effective and proficient in managing our work in that environment and our staff have continued to successfully carry out the role of the Authority during lockdowns.

In producing our Annual Report, we naturally look back to give context to the data within the report. However very importantly a key value in assembling the information is that it provides a focus on how the Authority continues to build on and implement its strategy. So much of what we do is continuous, and the artificial end date of the report is not replicated in the way we work. What we, therefore, provide within this report is both a snapshot of where we are in our development and signposting where we will go next. Balancing a review of the past year while looking forward means the data in the report will provide an understanding of the functions we have undertaken in 2020/21 while providing a canvass on which we can continue to build colour to the next stages of our strategy.

Within the strategic direction that we are taking are a number of projects and initiatives which commenced in previous years, and which are now crystallising. Key within this portfolio of work is the project to lessen our reliance on Government subvention and create a Predominantly Industry Funded Model (PIFM) for the operation of the Authority. This was established as multifaceted work streams which would stretch over a longer timeframe and would necessitate a large number of consultations, discussions and interventions with industry and wider stakeholders. To date we have completed a consultation paper, taken soundings

through a discussion paper and invoked two series of industry briefings leading to the establishment of an Industry Working Group. This drive towards a PIFM will be one of the biggest cultural and financial changes for the regulatory environment in the Isle of Man and will mark a step change for the Authority. The benefits from this revised financing will, we believe, deliver a more transparent regulatory relationship enabling and encouraging new innovative opportunities while continuing to provide a solid framework for existing businesses to continue to develop and grow.

2021 also brought a significant change in the remit of the Authority when in January it took on a new mantle by becoming the Island’s Resolution Authority. The dual function has meant a splitting out of aspects within the governance structure of the Authority to ensure we have the ability to both supervise and carry out the statutory resolution and recovery requirements. This is a crucial area of responsibility and one where we are developing the tools to have oversight and interpret the pertinent data relating to our banking industry.

The opportunity for further flexibility in our wider working model will, as Karen has highlighted, stem from the enhancing of the Authority’s wider IT systems. We consider it is essential that we utilise all relevant data sources to help format our strategy. Being able to access, collect, analyse and share data will help build a comprehensive model of the activities undertaken by the Isle of Man’s financial services sector and highlight the areas of focus for our risk-based supervision.



From a Board perspective our biggest in-house challenge this year has been to carry out a recruitment programme for a new Chief Executive Officer. At the end of 2020 our CEO Karen Badgerow confirmed that she would be leaving her role in the late summer of 2021 to return to Canada to take the opportunity to spend time with her family. The challenge of recruiting during a global pandemic has been an interesting and logistically thought-provoking exercise. This has now concluded with a new CEO due to join us later in the year and we are fortunate that Colin Manley our current Head of Insurance, Pensions & Fiduciaries will take on the role of Interim CEO between Karen leaving at the end of July and the new CEO joining us.

Karen has been with the Authority since its inception in 2015 and was tasked with delivering a unified authority, a not inconsiderable task given the diverse nature of the financial services regulatory landscape within the Isle of Man. Karen has embraced this challenge on a daily basis and the result is the fully fledged comprehensive regulator that we have today. With her leadership over the past six years, we now find ourselves well positioned to embrace the next period of our regulatory evolution. We wish Karen and her husband Brian well in resuming their life in Canada and thank her for her contribution and vision in leading the Authority to be ready for the next challenges.

On one final note of change, the summer of 2021 brings a major alteration within the Authority's Board. Juan Clarke and Paul Wright have completed their extended terms of office of over five years. Treasury has now concluded the recruitment process for new Board members, and these have been approved by Tynwald and their appointments were effective from 1 July this year. Both Paul and Juan have in their time served as Chair of the Authority's Risk and Control Committee providing guidance and oversight of our risk systems and helping to develop the risk appetite and tolerance of the Authority. In addition, we would wish to acknowledge Paul Wright's contribution to the establishment of the resolution work within the Authority and the leadership he has given as the first Chair of our "new" Board Committee overseeing resolution and recovery. I would also like to thank Juan Clarke who in addition to a number of Committee roles has also served over the past three years as Deputy Chair of the Authority giving us the benefit of his wide practitioner experience in the Isle of Man financial services sector.

Change is often our biggest challenge as a regulator, and we are fortunate to have several continuing Board members who along with the new members and all of the staff at the Authority will work together to enable us to continue to meet the changing needs of our stakeholder community.

CHIEF EXECUTIVE'S REPORT

"The close of the 2020/21 reporting period marks an incredibly difficult year behind all of us, the challenges of which none of us could have predicted. Proudly, the Authority approached these new challenges with steadfast resilience and agility that allowed us to continue to focus on our core objectives."

**KAREN BADGEROW, CHIEF EXECUTIVE OF ISLE OF MAN
FINANCIAL SERVICES AUTHORITY**

I want to take this opportunity to commend the staff for continuing to deliver on our mission over this last year, and also the Board of the Authority for helping us to strive towards our commitment to keep our financial system strong and resilient. For me, this past year has been particularly poignant as I prepared to leave my post as Chief Executive and take on new adventures with my family back in Canada. In writing these final remarks, I naturally reflected not just on this past year but also on the past few years of leading the Authority.

A lot of focus in our early days was building one culture and one Authority, and this good work continues. The Isle of Man has a very diverse financial sector and as the sole regulator we needed to ensure that we tailored our approach to regulation and supervision to account for these differences, but also to build out consistency in areas where it was required. Early work focused on setting out our expectations on what we would look like as one Authority and how we would engage with our staff and other stakeholders. Our long-term goals, values and principles as set out in our 2018 Strategic Plan were important elements of the culture that we worked to establish.

I have no doubt that these values will continue to feature in the Authority's approach to its work. During this period we have moved forward in developing a more common look in a number of our core areas and we have also welcomed new responsibilities including bank recovery and resolution and responsibilities in relation to the Beneficial Ownership database. Our achievements since 2015 were due, in large measure, to the culture of collaboration that we have promoted with our stakeholders and our willingness to listen and engage.

In closing off on this chapter of my career, I couldn't help but reflect on the opportunities that lie ahead for both the Authority and indeed the Island. Innovation and new ways of doing things are regularly featured in discussions with our staff, Board and other stakeholders. Financial services is increasingly a data driven business and consumers are increasing demand for more digital ways of doing business. Enquiries for authorisation increasingly have some form of innovation attached to them and while many of our processes are adaptive to these new and innovative propositions, we are at the same time considering other ways to support these new opportunities. The Authority approved its first Class 1(2) banking licence, which operates as a digital bank and the journey through the authorisation process was a learning opportunity for all. We know that there is more to do in this space and partnership with other government agencies is key to keeping pace and ensuring a joined up way of supporting sustainable and responsible innovation. We must, however, always be mindful of our responsibility to protect consumers and the global reputation of our Island and this must remain at the forefront of our minds as we consider future opportunities.

Leveraging technology as a regulator also increases the offerings of the Island as a place to do business. This last year has taught us a great deal about new ways of engaging with our stakeholders and using our technology footprint to do so. The launch of our webinar series in late 2020 allowed us to better communicate with our stakeholders and share about key work initiatives and what we were focusing on. The development of our back office system, Atlas, in late 2019 now enables us to better understand and track the status of work and has been the starting point for a more digital Authority. The ability of the Authority, along with its government partners, to invest in core technology will be crucial to meeting the needs and expectations of the sectors we regulate and oversee.

Opportunities and risks go hand in hand, and more and more the Authority is turning its mind to how we best navigate the risks associated with climate change.

Membership of the Network for Greening the Financial System and tapping into other international resources has elevated our understanding of the role that supervisors need to play to achieve the net zero targets being set by governments worldwide. We are starting that conversation with a number of our firms and thinking about how we articulate supervisory expectations. We are not alone in this challenge and collaboration with other government agencies and private sector partners will be important to achieving the appropriate outcomes.

In closing, it has been an absolute pleasure and privilege to be part of the Authority and to spend these last six years on the Isle of Man. The commitment and passion of the team have driven many of the changes at the Authority and this spirit will invariably be the hallmark of future achievements. Wishing you all well.





INTRODUCTION

The Authority is the Isle of Man's financial services regulator which was established as an independent statutory board on 1 November 2015. Details of the Authority's regulatory objectives, functions and governance arrangements are set out in Appendix A to this report.

We report annually on our proceedings and activities to the Isle of Man Treasury by way of the Annual Report. The Annual Report includes the Authority's accounts, audited in accordance with the Audit Act 2006. This report covers the period 1 April 2020 to 30 March 2021. This report will be laid before Tynwald.

Our Strategic Plan (2018-21) set out four strategic themes which continue to drive and guide our work:

- Enhance the framework to protect consumers and deter financial crime.
- Enhance clarity around our regulatory, supervisory and enforcement processes.
- Encourage innovation and continuous improvement in all that we do.
- Create an environment that enables staff to fulfil their potential.

We are committed to being open and transparent about our approach and activities to enable stakeholders, including consumers of financial products, to understand the regulatory framework and its perimeter; and regulated and registered firms and individuals to appreciate what we expect from them. Effective communication with the regulated and registered sectors and consumers is a cornerstone of our work.

Strategic Plan 2021-24

Our Strategic Plan for 2021-24 is due to be published during 2021. The plan will set out our strategic initiatives over the next three years.

OUR STAFF AND VALUES

Integrity

One team, collaborative
decision making, open to
others views, pulling
together

Respect

Think people - staff
wellness, being
inclusive, reaching out,
making time, listening

Excellence

Be accountable, sharing
information, reporting
information, being accessible,
enhancing our governance,
using new technology

Our members



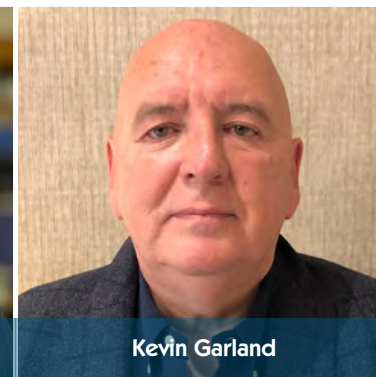
Jane McAndry



Juan Clarke



Karen Badgerow



Kevin Garland



Leam Thompson



Lillian Boyle



Mark Waterhouse



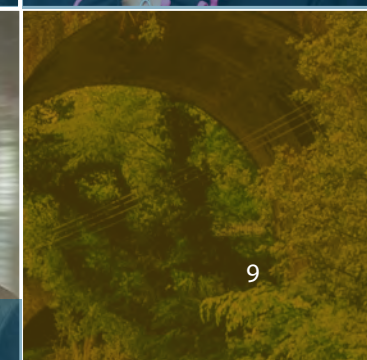
Paul Wright



Peter Hahn



Paul Freeman
(Secretary to the Board)



THE AUTHORITY'S YEAR AT A GLANCE 2020/21



Authority Funding Model

We issued a Consultation Paper and a Discussion Paper. Engagement with industry via a series of meetings.



Crisis Preparedness

The Authority became the Resolution Authority for the Island and the Bank (Recovery and Resolution) Act 2020 was enacted. Resolution Committee appointed and Resolution & Crisis Management Division established.



Data Management and Analytics

Continued centralisation of data within the live Atlas system. Review of requirements for data collection methodology and enhanced data collection.



Supervisory Methodology

We started the roll-out of the revised supervisory inspection methodology.



AML/CFT

Continued work on AML/CFT guidance and activity specific FAQs. Designated Business inspections took place.

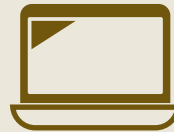
Innovation

Fitness and propriety assessments are now performed online in the Atlas system.



Supporting Consumers

World Investor Week Consumer materials were made available via the Authority's website and social media platforms.



Strategic Plan 2021-24

We undertook work to develop an updated plan to define strategic focus for the next three years.



Communication

We continued to update sectors through live webinars and recorded presentations.



Response to COVID-19 Pandemic

In March 2020 we invoked our Business Continuity Plan (BCP) and all staff worked from home. We continued to operate effectively and cohesively. In 2021 we resumed home-working for two further Island lockdowns.



THE AUTHORITY'S PLAN AT A GLANCE 2021/22

Embedding the AML Framework

A foreign PEP thematic exercise will be undertaken, and we will publicise the full suite of AML/CFT Guidance documents and undertake outreach sessions for industry.



Authority Funding Model

Further industry liaison will take place, and the independent third party adviser to the project will assist us to conduct research in order to propose a model to transition the Authority's income away from Treasury subvention to a predominantly industry funded model.



Crisis Preparedness

A review of the adequacy of the Policyholder Compensation Scheme will take place, and options for updating the Depositors' Compensation Scheme will be considered.



Data Management and Analytics

We will develop a data warehouse and implement a supervisory analytics and reporting functionality, whilst engaging with industry on proposed enhancements of the data collection methodology.



Supervisory Methodology

We plan to finalise the risk and impact framework, complete the intervention toolkit and fully implement the revised inspections framework.



Enforcement

We will refine and improve decision making processes based on experience gained to date.

Communication

We will continue to issue webinars on topics of interest, and refresh consumer matters materials for the investment and pension sectors.



Primary Legislation Updates

We will consult on the drafts of two items of primary legislation – the Retirement Benefits Schemes (Amendment) Bill and the Financial Services (Amendments) Bill.



Innovation

We will work together with industry and with the Digital and Finance Agencies of the Department of Enterprise to identify issues and opportunities in new business models and technology impacting the regulatory framework.



Bank Resolution

Resolution plans will be prepared and liaison will take place with overseas resolution counterparts.



Insurance Core Principle Project

Legislation is planned to come into force on 30 June 2022 ([ICP Roadmap](#)).



Staff Learning & Development

We will continue to empower our staff to take ownership of their learning and development through relevant training and to invest in and support our staff in undertaking appropriate professional qualifications.

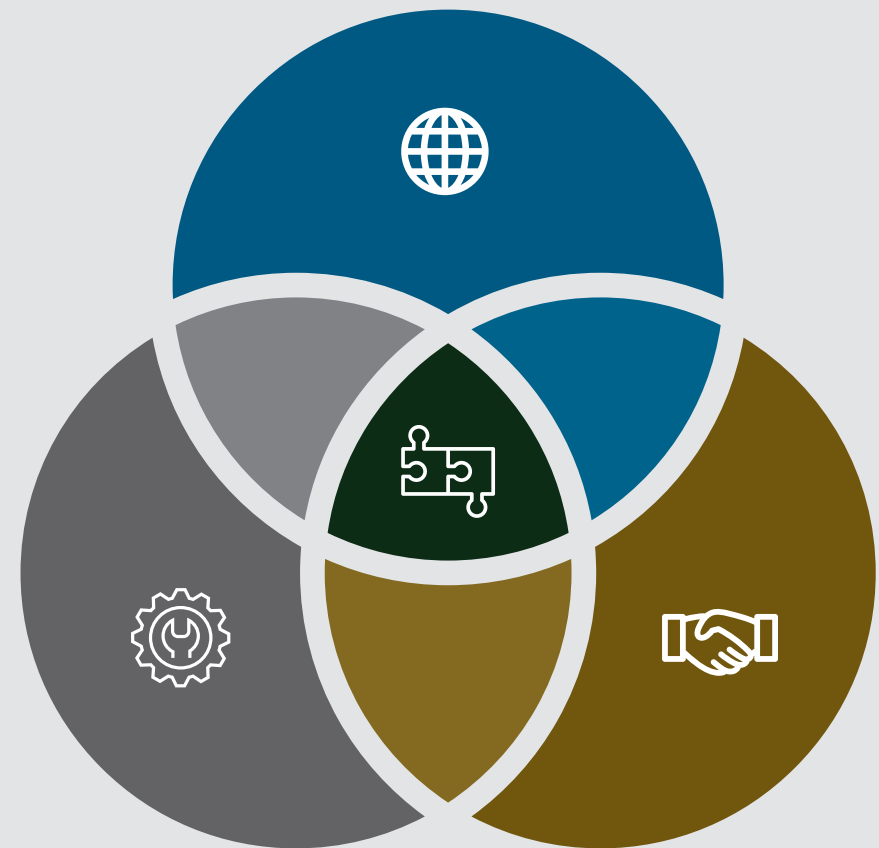


OUR STRATEGIC PERFORMANCE 2020/21

AND

OUR STRATEGIC APPROACH FOR 2021/22

The Authority's framework needs to be fit for the future. This means we need to balance a range of issues:



Meet International Standards



Support Ethical
Business Practices



Appropriately Flexible
and allow Innovation



Fit For Purpose

SUPERVISORY METHODOLOGY

Supervisory Methodology

Our objective is to ensure that we have a consistent approach to the supervision of regulated entities based on our assessment of risk and impact at firm, and where applicable, sector level. To do this we need:

- a common risk assessment methodology
- a common view and assessment of impact at firm and sector level
- an agreed engagement model based on impact and risk, including when and how to use supervisory intervention tools
- an appropriate internal governance framework to ensure consistency
- a common approach to supervisory inspections
- public information that explains our approach to supervision in a clear and concise way.

The supervisory methodology will continue to hold the boards of regulated firms to account for ensuring a firm conducts its affairs in an appropriate manner and meets its regulatory obligations. This includes the adequacy of risk management and compliance resource.

Achieved 2020-21

- We have planned how we will take the next phases of the project forward.
- The revised supervisory inspection methodology has started to be rolled-out.
- We have defined the high-level risk categories that will form the key building blocks of firm and sector risk assessments, and referenced this in various industry presentations/webinars.

Planned 2021-22

- The revised risk and impact framework will be finalised.
- Our revised approach to engagement, and clarification of the various pathways of intervention will be completed.
- The revised supervisory inspections framework will be fully implemented.



AML/CFT

We have established a centralised Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Division that is able to support the supervision and oversight of all firms in relation to AML/CFT compliance. The establishment of the centralised team will:

- ensure consistency of approach in implementing a risk-based methodology for AML/CFT across all sectors
- collect and analyse appropriate data to support our assessment of these risks
- use all available data to create actionable intelligence and typologies.

The team will continue to develop revised AML/CFT guidance which will apply to all sectors. This will be supported by sector-specific guidance and best practice guides on key and emerging topics. This team remains responsible for the AML/CFT policy matters and contributes to any relevant international work connected to AML/CFT as requested by Cabinet Office.

In terms of the Island's response to the MONEYVAL fifth round evaluation, which was undertaken in 2016, the Island was subject to further 'follow-up' procedures this year and is now rated as Compliant or Largely Compliant with 39 out of the 40 FATF recommendations. In the absence of an on-site inspection due to COVID-19 restrictions (and an internal FATF strategic review of their assessment approach which has slowed delivery for the FATF style regional bodies such as MONEYVAL), the Isle of Man Government also completed its own '[self-evaluation](#)' of progress made to date since our fifth round evaluation and it was concluded 98% of actions relating to effectiveness and 92% of actions relating to technical compliance are now complete.

Achieved 2020-21

- Continued work on AML/CFT Guidance including FAQ documents specifically relating to undertaking Customer Due Diligence (CDD) in a pandemic and crypto asset activity and regulation.
- Contributing to the work undertaken in relation to the MONEYVAL follow-up evaluation.
- Participation in Cabinet Office led mock statistics collection exercise.
- Designated Business inspections – payroll and virtual asset focus.
- [Sectoral reports on AML/CFT](#) for industry.

Planned 2021-22

- Development of the centralised AML/CFT team.
- Implementation of a revised supervisory approach in respect of AML/CFT.
- Publication of the full suite of AML/CFT Guidance documents with associated outreach sessions for industry.
- Continuation of AML/CFT inspections across all sectors including implementation of a foreign Politically Exposed Person (PEP) thematic exercise.



REMEDICATION AND ENFORCEMENT

Remediation

Where a firm has regulatory issues, our preferred option remains to work with the firm so that they get back into a compliant position, unless the issue requires an immediate enforcement investigation. The Authority's remediation tools cover a broad range, including additional reporting, focused inspections and the use of directions, to external appointments to gain independent assurance on the strength of controls and effectiveness of internal processes. Certain decisions of the Authority, such as the use of some directions and making external appointments, may also be the subject of appeals by firms to the Financial Services Tribunal.

Achieved 2020-21

- Directions issued to firms, for example to restrict new business, to help avoid further harm arising whilst matters are remediated or investigated.
- External appointments made to firms following supervisory inspections to look further into identified areas of concern, or to report on progress made in respect of remediation undertaken. The cost of these appointments is met by the firm.

- Directions issued to firms requiring external appointments to act as "no objection signatory" (normally in conjunction with the use of the external appointment to review identified areas of concern) in respect of, for example, transactions above set thresholds, re-risk rating of clients, and the acceptance of new clients. The role of the signatory is also to provide insights and learnings to the firm.
- We actively monitor the remedial actions taken by firms. Where firms have successfully undertaken effective remedial action intervention tools have been removed. Where remediation is not effective then alternative actions will be pursued, including enforcement.

Planned 2021-22

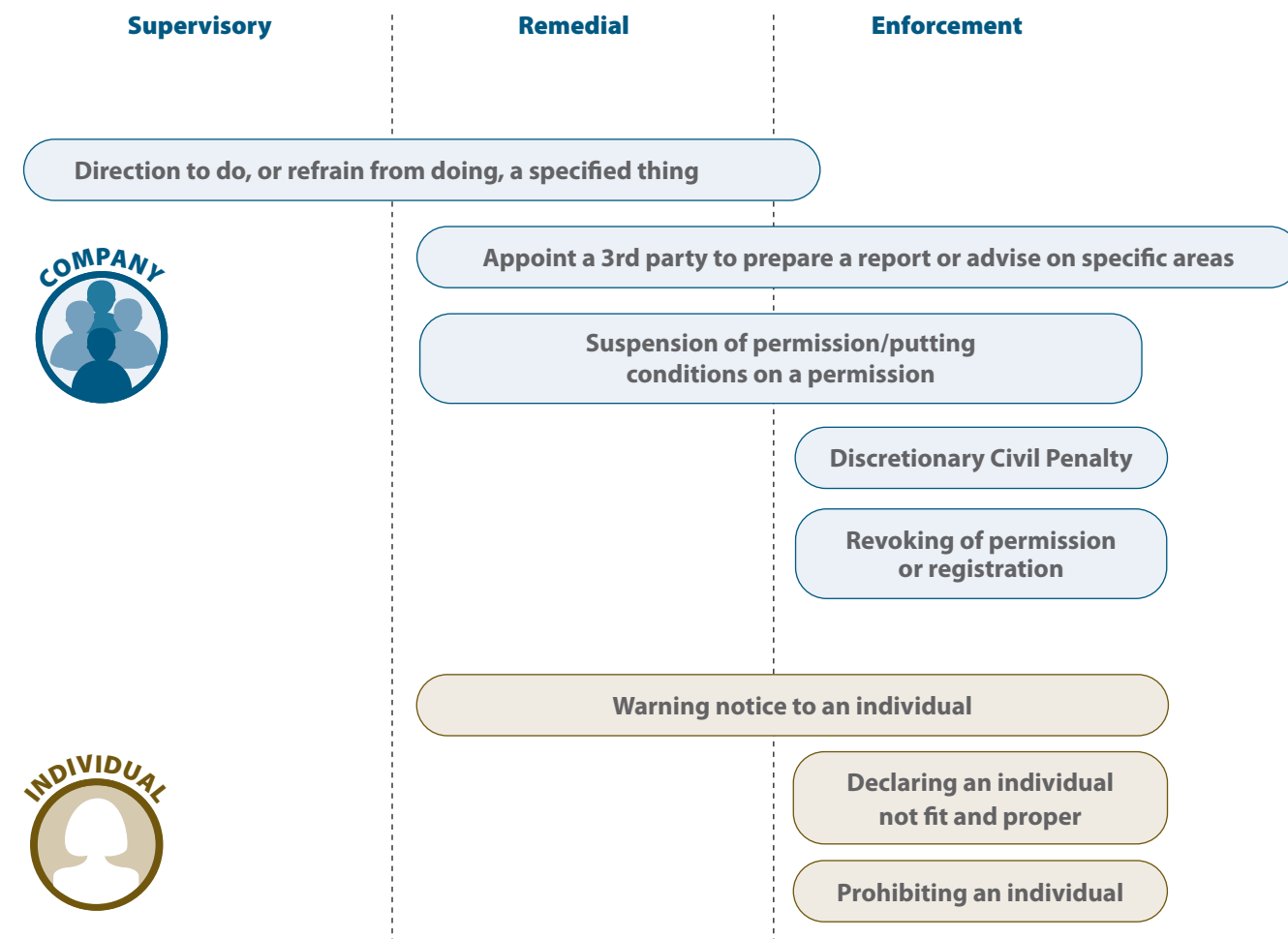
- We will continue to utilise our tools where necessary.
- As part of our wider review of our approach to supervision we expect to publish information on our updated supervisory engagement model, including information on how or when we might use our supervisory powers and remediation toolkit.

Enforcement

We only take enforcement action where this is considered proportionate, reasonable and appropriate. The extent of intervention and sanctions imposed reflects the threat to, or harm done, by reference to our [regulatory objectives](#).

When intervention is necessary, it is important that we use the appropriate powers. Intervention can be viewed as a sliding scale. At one end of the scale there is the option of 'enhanced supervision' such as agreeing remedial action, which is outside the scope of enforcement action. At the other end, the Authority's powers include revocation of a permission, prohibitions and disqualifications of individuals, and discretionary civil penalties. For the latter, the amount levied is not a set value but is calculated according to the 'relevant income' of a firm, and any action taken will normally be publicised. Sometimes, enforcement action is taken alone or in conjunction with other measures.

Dealing with issues - Key decision-making powers of the Authority across its legislation¹



¹Please note, the powers specified above are for indicative purposes only and are not exhaustive. Powers exercised by another body, such as the High Court, are not detailed. References to permissions includes Authorisation Orders and Licences as applicable.

Integrity and Dishonesty

The Authority expects any individual who is employed or engaged in a position of responsibility within the regulated sector to act competently and with integrity. When considering whether to exercise its power to impose a prohibition against an individual, the Authority will have regard to all the relevant circumstances of the case.

In cases where an individual's actions or conduct are dishonest the Authority will generally apply the principle set out in the Jersey case of 'Francis and the Jersey Financial Services Commission' [2017] JRC203A. Namely, all acts of dishonesty involve a lack of integrity.

Where the Authority identifies that an individual who is employed or engaged in a position of responsibility within the regulated sector has committed dishonest actions it will consider that the individual lacks integrity. Where an individual is deemed to lack integrity the Authority will consider whether to impose a prohibition. The style and approach taken by the Authority, whereby the individual is prohibited from any function in relation to any activity under the IA08, the FSA08 and the CISA08, is the approach the Authority will take to prohibitions where a lack of integrity is identified, particularly in cases involving dishonesty.

We publish details of [current prohibitions](#) on our website.

Achieved 2020-21

- The Authority has obligations to protect the reputation of the Island's financial services sector and the rights of customers from elements of dishonesty or lack of integrity amongst firms or those in positions of control and influence. We have taken robust steps, under the governance of a revised enforcement decision-making process introduced in late 2019, and succeeded in utilising early agreed settlement processes to achieve these objectives in a cost-effective way.
- We have issued clear messages to improve the understanding of our approach to enforcement and our tolerance levels; this has included matters pertaining to instances involving lack of integrity and/or dishonesty by individuals, including the use of our prohibition powers. Public statements explain the failures identified, the measures taken and the key messages for both the public and industry.

- We have been active to foster a better understanding of AML/CFT Code requirements within registered persons operating under the designated business framework. Many small businesses may find it difficult to appreciate the breadth and scope of their obligations. Clear guidance is available. Where repeated or inexcusable failures in compliance or in annual reporting occur, we have pursued remediation and, where appropriate, discretionary civil penalties.

Planned 2021-22

- The Authority will continue to work to deter financial crime, issuing penalties as necessary, and to enhance and support the reputation of the Isle of Man as an international financial services centre that operates with integrity, backed by robust regulation.
- We will consider the experience we have gained in order to refine and improve decision-making processes. We will ensure that software and other technological tools are available to assist cost-effective and focused investigation, and that we are fully aligned and integrated into both an on Island and broader multi-agency approach to combating financial wrongdoing.

INSURANCE CORE PRINCIPLES PROJECT (ICP)

Development work on the ICP project is progressing towards its final stages. This project encompasses a full review of all requirements under the IA08 against the Insurance Core Principles issued by the International Association of Insurance Supervisors (IAIS), which is the international standard setting body for insurance regulation. The project includes updating the insurance regulatory framework in respect of all insurers, insurance managers and general insurance intermediaries.

The [Insurance Framework](#) area of our website contains up-to-date information about the project, its progress and the next steps.

Achieved 2020-21

- All legislation in respect of general insurance intermediaries was implemented on 31 December 2020.
- Consultation on Insurance Regulations 2021 took place. These Regulations bring in a new risk-based capital and solvency framework for non-life insurers including PCCs and ICCs and, in particular, include the new criteria for a class 12 insurer (i.e. an insurer that is subject to a reduced level of regulation).
- A reclassification of authorisation exercise for non-life insurers, based on the new class 12 criteria took place.
- A dry-run exercise for insurers to practice determining their regulatory capital requirements calculation under the new framework with non-life insurers was completed.

Planned 2021-22

- New risk-based capital requirements for non-life insurers planned to come into force in 2022.
- Insurance regulations (including Class 12 definition) planned to come into force in 2022.
- Enhanced Corporate Governance Code for all insurers, including class 12 insurers, planned to come into force in 2022.
- Development and implementation of a public disclosure framework for insurers.
- Development and implementation of a group supervision framework for non-life insurers.

CRISIS PREPAREDNESS

(INCLUDING BANK RESOLUTION)

Bank Resolution

As the Isle of Man Resolution Authority our purpose is to protect customer deposits and the stability of the wider financial system in the event a bank fails without exposing taxpayers to loss. Early intervention, before a failure occurs, can improve the outcome for the bank and its customers, preserving confidence in the financial system. The Resolution Authority's powers are intended, where appropriate, to protect against the need for immediate winding-up and bank closure, if a bank provides services which are critical to the functioning of the Isle of Man economy.

Achieved 2020-21

- The Bank (Recovery and Resolution) Act 2020 is now in force.
- The Financial Services Authority has been appointed as the Resolution Authority.
- A Resolution Committee of The Authority has been formed.
- To manage actual or perceived conflicts of interest, our functions as a regulatory supervisor of banks need to be operationally separate from our functions as the Resolution Authority. Accordingly, Tynwald has approved the [Bank \(Recovery and Resolution\)\(Separation of Functions Regulations\)2020](#), as published on our website.

Planned 2021-22

- As the Resolution Authority, the Authority will start preparing resolution plans to deal with the possible failure of each bank that is incorporated in the Island.
- In this capacity we will liaise and work with with our overseas counterparts so that in the event of an international banking group failure, matters can be dealt with in an efficient and co-ordinated manner.

Crisis Preparedness

In addition to the work undertaken to bring the bank recovery and resolution framework into effect, the FSA is engaged in a wider programme of work to ensure that its crisis preparedness and response framework is up-to-date and effective.

Achieved 2020-21

- Engagement with the life insurance sector on a 'desktop' evaluation exercise of the Policyholders' Compensation Scheme.
- Regular participation in European Forum of Deposit Insurers meetings of small jurisdictions, alongside Treasury (which is the Scheme Manager of the Depositors' Compensation Scheme).

Planned 2021-22

- Further work to review the adequacy of the Policyholders' Compensation Scheme.
- Engagement with Treasury, the banking industry and other stakeholders regarding potential options to update the current Depositors' Compensation Scheme Regulations, in line with new international standards.
- Update of our internal crisis preparedness processes and procedures to reflect changes as a result of new legal resolution powers and any agreed changes to compensation scheme arrangements.

MAINTAINING AND UPDATING OUR FRAMEWORK

The Authority's framework flows from the legislation which grants our powers and sets out our responsibilities. It is important that the legislative framework is, and remains, appropriate.

Our current primary legislative programme includes the production and consultation upon two amendment Bills:

- Retirement Benefits Schemes (Amendment) Bill; and
- Financial Services (Amendments) Bill.

Retirement Benefits Schemes – Regulatory Reform

We will continue our work on modernising and enhancing the regulatory framework for pension schemes and pension providers. The focus of the framework continues to be on individual pension schemes under the Retirement Benefits Schemes Act 2000 (RBSA00).

Our liaison and consultation in 2018/19 showed industry supported a framework where the schemes remain regulated under the RBSA00, and pension providers are licensed under the FSA08. This approach requires an appropriate regulatory framework to be put in place for pension providers under the FSA08, including

updating the duties of pension providers and administrators, such as requirements around governance and how they manage the conduct of their business as a whole.

This is a long-term project requiring significant and highly technical changes to the current framework.

Achieved 2020-21

- Comprehensive drafting instructions for the amendments needed to the RBSA00 were produced and issued to the Attorney General's Chambers.
- Draft secondary legislation under the FSA08 and RBSA00 was prepared which will underpin the new framework, and also address the funding requirements for defined benefit pension schemes.

Planned 2021-22

- Once a draft Bill has been received, a full consultation will take place, including on draft secondary legislation.

FINANCIAL SERVICES (AMENDMENTS) BILL

Changes to other primary legislation are needed to clarify and enhance the regulatory framework helping the Island to continue to meet international standards and safeguard its reputation as a well-regulated financial services jurisdiction. The draft Financial Services (Amendments) Bill will amend four pieces of regulatory legislation:

- The Financial Services Act 2008 (FSA08)
- The Insurance Act 2008 (IA08)
- The Collective Investment Schemes Act 2008 (CISA08), and
- The Designated Businesses (Regulation and Oversight) Act 2015 (DBROA15).

Achieved 2020-21

- Following a discussion paper issued in August 2019 and feedback published in December 2019, drafting instructions were produced and issued in 2020 to the Attorney General's Chambers.

Planned 2021-22

- Once a draft Bill has been received, a full consultation on it will take place.





THE AUTHORITY FUNDING MODEL

The Authority is funded by a combination of fees levied on regulated and registered firms and a subvention from the Isle of Man Government.

In the Isle of Man Budget 2020-21, recognising the desirability of the Authority's financial independence, the Treasury announced the intention for plans to be developed to move the Authority to a PIFM in the future.

Achieved 2020-21

- A series of industry meetings took place to inform stakeholders about the project in autumn 2020.
- As an interim measure during development of the PIFM, consultation took place on fee increases from 1 April 2021 and 1 April 2022, and a consultation response was issued in February 2021. The legislation was considered by Tynwald in March 2021, to come into effect in April 2021.
- A discussion paper on Funding Financial Regulation and Designated Business Oversight was issued in October 2020 and closed in January 2021. The responses have been analysed to feed into the development of the PIFM.
- A recruitment process was followed to obtain an independent third-party consultant to assist in the development of an appropriate fee structure fit for the future.

Planned 2021-22

- A feedback statement to the discussion paper will be issued, and further industry liaison will take place.
- The independent third-party consultant will commence their work with us, and following research and discussion a proposed model for a PIFM will be developed and consulted upon.

DATA MANAGEMENT AND ANALYTICS

Supervision of financial services is increasingly based upon access to information from a variety of sources and by a variety of means, and our ability to collect and analyse data from firms adds to objectivity and effectiveness.

As a regulator it is important that we collect appropriate data in a usable form so that we can leverage this data to address risks, form views on individual firms, and gain a sector and industry wide perspective on risks and emerging matters. We will continually need to adapt our practices and invest in technology to respond to the rapidly changing financial services landscape and respond to how consumers interact with financial service providers.

We are developing our processes and systems using a data-driven methodology to inform our risk-based supervisory approach.

Achieved 2020-21

- Embedded a new core back office system, Atlas, launched at the end of 2019, within the Authority.
- Released improvements to the live Atlas system to enable us to record, monitor and report on all supervision activity from one central point.

- Centralised data has resulted in significantly improved internal management reporting and risk identification.
- Conducted a review exercise of existing return data and collection methodology.
- Identified and documented our requirements for enhanced data collection.

Planned 2021-22

- Build and develop a data warehouse, in order to realise the benefits of automatic data validation, as well as agreement and implementation of appropriate supervisory analytics and reporting functionality. This will be piloted initially with specific firms and sectors.
- Engage with relevant industry stakeholders to consult on proposed enhancements to our data collection methodology.

THE AUTHORITY'S ENTERPRISE RISK MANAGEMENT FRAMEWORK

In November 2020 we published the Authority's Enterprise Risk Tolerance Statement which explains how we assess risk and how it impacts our decision-making.

Our aim in publishing this document is to explain to our stakeholders that the Authority is a risk-based supervisor and the implications of this, in particular that we cannot, and do not try to, eliminate all risks. This means that we have to assess the risks to our regulatory objectives on the basis of likelihood and impact and allocate our resources accordingly.

Articulating our tolerance for different types of risks enables us to identify those which are outside of tolerance, and this is where we focus our attention and our resources, with the aim of bringing those risks into tolerance. The assessment of risks in relation to our tolerance to them is also a key driver of the work of the Risk and Control Committee.

We feel that it is important that the Authority's tolerance is transparent to all our stakeholders, including the industries we regulate and oversee, and that they understand this.

Ongoing monitoring of risks has been more important than ever against the background of COVID-19 and the significant changes to the way in which we and our stakeholders operate. Increased risks were apparent in a number of areas, such as data security and staff wellbeing, which we have taken steps to address. In relation to data security we introduced additional protocols for the handling of physical records when operating outside of the office, and strengthened our procedures around the use of conferencing solutions. The wellbeing of our staff is

always paramount and, in response to the increased risks during the pandemic working arrangements, the Authority put in place an extension to flexible working, and both organisation-wide and department initiatives to ensure ongoing contact between staff members when operating remotely.

We are giving increasing attention to climate risk and its effect on industry and continue to look further afield to new and emerging risks which may impact both our stakeholders as well as the Authority's ability to fulfil its functions. The green agenda will also give rise to new opportunities and the Authority will need to consider these in light of the broader goals of consumer protection and guarding the reputation of the Island.

Achieved 2020-21

- Publication of the Authority's Enterprise Risk Tolerance Statement.
- Further enhancements of the Risk Management Framework including improved management information.

Planned 2021-22

- Further embedding of the risk management framework at all levels within the Authority including more focus on monitoring action plans and training and education.
- Further enhancements to the management information and reporting to the Risk and Control Committee and the Board.
- Improving our horizon scanning process and how we use that information.

INNOVATION

The Authority's regulatory regime supports innovation in financial services whilst maintaining appropriate standards and customer protections. This year has seen an increasing number of enquiries from potential applicants where financial-technology ('fintech') makes up a material part of the business model or product offering.

We continue to welcome dialogue with businesses seeking guidance about potential innovative business models. Part of this dialogue allows us to assess how we can adapt our requirements to accommodate technology driven business models.

Achieved 2020-21

- The Authority developed its Innovation Strategy, which is to welcome the financial sector embracing, developing and evolving their products and services in innovative ways, where this is in the best interests of the consumer, the business, the sector and the Island.
- Staff worked with the Digital Agency of the Department for Enterprise and issued a joint perimeter guidance document intended to help readers determine whether the particular use, or nature, of a crypto asset or token may require a business to be regulated for financial services or registered as a designated business.
- Members of the Authority's innovation working group were invited to support the Finance Agency of the Department for Enterprise in developing its insurance-technology ('insurtech') initiative.

Planned 2021-22

- After the development of the innovation strategy in 2020, we are now developing a public version to be published in 2021.
- The Authority will work with the Digital Agency and the Finance Agency of the Department for Enterprise and the industry fora to identify issues and opportunities in new business models and technologies which may impact the regulatory framework.
- Work with industry to identify practical solutions which ensure that the Authority's regime remains appropriate for new business models and technologies, whilst addressing risk.
- In November 2020, the European Union published its proposals to introduce a regulatory regime across its Member States to regulate crypto asset markets and to regulate the issuers of certain forms of asset backed crypto assets, known as stablecoins. In 2021 the Authority issued a statement that it is considering the Island's response to these proposals and how these changes may be reflected in the Island's own regulatory perimeter. The changes are expected to be consulted upon and further developed in this period.

SUSTAINABILITY

The Authority is increasingly looking to its firms to understand their strategies around the management and disclosure of climate related and environmental risks. In addition to being a member of the Network for Greening the Financial System, we also have the benefit of access to international bodies and other Isle of Man agencies to further our work in this area.

The Authority has also recently established an internal working group to help develop and shape the Authority's understanding, its future strategies and its policies on assessing climate related and environmental risks, including for prudential and conduct supervision. The working group is in its embryotic stage but it plans to increase its interactions with firms in future through annual business meetings or via other fora.

Achieved 2020-21

- Internal working group established.
- Commenced engagement with an initial cohort of larger firms to better understand how climate related and environmental risks feature in their thinking, and whether they could manifest into material risks. Firms that are part of larger groups are typically more advanced in their thinking, and common themes include a focus on financial, reputational and regulatory risks, and the importance of culture. Firms also reported a focus on opportunities in areas such as sustainable investments and finance although noted these could introduce different risks that would need to be understood and managed.

Planned 2021-22

- Continue engagement with firms to help determine which financial sectors may be most exposed to climate related and environmental risks.
- Develop a strategy to support how these risks will be integrated into supervisory work.



OUR ONGOING RESPONSE TO EXTRAORDINARY EVENTS – COVID-19



COVID-19 was, and remains, a global concern. In March 2020, as the Island entered its first lockdown, we invoked our Business Continuity Plan (BCP) and moved all staff to working remotely. In spring 2021 we invoked the BCP again as the Island moved into two more lockdowns.

Supporting the Regulated and Registered Sectors

We considered the immediate impacts - including financial stresses within firms, cyber-crime, data security, fraud, AML/CFT, staff health and safety as well as staff capacity.

We allowed forbearance - we reviewed our framework to identify requirements that could cause problems. We permitted firms, that are normally required to submit audited financial statements within four months of their year-end, an extension of two months if auditors could not complete their on-site audit work within the four month period.

We sought electronic submissions - we asked regulated and registered firms to submit all documents to us electronically where possible as we were not in the office; this also helped firms working remotely and reduced the potential risk of spreading the COVID-19 virus.

We monitored risk - to help us monitor key risks and better understand resilience of firms or sectors we sought additional information about:

- forbearance by banks to their borrowers
- stress tests of prudential balance sheets in the banking and life insurance sectors
- cash flow forecasts in the investment business and TCSP sectors, to understand the potential impacts of market volatility and other factors on their business models.

We kept in touch - throughout the period we continued to meet regularly with our regulated firms and other stakeholders using digital and audio interfaces.

We issued public information - for regulated and registered firms (see the [COVID-19](#) area of our website). We also issued a warning notice for [consumers](#) about increased cyber and fraud risks.

Operational Matters

We introduced new remote working protocols and used technology for meetings, both within our individual teams and more widely across the Authority. Our Board continued to meet and operate remotely and Board Members also met virtually with staff, formally and informally. There were additional meetings of our Board sub-committees, the Risk and Control Committee (RACC) and the Human Resources and Compensation Committee (HRCC), this increased engagement reflecting the seriousness with which our Board viewed the potential for emerging/ changing risk scenarios in respect of operational resilience and staff welfare.

We were very aware of the potential negative impact of home working on our staff who were used to working in a collaborative, collegiate environment. We therefore used a range of online tools to help staff adjust, including links to useful sources of assistance, online tutorials, exercise classes and regular social events as well as ongoing monitoring by line managers.

HOW WE COMMUNICATE

Our approach to communication is underpinned by our communication themes of adaptability, resilience and conduct. These themes represent the Authority's approach – the flexibility to respond to changing markets and customer needs, preparedness to manage and respond to changing environments, and an appropriate and consistent approach.

The Authority has a well-established process for consulting and engaging with stakeholders on developments and issues such as legislative and policy changes. A list of all consultations during the year is set out in Appendix G.

As a regulator we need to:

- communicate our requirements and expectations clearly
- listen, so we can understand the views and needs of our stakeholders
- balance the views of different stakeholders, which are sometimes competing
- remain committed to working with stakeholders to ensure that policies are implemented in a way that is pragmatic, practical and supportive of innovation
- implement new requirements in a manner that is proportionate and considers the nature of business on the Island, and achieves appropriate protection for customers including consumers and vulnerable persons
- explain our reasons for decisions clearly, whilst taking account of the statutory controls over the release of restricted information.

The Authority reports to the Isle of Man Treasury, and our legislation is scrutinised through the Tynwald process. The regulatory framework is subject to international scrutiny and we need to review and adopt relevant international standards to

ensure that Isle of Man firms can operate effectively in a global environment.

The main resource to help industry stay up-to-date is our website, where all general information, consultations, news releases and regulatory frameworks can be accessed.

During this reporting year, and similar to other bodies, the Authority has actively embraced the use of technology to ensure that we were able to reach our key stakeholders. Webinars and virtual meetings assisted us to communicate with a wider audience, and these technological solutions will remain important within our stakeholder engagement programme.

Achieved 2020-21

Introduction of a webinar programme, starting with the launch of last year's Annual Report which was hosted by the Chair and CEO of the Authority followed by more general awareness webinars including:

- our published risk tolerance statement and approach
- our AML/CFT data and supervisory programme
- targeted consumer awareness webinar in support of World Investor Week.

Planned 2021-22

More webinars focusing on:

- the Authority's strategic plan for 2021-2024
- the release of this Annual Report
- our revised inspection process
- AML/CFT handbook
- areas of emerging risk.

INTERNATIONAL REGULATORS AND STANDARD SETTERS

We participate in regulatory colleges and bilateral meetings about specific regulated firms or financial services activities. We liaise with the UK Prudential Regulatory Authority ([UK PRA](#)) and the UK Financial Conduct Authority ([UK FCA](#)) on matters of mutual interest including policy and regulated firm matters. We also meet with regulators of the other Crown Dependencies and during this reporting year this engagement was increased to share in experiences related to remote supervision in addition to other areas of common interest, for example, AML/CFT matters.

Internationally, we are a member of, and attended meetings with:

- the International Association of Insurance Supervisors ([IAIS](#))
- the International Organisation of Pension Supervisors ([IOPS](#))
- the International Organisation of Securities Commissions ([IOSCO](#))
- the Group of International Insurance Centre Supervisors ([GIICS](#))
- the Group of International Finance Centre Supervisors ([GIFCS](#))
- the Global Financial Innovation Network ([GFIN](#))
- the Network for Greening the Financial System (NGFS)
- the Enlarged Contact Group for Collective Investment Schemes Supervisors (ECG)
- the International Forum of Insurance Guarantee Funds.

The Island is also a member of [MONEYVAL](#).

Our staff benefit from training and collaboration opportunities provided by the international bodies and take an active role in specific workstreams. During this period there were increased opportunities to participate in remote events.

Industry and Professional Bodies

The Authority meets with industry associations and professional bodies across the regulated sectors and participates in working groups to address specific developments. Optimal engagement with these bodies means that key issues can be discussed by both parties and collaborative solutions identified. Success requires

participants who represent the full spectrum of views of a body's membership and who understand the issues.

Over the reporting period and beyond we have hosted a series of industry meetings to raise awareness of, and seek views on, the Authority's Funding project, which has a primary goal to achieve a PIFM. Continued industry engagement through the lifecycle of this project will be key to a successful outcome.

The Authority has had regular scheduled meetings with Isle of Man Government agencies on areas of common interest. These include Treasury, Cabinet Office, the Department of Home Affairs, the Department for Enterprise and its Digital and Finance Agencies, the Office of Fair Trading, the Financial Services Ombudsman, the Pensions Ombudsman, the Gambling Supervision Commission, Customs and Excise, the Economic Crime Unit and the Financial Intelligence Unit (FIU). We are also represented on the Financial Crime Strategic Group and the AML/CFT Advisory Group, the latter of which provides a forum for discussions between Government, regulators and industry.

Where, in the course of our work, we become aware of potential money laundering, terrorist financing or breaches of financial sanctions, these are referred to the FIU for dissemination to the relevant authorities.

We continue to assist the Isle of Man Government in relation post-Brexit matters such as free trade.

We have provided Treasury with information to help it understand economic impacts of COVID-19 on the domestic economy, including the levels of loan forbearance provided by banks, and the levels of mortgage lending in the Island, and have contributed to the development of the Government's economic dashboard.

We have found that the guidance to industry setting out factors we consider in relation to [company, business and domain names](#) which are referred to us by Companies Registry has proved useful in helping applicants for names to understand what is, and is not, acceptable, and thus to avoid them applying to Companies Registry for inappropriate names.

CONSUMER PROTECTION

One of our three regulatory objectives is to secure an appropriate degree of protection for customers of regulated firms. Our approach to this critical objective will continue to be multi-faceted including:

- monitoring how regulated firms comply with conduct requirements to ensure good customer outcomes and taking action where this is appropriate
- ensuring that we have sound frameworks to protect consumers of financial services and to ensure greater transparency of information so as to result in more informed decision-making
- regular liaison with the Office of Fair Trading and Financial Services and Pensions Ombudsmen Schemes
- maintaining and adding to the consumer materials on our [website](#)
- using various communication platforms to publicise customer and consumer messages, including the traditional media and social media
- dedicated web area to provide COVID-19 information of relevance to consumers.

Achieved 2020-21

- Short films for [World Investor Week 2020](#) issued October.
- Enhancing our social media presence by reinvigorating our Facebook page as a consumer site and utilising other social media such as LinkedIn to create awareness of new publications along with employment opportunities with the Authority.

Planned 2021-22

- World Investor Week 2021 (Q3 date to be announced).
- Refresh of consumer matters material for investment and pension sectors.



DAY-TO-DAY OPERATIONS



WORKING WITH THE REGULATED SECTOR

Authorisations – Regulated Sectors

We process applications for licensing, authorisation or registration under the relevant legislation (FSA08, IA08, RBSA00 and CISA08). (The Authority also processes registrations under the DBROA15 - please refer to the registered business section for more details about Designated Businesses.)

The Authority is the gatekeeper to persons being able to operate in the regulated financial system. To ensure that we meet our regulatory objectives and that our regulatory framework complies with international standards, it is important that our regulated firms meet certain requirements. This means that applicants must evidence they are financially sound, have the right systems and controls and competent staffing in place and that they, and those associated with them, are fit and proper persons to operate in the regulated sector.

Our authorisation process seeks to ascertain whether those entering the financial sector meet minimum regulatory standards. In doing so we strike a balance between prudence and compliance on one hand, and the encouragement and support of innovation on the other.

Application for licensing, authorisation or registration of an applicant requires consideration of the firm and requirements for its personnel and controllers. Potential applicants are encouraged to contact us at an early stage to discuss their plans; our teams can provide support and guidance where appropriate. Over this period, enquiries have ranged from tentative initial queries to formal applications for licensing, authorisation or registration, predominantly from payment service providers, trust and corporate service providers and those interested in life and non-life insurance (including insurance intermediaries).

As part of licence, authorisation or registration applications, and on appointment to or within established firms, individuals in specified roles, known as Controlled Functions, are required to be notified to, and accepted by, us. Other specified roles are simply notified to us. [The Regulatory Guidance – Fitness and Propriety](#) document explains the requirements for Controlled Functions.

The Authority's Rule Book requires that we be notified of changes to certain activities within regulated entities. Over the period of this report 546 'notified and accepted' applications were considered.

SUPERVISION OF REGULATED FIRMS

Our supervision work is risk-based, pro-active and event driven. We develop our knowledge and understanding of a regulated firm, its activities and the principal risks to which it is exposed, through a combination of desk-based analysis and review of supervisory information (including financial and statistical returns), meetings and discussions with the management of the firm, on-site inspections and thematic reviews. Our assessments are normally reviewed and updated on at least an annual basis.

The focus of our work is built around our regulatory objectives of protecting consumers, reducing financial crime and maintaining confidence in the financial services sector. In order to do this we need to consider risks inherent in firms' business models and operations, and the strength of their governance and control environments.

We supervise regulated firms through supervisory divisions consisting of dedicated supervisory teams. Over this period there were two teams, as follows:

The Banking, Funds & Investments Division supervises:

- Banking and Money Transmission (deposit takers, credit unions, bureaux de change, payment services, cheque cashing and issue of electronic money)
- 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 and crowdfunding platforms).

The Insurance, Pensions & Fiduciaries Division supervises:

- Fiduciary Services (trust and corporate service providers)
- Life Insurance
- Non-Life Insurance (including non-life insurers, insurance managers and general insurance intermediaries)
- Pensions (including retirement benefits schemes).

Our supervisory work includes:

- risk assessment of sectors and firms, including for AML/CFT (including anti-bribery, anti-corruption and anti-proliferation)

- monitoring firms' financial position through review of periodic returns and audit information
- engaging with certain firms to understand changes to their business models, risks and the impact of the current economic environment
- undertaking enhanced supervision of specific sectors or firms because of their impact or risk profile – this can include targeted or more frequent monitoring, inspections, or remediation programmes
- undertaking thematic work at sector level, and issuing feedback as appropriate
- processing and considering notifications and requests for supervisory consent from firms.

CO-OPERATION AND CO-ORDINATION

As part of our ethos to work with other regulators on an international basis, we are members of, and liaise with, international bodies who set the standards for financial services globally, to ensure our frameworks meet current requirements.

One of the benefits of membership is the opportunity to participate in working groups and committees which help to steer the direction of international regulation. It is important that the views of small international financial services centres are heard and factored into developments. Through our participation we are able to develop strong links with individuals within other regulators which we can draw upon if needed.

We also liaise with other regulators bi-laterally to discuss regulatory best practice and to co-operate on particular issues. Where regulated firms are regulated in more than one jurisdiction, or are part of groups spanning different jurisdictions, we co-ordinate with other relevant regulators. We can also co-operate where Island based persons are implicated in transgressions in other jurisdictions and vice versa.

Effective international co-operation is a powerful tool in preventing the abuse of global financial systems by criminals, including money launderers, terrorist financiers and proliferators of weapons of mass destruction. This is particularly important 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.

When we provide information to other authorities, we ensure this is done in accordance with our statutory duty of confidentiality. Restricted information can only be disclosed to third parties with the consent of the person providing the information or, if different, the person to whom it relates, or under statutory 'gateways'. These are contained in legislation, and permit us to disclose relevant restricted information to regulators and other specified persons, subject to certain safeguards.

Memoranda of Understanding (MOUs)

Our powers to co-operate with other organisations, both domestically and internationally, are supported by a number of MOUs.

MOUs are not essential to be able to share information, but they are useful and they assist the two-way flow of information between supervisory authorities and other organisations. They provide a framework which sets out the basis on which we can be confident that the information we exchange will be treated as confidential, together with the circumstances in which that information may be shared further if it is appropriate to do so.

We are a signatory to three multi-lateral MOUs (MMOUs): the IAIS MMOU, the IOSCO MMOU and the GIFCS MMOU. MMOUs set up a framework where all signatories agree to co-operate with all other signatories negating the need for many separate MOUs.

Consolidated/Group Supervision

Many regulated firms are subsidiaries or branches 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 firms, their activities and the risks to which they may be exposed, we need to understand the intra-group relationships and dependencies that may exist. We liaise with other regulators on areas of common interest including systemic risk, group-wide solvency and group crisis preparedness plans. This can be achieved on a bilateral basis or in some circumstances through a more formal supervisory college.

Supervisory Colleges

A supervisory college is a meeting of different regulators to discuss the regulatory approach to a financial services group which is regulated across different jurisdictions. This can enhance information sharing among supervisors, help the development of a shared agenda for addressing risks and vulnerabilities and provide a platform for communicating key supervisory messages among college members.

Supervisory colleges have been held for many years in relation to banking and insurance groups. More recently supervisory colleges have been held for Trust and Corporate Service Provider Groups.

Normally the group which is being discussed is invited to attend and present to the college members. This is a valuable opportunity for the group to discuss and explain any issues, changes and best practice with their regulators and to influence the supervisory college's conclusions.

REGISTERED FIRMS

Designated Businesses and Professions

We register and oversee [designated businesses](#)¹ AML/CFT compliance arrangements under the DBROA15. We do not oversee their wider business activities or competence.

All designated businesses are subject to inspection of their AML/CFT compliance as part of the Authority's risk-based supervision, or by a body to whom we have delegated necessary powers. We have delegated 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
- International Association of Bookkeepers¹.

Under the DBROA15 we must refuse to register a designated business if we are not satisfied that the fitness and propriety requirements have been met. All applications during the period have met the criteria for registration. We have the power to revoke a registration under certain circumstances; during the period we revoked two registrations.

Civil Penalties

During the period of this report 38 civil penalties were issued to 26 designated businesses:

- 36 of these were issued for failure to submit annual returns or failure to pay the annual fee of which four have not been paid at the time of writing and one was waived.

- Two penalties were issued for contravention of section 7 of the DBROA15 (prohibition on carrying on designated business if not registered) of which one was paid in full, one is pending at the time of writing.

BENEFICIAL OWNERSHIP ACT 2017 – OVERSIGHT

Under the BOA17 we are responsible for issuing guidance on certain terms used in the BOA17 and for oversight of compliance with the obligations and requirements of the BOA17.

During the year under review we undertook four reviews under the BOA17, which were undertaken in response to ownership queries referred from the Authority's Enforcement team. No material breaches of obligations or requirements were identified and no nominated officers or companies were reported for breaches of requirements under the BOA17.

UPDATES TO REQUIREMENTS FOR 'RECOGNISED AUDITORS'

The Authority is responsible for the [Recognised Auditors regime](#) on the Island. We liaise with our counterparts from the other Crown Dependencies and representatives of the UK FRC and ICAEW at least annually. The Crown Dependencies are currently considering potential updates to the Crown Dependencies Audit Rules and Guidance for auditors of UK or EU 'market-traded companies' alongside the UK FRC and ICAEW.

ENFORCEMENT ACTION

Enforcement considerations are a large part of our work. Supervisors will identify issues in respect of regulated or registered firms. Sometimes these issues will lead to matters being considered for enforcement action. In other cases we may receive information from third parties or other regulatory or enforcement bodies about the activities of individuals or legal persons. The information on the next page gives a flavour of the issues which could result in action.

¹ The IAB relinquished its delegated oversight powers in July 2021.

Appointments

We have legislative and supervisory powers under the relevant legislation to appoint a third party, or apply to the High Court for an appointment, to regulated firms. For example:

- directions requiring actions to be taken, or to impose restrictions
- appointment of a receiver
- appointment of a business manager
- appointment of a reporting accountant/professional.

Furthermore, section 5 of the Companies Act 1974 states we can apply to the High Court for the Appointment of an inspector over a company. This power is not restricted to regulated firms.

These appointments can be used as part of remediation work (that may lead to an enforcement investigation) or directly as part of enforcement action.

The use of such powers by the Authority is subject to challenge by application to the Courts for review (doleance) and/or appeal to the Financial Services Tribunal in respect of certain decisions of the Authority. This is an important accountability mechanism.

Action under the Company Officer (Disqualifications) Act 2009 (CODA)

We have powers to investigate the conduct of company officers and, if appropriate, to apply to the High Court for their disqualification. This role extends to officers of all companies and not just those regulated by or registered with us.

The [current list of disqualified directors](#) is published on our website.

ASSISTING WITH INVESTIGATIONS AND INSIDER DEALING

The Island co-operates in cross-border enquiries and investigations. Whilst mutual legal assistance in criminal matters is the preserve of the Island's Attorney General's Chambers, we can use our powers of inspection and investigation to obtain local information to assist overseas regulators who are signatories to the IOSCO MMOU or the IAIS MMOU. During the period of this report, six requests were received from two different jurisdictions and we were able to assist in all cases.

We investigate overseas persons, who falsely claim to have a presence on the Island, to determine whether any criminal or regulatory proceedings are necessary. Where there is no genuine Isle of Man connection, we have power to issue a public warning and publish relevant information in order to protect the public. During the year, we investigated five cases, all of which resulted in the issue of public warnings on our website.

Although the Island does not have a stock exchange, Island based individuals and businesses could be involved in, or hold information about, insider dealing on an exchange elsewhere. We have powers under the Insider Dealing Act 1998 to appoint inspectors to investigate allegations and gather information from resident individuals and businesses. Members of staff were appointed as inspectors to assist with investigations being carried out in overseas jurisdictions twice during the year.



INTERNAL ORGANISATION

FINANCE

A significant future change for the Authority's finances arises from the announcement in the 2020 budget of the plan for the Authority to move to a PIFM. This will take effect over the next few years, resulting in a change to the balance of the source of the Authority's funding.

For 2020/21, around half of the Authority's income was derived from a subvention from Treasury. The first step on the journey to increased industry funding takes effect in the 2021/22 financial year, with the initial tranche of increases being applied to all of the Authority's application, licensing and registration fees. The project that will define and implement the subsequent steps to achieving a PIFM is explained elsewhere in this report.

Regardless of the source of its funding, the Authority is, and will continue to be, subject to the Isle of Man Government's Financial Regulations and accountable to Treasury. For 2020/21 the Authority operated within its agreed budget for the year whilst also remaining compliant with the Financial Regulations.

Our expenditure budget grew from 2019/20 to reflect an agreed increase in our staff headcount. This was approved by Treasury, acknowledging the breadth of the Authority's responsibilities and the continuing burden on financial regulators to meet international standards. The increased budget will enable us to create eight new permanent roles, focused mainly on AML/CFT oversight, supervision and enforcement activities. These new roles will be added over the two year period 2020/21 and 2021/22.

With recruitment processes running slower through the COVID-19 period, we ran below full budgeted headcount through the year. Some of the surplus budget

was carried forward to fund a suitably experienced, independent consultant to assist the Authority with its project to achieve the PIFM. The Authority worked with the Isle of Man Government's Procurement team on the tender process to identify and contract with a suitable consultant. The Authority is also currently working with the Procurement team to refresh the approach to the Authority's procurement of third party accounting and actuarial services.

We continue to seek improvements to our processes and changes include the recent adoption of the IOM Government's e-requisition process to replace the earlier paper process, and replacing paper fee invoices with an electronic format.

Achieved 2020-21

- Tender process for consultant to work alongside the Authority on the Funding Model.
- Management of Atlas project budget.

Planned 2021-22

- Finance support of the Funding Model work.
- Select lists for accounting and actuarial services.

HUMAN RESOURCES

The Authority has permanent staffing of 74 (full time equivalent), this compares to 66.5 FTE at the end of the 2019/20 financial year. The recent establishment of the Authority's Resolution and Crisis Management function accounts for two of the additional members of staff. During the year staff turnover was approximately 10%.

As noted in the Finance section above, filling the new roles arising from the Authority's agreed increase in headcount for 2020/21 onwards has progressed more slowly than planned. The disruption arising from the COVID-19 pandemic and the associated restrictions were the main factors in delaying the recruitment process for several roles. In the latter part of the year, there has been an opportunity to get back on track and a number of key appointments have followed, including a Head of AML/CFT and a Head of Fiduciary Services.

Maintaining high levels of expertise and professionalism within our staffing is a priority. Recruiting the right calibre of people is critical to this and we have

successfully extended our profile in this area, including this year through the increased use of social media channels to promote vacancies. Our support of staff development is another key element.

We support staff in their studies for professional qualifications. During the year these have included the International Certificate in Financial Services Regulation (ICSA), the Institute of Risk Management's International Diploma in Enterprise Risk Management, Compliance and Risk professional qualifications (CISI) and the International Diploma in Financial Crime and the Chartered Insurance Institute's Advanced Diploma in Insurance (ICA).

We continue to have staff undertaking the Institute of Leadership and Management qualifications supported by the Isle of Man Government's Learning, Education and Development team. These courses improve self-awareness and promote good leadership and management behaviours.



Our staff



We also arrange training courses both internally and through external providers to assist with staff development. One recent area of focus has been staff wellbeing which has been particularly relevant over the past year with the changes to working practices and the disruption to normal routines arising from the COVID-19 pandemic and the resulting lockdowns.

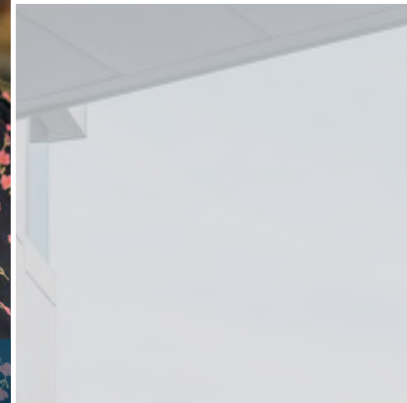
As an equal opportunities employer we formed an Equality Committee in 2019 made up of staff members, as part of our consideration of changes arising from the Equality Act 2017. The committee assists with reviewing the Authority's policies and practices to avoid discrimination and to promote continued good practice.

Achieved 2020-21

- Introduction of a formal 'working from home' policy which allows staff to work from home for part of their working week. Staff have welcomed this approach and our experiences will help to inform our future policy.
- Sessions for staff covering best practice for home working as well as others concentrating on physical and mental wellbeing. In addition to the traditional face-to-face approach, some sessions have been delivered virtually, whilst staff have been working from home, in order to ensure support is available as needed.

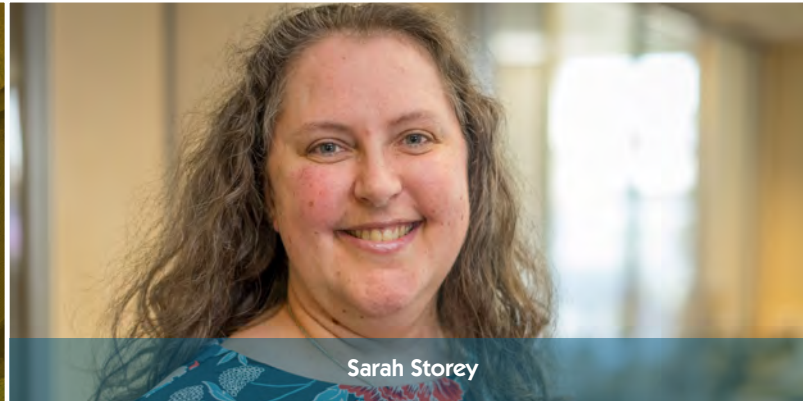
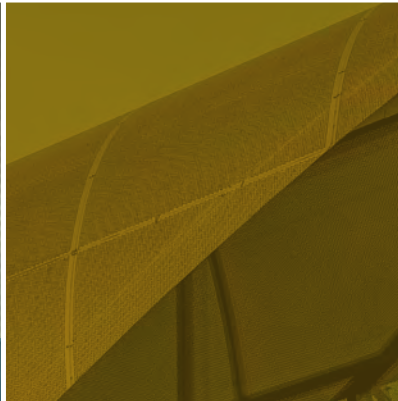
Planned 2021-22

- Ongoing development of performance management process.
- Finalising revised job descriptions to include supporting person specifications.





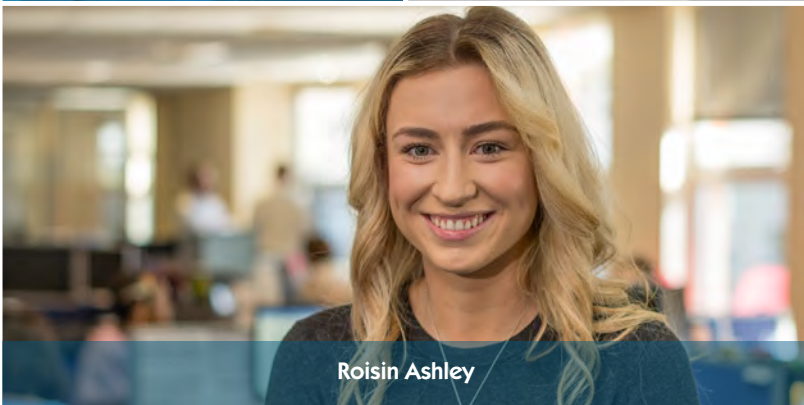
Paul Freeman



Sarah Storey



Emma Skillicorn



Roisin Ashley



Ben Campbell



Ian Spence



INFORMATION TECHNOLOGY

We have dedicated IT staff working in conjunction with IOM Government's Government Technology Services (GTS) team to install, develop and support computer equipment and data system solutions to facilitate the work of the Authority.

IT activity during the year has been focused on ensuring that we have suitable technical solutions in place for the move to remote working necessitated by the COVID-19 pandemic. The majority of the Authority's staff are issued with laptops which facilitated the transition to home working utilising the IOM Government's existing secure VPN solution for remote working. We trialled various video and audio conferencing solutions in the early stages of the lockdown which led to identifying reliable and secure solutions and allowed our staff to continue working collaboratively. In our office space we have also enhanced the equipment within meeting areas to facilitate video conferencing meetings.

We have also undertaken upgrades to key software as well as turning our attention to data security and review of our policies.

The Authority's records management project is ongoing and will allow us to greatly reduce reliance on paper records as well as leading to the consolidation of our records storage solutions. New records that we create are now virtually all electronic but some historic records remain in paper form. We are currently evaluating options for a document management system that can be integrated with the Atlas system. In the longer term this document management system will be an important element within the Authority's overall records management solution. Microsoft SharePoint is a key component of our existing document management approach and the IT team are part way through an upgrade and migration exercise to move the Authority to SharePoint 2016.

Achieved 2020-21

- Response to COVID-19 in providing home-working solution for all staff and Members, including video conferencing facilities.
- Upgrade to Windows Operating System and Microsoft Office suite rolled out to all staff.
- Review of data security controls and associated policies, and annual data security training for all staff.
- Commenced the upgrade to SharePoint 2016.

Planned 2021-22

- Completion of upgrade to SharePoint 2016.
- Progression of records management project.

COMPLAINTS AGAINST THE AUTHORITY

Our website sets out the procedure for dealing with complaints made against the Authority. If complainants consider that their complaints have not been fully addressed, they can seek a further review by our Board.

One formal complaint against the Authority was lodged and closed during the period of the report, within the timescale set out in service level standards.

Formal complaints received ¹		
2020/21	2019/20	2018/19
1	0	1



CORPORATE SOCIAL RESPONSIBILITY

CHARITY WORK

Every year our staff choose a local charity to support. The chosen charity for 2020 was “Mannin Sepsis” which is focused on raising awareness about sepsis across the Isle of Man to save lives. Circa £2,000 was raised through a range of voluntary staff activities including dress down days, cake bakes, and the annual Isle of Man Santa Dash 2020. There had been plans for a charity swimathon event during the period, where staff were preparing to swim the distance of the English Channel (21 miles) in relay at a local swimming pool. Unfortunately the event has been postponed due to COVID-19.

Our staff also contribute to charity in other ways such as the 2020 Christmas Toy Appeal, and a Christmas collection for the local food bank.

Looking ahead, the staff have chosen “Remember Me” as our nominated Charity of the Year 2021. “Remember Me” grants wishes for children on the Isle of Man, where they have a parent very sick or terminally ill. To date this year, our staff have already raised funds for this worthwhile charity via Shrove Tuesday pancake making and 2021 Parish Walk entries.

In addition, a number of staff volunteered throughout the year, in conjunction with the Isle of Man College, in helping adults to improve their literacy and numeracy skills.

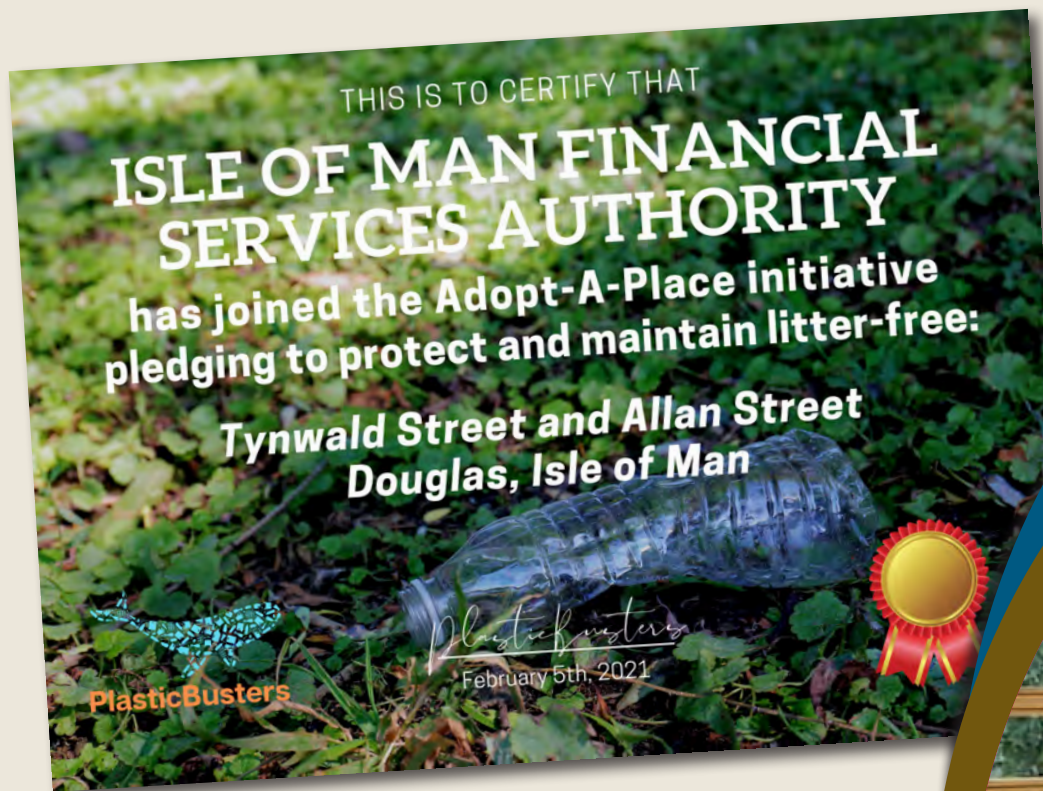
The Authority is also a regular participant at the annual Employment and Skills event held in November each year. Unfortunately the 2020 event was cancelled due to COVID-19, but we plan to take part in 2021.

THE ENVIRONMENT

Our internal environmental initiative continues to raise awareness of environmental matters across Authority staff and suggests changes and arranges group activities, both in the office and outside, in order to benefit the environment. We are a UNESCO Biosphere Partner.

Activities during the year have included:

- recycling
- regular ‘litter picking’ - most recently having “adopted” Tynwald Street and Allan Street (the two streets at either side of our office) in partnership with Plastic Busters.



Authority staff regularly take part in the annual Isle of Man Santa Dash to raise funds for their chosen charity.



APPENDIX A

Functions and Regulatory Objectives of the Financial Services Authority

The functions of the Authority are set out in paragraph 2 of Schedule 1 to 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



The Authority's Regulatory Objectives

- 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.

APPENDIX B

Our Board - Corporate Governance, Meetings and Members' Biographies

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 published its own [Code of Conduct for Board Members](#) in April 2020.

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 Board 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. An updated memorandum of understanding with Treasury sets out the framework for co-operation between the Treasury and the Authority. The memorandum establishes arrangements to ensure that the Authority is accountable to Treasury for its actions and clarifies the circumstances in which liaison and dialogue can flow between both parties.



MEETINGS OF THE AUTHORITY

During the period there were eight scheduled meetings of the Board of the Authority.

There are three sub-committees of the Board, the Human Resource and Compensation Committee, the Risk and Compliance Committee and the Resolution Committee. During the period, the Risk and Compliance Committee met five times, and there were six meetings of the Human Resource and Compensation Committee.

RESOLUTION COMMITTEE

With the coming into force of the Bank (Recovery and Resolution) Act 2020, the Authority formed a new Resolution Committee ('RESCO') to efficiently manage aspects of the Authority's new mandate as the resolution authority for the Isle of Man under that Act.

Through the formation of RESCO, the potential conflict arising from the Authority's responsibilities as both the regulatory supervisor of banks and as the resolution authority, is mitigated. Membership of the RESCO comprises two Members of the Board (neither of who may be the Chair of the Board nor the Chief Executive), one senior executive officer of the Authority who is not involved with supervision matters and the Chief Financial Officer of the Treasury. The inaugural meeting of RESCO

MEMBERS' BIOGRAPHIES

Lillian Boyle (Chair)

Lillian became Chair of the Financial Services Authority in July 2018, having been appointed to the Authority on 1 November 2015. She is a lawyer, a Chartered Fellow of both the Chartered Institute for Securities & Investment and of the Chartered Insurance Institute, as well as being a Trust & Estate Practitioner and a Fellow of the Institute of Directors.



She has extensive experience in the wider financial services sector having been Managing Director and Chairman of Isle of Man based International Life Companies and has also held non-executive roles in the investment and fiduciary sectors on the Island as well as in UK life assurance. She was previously a member of the UK Financial Reporting Council's Conduct Committee and has been Chairman of several UK based Audit & Risk Committees as well as local professional and educational bodies.

She is a former UK President of the Chartered Insurance Institute and is now a member of their Professional Standards Committee. In addition Lillian is Deputy Chair of a UK benevolent fund and is currently Chair of the Isle of Man Research Ethics Committee.

"The wide variety of roles that I have had over a number of years means it is never dull, often challenging but very interesting. I am very fortunate to have had the chance to work with a lot of really good teams in a many different organisations in both the private and the public sector."

Juan Clarke (Deputy Chair)

Juan Clarke joined the Board in March 2016 and was appointed as Deputy Chair in July 2018. 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 almost 40 years' experience in financial services since starting his career with Barclaytrust in 1982 and at CMI held a number of 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.

"The Island has a strong and resilient financial sector recognised worldwide as a well regulated jurisdiction. Over the course of my term of office which ends on 30th June it has been a privilege to have been part of developing its regulation and particularly for the insurance sector in which I've spent most of my career. With new and innovative ways of doing business presenting themselves to the Island we have a strong regulatory base upon which to move forward with new opportunities."

Karen Badgerow (Chief Executive)

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.



"Being a career financial services regulator has given me a unique vantage point of being able to look across industries, understand trends and consider how best address changes in the risk landscape and at the same time seize opportunities for innovation."

Kevin Garland (Board Member)

Kevin was appointed in February 2020.

Immediately prior to joining the Authority, Kevin was Chief Information Officer and part of the Senior Leadership



team of the Central Bank of Ireland. He had overall responsibility for IT, during his tenure he authored the Bank's data strategy which led to significant investment in information security, regulatory and statistical data management.

Prior to the Central Bank, Kevin was CIO of the Aviva Group in Ireland and had overall responsibility for IT in Aviva's Life and Pensions, General Insurance and Health Insurance. Prior to joining Aviva, Kevin was with Irish Life Assurance for 20+ years. During this time, he was Head of IT for Irish Life UK and Executive Team member for the establishment of Irish Life International.

"Having a wealth of experience in technology, operations and the financial industry offers the Authority a focused hybrid of understanding into operational risk and emerging technology trends in financial services."

Peter Hahn (Board Member)

Pete was appointed in February 2020.

Pete is a member of the governing council of The Association of Corporate Treasurers and a Non-executive director of Kalgera Limited (UK). He retired as Dean and Professor of Banking at The London Institute of Banking & Finance in 2020 having previously taught at Cass Business School. Pete was Senior Advisor to Bank of England Prudential Regulatory Authority (and its predecessor the UK Financial Services Authority) from 2009-2014. From 1980-2004, he worked in a range of industry roles in North America and Europe spanning consumer to investment banking lastly as Managing Director and Citigroup's Senior Corporate Finance Officer for the United Kingdom. From 2015-2018, he was a non-executive member of Seven Investment Management's Asset Allocation Committee.

Pete received a PhD in Finance from City University of London's Cass Business School, an MBA from New York University's Graduate School of Business Administration, and a BA from Drew University. In addition to teaching qualifications, he completed the US General Securities Representative Exam (NASD/FINRA Registered Representative) and the former UK Corporate Finance (SFA) Qualification.

"I've enjoyed evolving with the financial services sector; from working in regulated institutions, to regulators and now in FinTech...with some great stops along the way in financial education. I am certain that the industry and



regulators benefit most when they advance together and I feel privileged to make this happen."

Jane McAndry (Board Member)

Jane McAndry was appointed in July 2018. She qualified as a Scottish solicitor and was a lecturer in law before moving to the Isle of Man in 1987. Following a number of years in legal practice, specialising in company and commercial law, she moved in-house as a director of a substantial Isle of Man Corporate and Trust Service Provider before joining the then Financial Supervision Commission in 2000 as Head of Companies, where she was responsible for the licensing of CSPs and later TSPs, and then Head of the Policy and Legal Unit. After seven years with the FSC, Jane moved to asset management group, Charlemagne Capital (now Fiera Capital) where she held a number of roles, including director and company secretary of AIM quoted Charlemagne Capital Limited and managing director of the group's Isle of Man operations, a role she retired from at the end of 2018. Jane was closely involved in the establishment of the Association of Corporate Service Providers. She was also a Governor of King William's College and The Buchan School for a number of years and is the author of a book on Isle of Man Company Law.

"As the only member of the Board who has also been employed by one of the Island's financial services regulators, I have a real appreciation of the challenges faced by the Authority's staff. Coupled with my industry experience and legal training, this affords me a wider perspective on the work of the Authority, the financial services industry on the Island and the current challenges and opportunities for Island itself."



Leam Thompson (Board Member)

Leam was called to the Bar of England and Wales in 1997. Since 1999, Leam has worked for the United Nations Office on Drugs and Crime, a number of UK Government regulatory and enforcement authorities, global accounting networks and various foreign governments on recovering the Proceeds of Crime.

Working life began with secondments from Chambers to the Securities & and Futures Authority (forerunner to the UK's Financial Conduct Authority), before



moving on to the Central Confiscation Branch of the Criminal Prosecution Service and the Asset Recovery Unit of HM Revenue & Customs. This was followed by wider public and private sector white collar crime in Europe and Eastern and Southern Africa.

Recent engagements have included work in Uganda on the Department for International Development's Strengthening Uganda's Anti-Corruption and Accountability Regime ("SUGAR") Technical Advisory Facility where Leam led the asset recovery intervention and most recently work for the FCDO on countering Illicit Finance.

"Over two decades of pursuing the proceeds of crime has brought home to me the significance of sound regulation in safeguarding international financial flows."

Mark Waterhouse (Board Member)

Mark Waterhouse was appointed in November 2015 and is currently the Chair of the Human Resources and Compensation Committee. He has held a number of key positions in banking including Managing Director of Halifax International (Isle of Man) Limited, Managing Director of Halifax International Limited in Jersey and CEO of Zurich Bank International Limited. He currently holds Non-Executive Director positions on the Island including one with an iGaming company.



Since moving to the Isle of Man in 1997 Mark has been an active member of the Isle of Man Bankers Association of which he was a founding member and has held the position of President on two separate occasions. He is a committee member and immediate past President of the Isle of Man Centre of the London Institute of Banking & Finance (formerly the Chartered Institute of Banking) and is a Fellow of the Institute of Directors and currently serves on the Committee of its local branch in the Isle of Man.

"Five years working at the FSA plus my work with the IoD and my experience working with the Government and Finance Sector, as the representative of the banks trade and professional education bodies, has developed my regulatory and governance skills. It has further given me a very good understanding of both the risks and the opportunities we have on this great Island."

Paul Wright (Board Member)

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.



Paul Freeman (General Counsel and Head of Corporate Governance)

Paul joined the Authority in May 2020 in the General Counsel Division after working for many years in private practice, latterly as a partner in global law firm, Clyde & Co, based in its Singapore office. He qualified in England and Wales in 1987 and is also admitted in Australia and Hong Kong. Since October, as well as providing legal advice to the Authority, Paul has been acting head of Enforcement.

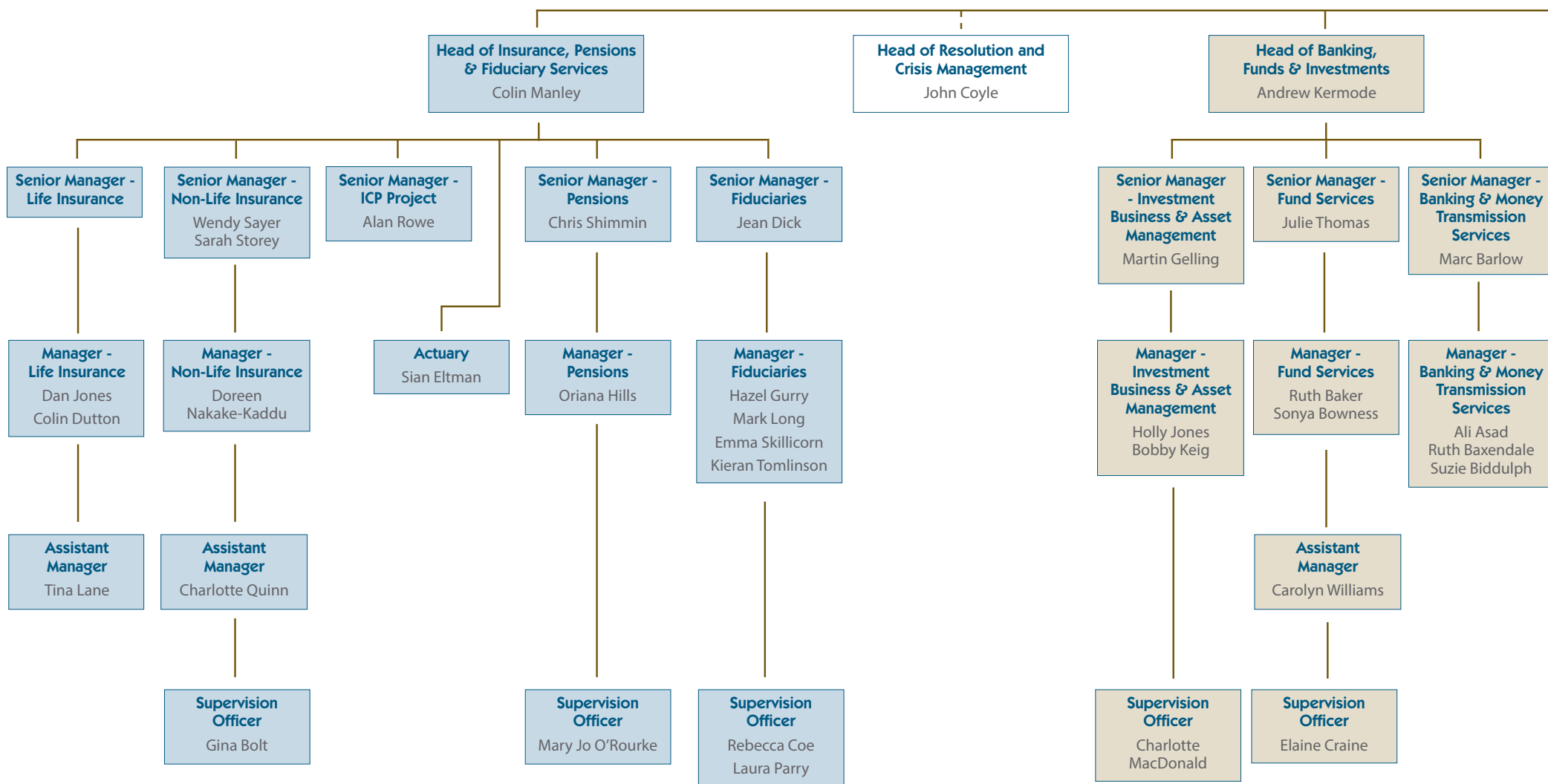




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12'-0"

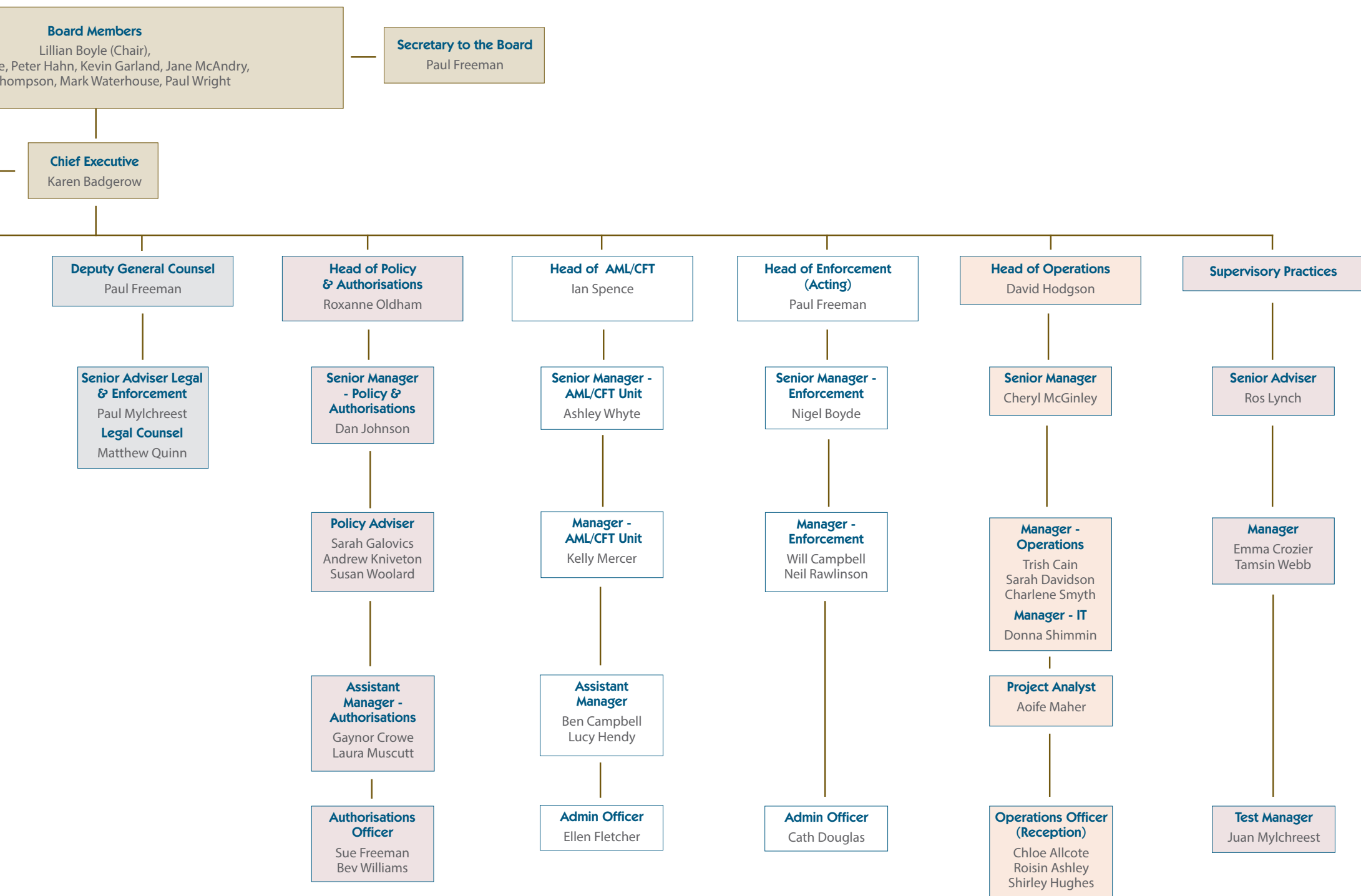
APPENDIX C

Our Organisation as at June 2021



Juan Clark
Leam T

PA to Chief Executive &
Board Co-ordinator
Carolyn Davis



APPENDIX D

Statistics

The Authority publishes statistics on a regular basis on its website. Where statistics are already published this is indicated and a link is provided to those statistics.

A - REGULATED FIRMS

i) Financial Services Act 2008

The information below is in addition to the published statistics on our [website](#) for firms under the Financial Services Act 2008

Companies, partnerships and foundations managed/administered by TCSPs	2020/21	2019/20	Movement
1931 Act Companies	6,581	6,675	-1.4%
2006 Act Companies	9,458	9,031	+4.7%
Isle of Man public limited companies	91	83	+9.6%
Public companies incorporated elsewhere	11	11	-
Non-public limited companies with more than 50 shareholders	17	20	-15.0%
Overseas companies not registered under the Foreign Companies Act 2014	4,661	7,086	-34.2%
Overseas companies registered under the Foreign Companies Act 2014 (a.k.a. 'F-Registered')	419	444	-5.6%
Limited Liability Companies	312	306	+2.0%
Partnerships	351	350	+0.3%
Foundations	237	200	+18.5%
Trusts	13,318	14,046	-5.2%
Private Trust Companies	110	131	-16.0%

Remedial and other regulatory actions – under the FSA08	Year ended 31 March	
	2021	2020
Directions ¹ – under sections 14 and 18 of the FSA08	35	13
Section 16 - Fixed penalties relating to late filings	8	12
Section 16 - Discretionary penalties relating to regulatory breaches	1	1
Section 10 – not fit and proper	0	0
Section 10A – prohibitions ¹	4	0
Section 11 - warning notices	0	1
Section 23 - reporting accountant	5	0
Section 22 – successful application to court for the appointment of a business manager	0	1
FSA08 licences (or classes thereof) suspended	0	0
FSA08 licences (or classes thereof) revoked	0	0

¹ Four persons have been prohibited across CISA, FSA, and IA provisions in the period. This is repeated across each relevant table within the prohibitions data.

ii) Bank (Recovery & Resolution Act) 2020

Remedial and other regulatory actions – under the BRR20	Year ended 31 March	
	2021	2020
Directions – under section 16 of the BRR20	4	N/A

iii) Collective Investment Schemes Act 2008

Statistics - published on our [website](#)

Remedial and other regulatory actions – under the CISA08	Year ended 31 March	
	2021	2020
Section 11A – not fit and proper	0	0
Section 11B – prohibitions	4	0
Section 11F - warning notices	0	0
Section 12 - directions	2	0
Section 13 – appointment of an adviser to a fund	0	0
Section 13 – appointment of a person to assume control of a fund	0	0
Section 15 – application to court granted for winding up and appointment of a liquidator to a fund	0	0
Section 16 – application to court granted for the appointment of an inspector to a fund	0	0
Section 19A – civil penalty	0	0

iv) Insurance Act 2008

Statistics - published on our [website](#)

Remedial and other regulatory actions under the IA08	Year ended 31 March	
	2021	2020
Section 33 – imposition of requirements	0	0
Section 29 – not fit and proper direction	0	0
Section 29A - prohibitions	4	0
Schedule 5 – information request	1	0
Section 37 - Discretionary penalties relating to regulatory breaches	3	1

v) Retirement Benefit Schemes Act 2000

Statistics - published on our [website](#)

Remedial and other regulatory actions under the RBSA00	Year ended 31 March	
	2021	2020
Section 19 – not fit and proper direction	0	0

B - REGISTERED FIRMS

Designated Businesses (Registration and Oversight) Act 2015	Year ended 31 March	
	2021	2020
s.7 – Civil Penalties - carrying on or holding out as carrying on designated business without being registered		
Civil penalties issued	2	4
of which		
Paid	1	1
Reduced	0	2
Waived	0	1
Pending	1	0
s.13 – Civil Penalties for failure to submit annual returns and/or pay annual oversight fee		
Civil penalties issued	36	9
of which		
Paid	33	8
Waived	1	1
Unpaid, leading to revocation	2	0
s.15 – Request for information		
Requests issued	5	7
leading to		
Registrations revoked	0	2
Deregistration by request	0	1
Deregistered by the Authority	0	1
Considered for revocation	0	1
Under review	0	2
Resolved registration consideration	0	0
As part of the inspection process	5	0

C - BENEFICIAL OWNERSHIP OVERSIGHT

Beneficial Ownership Act 2017 (BOA17)	Year ended 31 March	
	2021	2020
Beneficial Ownership inspections/reviews were carried out, resulting in:	4	77
Issues with processes	0	19
of which		
No confirmation of appointment date	0	1
Company shown as pending dissolution	0	1
Information about trust needed adding	0	1
C - Beneficial Ownership Oversight	0	5
Required a declaration of no beneficial owner	0	8

D - ACTIONS TAKEN UNDER THE COMPANY OFFICERS DISQUALIFICATION ACT 2009

CODA	Year ended 31 March	
	2021	2020
Actions taken under CODA 2009	1	4

APPENDIX E

Our Accounts

Income and Expenditure Account For the year ended 31 March 2021

STATEMENT OF RESPONSIBILITIES IN RESPECT OF THE CHIEF EXECUTIVE'S REPORT AND THE INCOME AND EXPENDITURE ACCOUNT

The Chief Executive is the Accountable Officer for the Isle of Man Financial Services Authority ("the Authority") and is responsible for the preparation of both the Chief Executive's Report and this Income and Expenditure Account. The Chief Executive is also responsible under the Isle of Man Government Financial Regulations for assisting the Chief Financial Officer of the Treasury in ensuring that accounting and financial records are maintained in accordance with the requirements of the Audit Act 2006.

The Chief Executive ensures that an income and expenditure account is prepared for each financial period, which meets the requirements of the Accounts and Audit Regulations 2018 made under the Audit Act 2006. In addition, the income and expenditure account is prepared 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, except where indicated in the accounting policies.

In preparing the income and expenditure account, the Chief Executive has:

- ensured that suitable accounting policies have been selected and then applied consistently;
- made judgements and estimates that are reasonable and prudent;

- stated 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;
- assessed the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- used the going concern basis of accounting unless the Authority intends to cease operations, or has no realistic alternative but to do so.

The Members of the Authority, including the Chief Executive, are responsible for such internal controls as they determine are necessary to enable the preparation of the income and expenditure account that is 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 prevent and detect fraud and other irregularities.

The Members of the Authority are responsible for approving the income and expenditure account, and should not approve this unless they are satisfied that it gives 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS AND CHIEF EXECUTIVE OF THE ISLE OF MAN FINANCIAL SERVICES AUTHORITY

Our Opinion

Our Opinion on the financial statements is unmodified

We have audited the Income and Expenditure Account of the Isle of Man Financial Services Authority ("the Authority") for the year ended 31 March 2021 and notes to the Income and Expenditure Account, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102; The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statement presents fairly, in all material respects, the income and expenditure of the Authority for the year ended 31 March 2021 in accordance with the income and expenditure basis of accounting described in Note 1(a).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of accounting

We draw attention to Note 1(a) to the financial statement, which describes the basis of accounting; and to Note 1(c) which states that expenditure is not accounted for on the accruals basis which does not satisfy the requirements of FRS102. The financial statement is prepared to provide information to the Members and the Isle of Man Government. As a result, the statement may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

In auditing the financial statement, we have concluded that the Chief Executive's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Chief Executive with respect to going concern are described in the relevant sections of this report.

However, as we cannot predict with certainty all future events or conditions and as any subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report cannot be viewed as a guarantee as to the entity's ability to continue as a going concern.

Other Information

The Chief Executive is responsible for the other information. The other information comprises the information included in the annual report set out on pages 1 to 42, other than the financial statement and our auditor's report thereon. Our opinion on the financial statement does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statement, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statement or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statement or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where Section 6(2) the Audit Act 2006 require us to report to you if, in our opinion we:

- are not satisfied as to any of the matters specified in section 4(1) of the Audit Act 2006;
- consider that any matter specified in section 4(2) of the Audit Act 2006 is contrary to law; or
- consider that the relevant body has failed in any respect mentioned in section 4(3) of the Audit Act 2006.

We have nothing to report in this regard.

Responsibilities of the Chief Executive

As explained more fully in the Statement of Responsibilities in respect of the Chief Executive's Report and the Income and Expenditure Account set out on page 1 the Chief Executive is responsible for preparation and fair presentation of the financial statement in accordance with the basis of accounting described in Note 1(a); this includes determining that the basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances, and for such internal control as they determine necessary to enable the preparation of a financial statement that is free from material misstatement, whether due to fraud or error.

In preparing the financial statement, the Chief Executive is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the Authority intends to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial statement.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit are to identify and assess the risks of material misstatement of the financial statement due to fraud or error; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud or error; and to respond appropriately to those risks. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statement may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- The Authority is subject to laws and regulations that directly affect the financial statements including financial reporting legislation. We determined that the following laws and regulations were most significant including FRS 102 and the Audit Act 2006. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.
- We understood how the Authority is complying with those legal and regulatory frameworks by, making inquiries to management and those responsible for legal and compliance procedures. We corroborated our inquiries through our review of minutes and documents provided to the members.
- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur. Audit procedures performed by the engagement team included:
 - identifying and assessing the design effectiveness of controls management has in place to prevent and detect fraud;

- understanding how those charged with governance considered and addressed the potential for override of controls or other inappropriate influence over the financial reporting process;
- challenging assumptions and judgements made by management in its significant accounting estimates; and
- identifying and testing journal entries, in particular any unusual journal entry postings.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Members of the Authority, including the Chief Executive, in accordance with section 6 of the Audit Act 2006. Our audit work has been undertaken so that we might state to the Members of the Authority including the Chief Executive 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 as a body, for our audit work, for this report, or for the opinions we have formed.

Grant Thornton Limited
Douglas
Isle of Man
Date: 29 July 2021

**Income and Expenditure
Account for the year
ended 31 March 2021**

	Note	£	2020-21 £	2019-20 £
Income				
Fee Income	1(b), 2		3,055,560	3,101,040
Civil Penalties	2		17,100	19,300
Government Grant	13		3,353,494	3,215,289
Other Income			2,029	-
Total Income	1(b)		6,428,183	6,335,629
Expenditure				
Salaries	3	5,093,481		5,022,600
Members' Remuneration	4	216,903		161,102
Recruitment	6	27,516		11,532
Agency Staff		1,688		3,649
Premises	8	285,236		312,835
Training	6	25,804		52,403
Travel and Subsistence	6	-		64,182
Professional Fees and External Consultancy	5	518,807		364,295
Operating Expenses	6	22,415		38,459
Information Technology		101,958		91,475
Professional Subscriptions	6	113,748		88,464
Other Expenses	6	1,680		12,662
Loan Charges	7	49,000		53,000
Bad Debts	9	18,498		58,971
Reimbursements (from)/to Internal Funds	11	(48,551)		-
Total Expenditure	1(c)	(6,428,183)		(6,335,629)
Surplus/(deficit) for the year	1(a)	-		-

The notes on pages 70 to 73 form part of the Income and Expenditure Account.

The income and expenditure account was approved by the Financial Services Authority on the 29 July 2021 and signed on its behalf by Ms Lillian Boyle, Chair and Ms Karen Badgerow, Chief Executive.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2021

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 income and expenditure account is prepared in accordance with the Accounts and Audit Regulations 2018, made under the Audit Act 2006. It is 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. The Authority does not produce a balance sheet although it may hold assets or liabilities at any particular point throughout the financial year. Any that are held at the year-end are reported within the financial statements of 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.

c) Expenditure

Expenditure is accounted for when paid. No prepayments or accruals are recognised by the Authority. This does not satisfy the requirements of FRS102, which requires that expenditure be accounted for on the accruals basis.

The Authority has elected to include the cost of fixed assets within expenditure, rather than capitalising. 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 being funded from the Authority’s salaries budget (see note 3 below).

e) Balance sheet

The Authority is a Statutory Board of the Isle of Man Government and all assets and liabilities which may be held by the Authority are reported within the financial statements of the Isle of Man Government. Accordingly, a Balance Sheet is not prepared and does not form part of the Income and Expenditure Account.

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, Credit Unions, 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.

Civil penalty income reflects income received from administrative civil penalties only. In addition £160,044 (2020: £109,478) was charged in respect of discretionary penalties levied on regulated entities arising from successful enforcement actions or settlement agreements. This is not treated as income of the Authority and is accounted for as credits to the IOM Government’s general revenue.

3. Salaries

Included within "Salaries" are employer pension contributions of £450,146 (2020: £449,453).

Annual remuneration of the employees of the Authority, net of employer pension contributions, was payable within the following bands:

	2021 Number of employees	2020 (Restated) Number of employees
£0 - £49,999	41	42
£50,000 - £99,999	33	30
£100,000 - £149,999	4	3
£150,000 - £199,999	0	0
£200,000+	1	1
Total	79	76

The 79 members of staff equate to a full time equivalent of 72.66 employees (2020: 68.9). The 2020 total employees figure had been overstated in the prior year accounts as 78 and this has been restated as 76.

In 2017/18 the Authority was asked by Treasury 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, was established for this advisory role.

This role was subsequently extended for a further year into 2020/21. Treasury had agreed to cover any overspend in the Authority's staffing budget resulting from the extension to this appointment. Associated expenditure is included in the Authority's final salary figure however no additional Treasury funding was drawn down in relation to the 2020/21 salary costs.

Under the Bank (Recovery and Resolution) Act 2020 which came into force on 4 January 2021, the Authority is given a new mandate as the Resolution Authority for the Island. Two new roles were created as additional headcount for staffing of the Resolution unit.

4. Members' Remuneration

During the year, there have been no changes to membership of the Authority Board, and membership has remained at nine, including the Chief Executive. The increase in costs compared to 2019/20 is partly due to a membership of only eight to February 2020. Three out of the nine Members had not been employed for the full year during 2019/20. Salary cost in respect of the Chief Executive is included within "Salaries" (note 3).

5. Professional Fees and External Consultancy

Professional fees and external consultancy includes expenditure on actuarial, accountancy, legal and consultancy services procured by the Authority. The increase in costs in relation to professional fees compared to 2019/20 is due to an increase in external actuarial support partly due to recently introduced standards arising from the Authority's Insurance Core Principles project.

6. Variances

Some areas of expenditure show significant variances on the prior year. These variable costs can be affected by external events and include the annual training programme, attendance at events and overseas' conferences, and events hosted by the Authority. The COVID-19 pandemic has had an impact on a number of ledger codes, for example, travel during the year and attendance at off-Island events have been much reduced during the period, resulting in a lower spend in these areas compared to recent years. Also see Note 15.

7. Loan Charge

At the end of 2015/16, an amount of £200K was ring-fenced within Government's central funding for future expenditure 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.

Subsequently, due to Treasury restructure of its internal funds, an additional £350K, committed to the Authority, was added to the initial £200K; this additional amount is treated on the same repayment basis.

These ring-fenced funds are funding the continued development of the Authority's Atlas data system and the costs of this development work are not reflected within the Income and Expenditure account.

8. 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. This fee is included within the cost of Premises.

9. Bad Debts

Debts totalling £14,815 (2020: £7,447) in relation to outstanding fee payments for 20/21 where there is little or no expectation of recovery were written off at the year end. A further amount of £3,683 (2020: £51,524) in relation to historic debts, where an expectation of recovery had remained, and for which no provision had been made in earlier periods, was written off at the year end following indication that recovery is now remote.

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.

10. Reimbursements from or to Internal Funds

During 2020/21 the Authority received Treasury approval for expenditure of up to £100,000 in relation to specific enforcement activities, to be drawn from the Isle of Man Government's Seized Assets Fund. In 20/21 the Authority incurred costs in this respect of £48,551 (2020: £Nil) and this amount was reimbursed by Treasury at the year end.

12. Related Party Disclosures

There were no related party transactions requiring disclosure in the Accounts. The Authority is exempt from such disclosures with any qualifying transactions required to be published in the Central Government financial statements.

Some Members of the Authority's Board may also act as Directors of registered and regulated entities. All registered and regulated entity fees are charged in

accordance with the Financial Services (Fees) Order; Insurance (Fees) Regulations; Collective Investment Schemes (Fees) Order; the Registered Schemes Administrators (Fees) Order, and the Designated Businesses (Fees) Order 2021. The total fees generated, from entities where Members are directors, were £3,176 which compares to £33,203 for the prior year.

13. Government Grant

As per note 1(a), any deficit or surplus generated by the Authority during the financial year forms part of the general revenue and, accordingly, 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 for 2020/21 was approved by Tynwald at its February 2020 sitting. This grant secured the provision of up to £3,592,822 (2019/20: £3,059,266) to cover any shortfall.

14. Other work carried out by Grant Thornton

Grant Thornton, under appointment by the Isle of Man Courts, is currently undertaking liquidation work where the Authority has exercised its power to apply for "winding-up in the public interest". To allow the Authority to exercise this power, the funding for the fees and disbursements of the liquidator is underwritten by the Treasury of the Isle of Man Government. To mitigate any potential issue with independence, this work is carried out and reviewed by a different Grant Thornton team than that involved in the audit

15. COVID-19 Disclosures

On March 11 2020, the World Health Organisation (WHO) officially declared COVID-19, the disease caused by novel coronavirus, a pandemic. In the Isle of Man a state of emergency was declared on 16 March 2020, ending on 26 June 2020. Subsequently the Isle of Man Government imposed two further periods of 'lockdown' from 7 January 2021 to 31 January 2021 and from 3 March 2021 to 18 April 2021.

The outbreak and the resulting restrictions have not had a significant impact on the Authority, with the effect to date being restricted to revised working practices and some improvement projects being delayed. In particular the Treasury had approved an increase to the Authority's and some improvement projects being

delayed. In particular the Treasury had approved an increase to the Authority's expenditure budget from 2020/21 to enable the Authority to create eight new permanent roles, over the two-year period 2020/21 and 2021/22, focusing mainly on AML/CFT oversight, supervision and enforcement activities. The Isle of Man state of emergency ending in late June 2020 and two further periods of 'lockdown' in January and March/April 2021 have impacted the progress of this recruitment. Despite the slower than planned recruitment, the Authority has been able to continue to discharge its statutory functions.

Given its role as a regulator any longer term impact of COVID-19 on the Authority is likely to be secondary and driven by any changes to the industries and entities it regulates on the Island. The Authority has been able to maintain close contact with its stakeholders within the financial services industry, ensuring that these stakeholders, as well as the Authority itself, have appropriate response plans in place.

The management team continues to liaise closely with the industry to determine any current or potential impacts to business. A high degree of uncertainty remains over any long term impact on the financial services industry.

The results of the COVID-19 pandemic have, in the short term at least, had an adverse impact on the economy of the Isle of Man and the revenue of the Isle of Man Government. However it is felt that the nature of the Authority as a Statutory Board and the Island's financial services regulator, determines that the impact of the pandemic is likely to be one of degree and not fundamental to its future viability and its operation as a going concern.



APPENDIX F

Legislation which came into effect between 1/4/20 and 31/3/21

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. 2020/0049 effective 1 April 2020 – Collective Investment Schemes (Fees) Order 2020. This Order specifies the application fees and periodical fees payable from 1 April 2020 by schemes under the Collective Investment Schemes Act 2008.

SD no. 2020/0051 effective 1 April 2020 – Designated Businesses (Fees) Order 2020. This Order specifies registration and annual fees payable from 1 April 2020 by applicants for registration and registered persons under the Designated Businesses (Registration and Oversight) Act 2015.

SD no. 2020/0051 effective 1 April 2020 – Financial Services (Fees) Order 2020. This Order specifies the application fees and annual fees payable from 1 April 2020 in respect of the licensing of regulated activities under the Financial Services Act 2008.

SD no. 2020/0052 effective 1 April 2020 – Insurance (Fees) Regulations 2020. These Regulations specify the application fees and annual fees payable from 1 April 2020 in respect of authorisations, permits and registrations under the Insurance Act 2008.

SD no. 2020/0053 effective 1 April 2020 – Registered Scheme Administrators (Fees) Order 2020. This order specifies the application fees and annual fees payable from 1 April 2020 in respect of registered scheme administrators under the Retirement Benefits Schemes Act 2000.

SD no. 2020/0435 effective 22 January 2021 – Credit Unions (Ordinary Shares) Order 2020. This Order increases the ordinary shares that may be held by a member of a credit union to the greater of £15,000 or 1.5% of the credit union's total ordinary shares.

SD no. 2020/0437 effective 31 December 2020 – Insurance Intermediaries (Conduct of Business) (General Business) Code 2020. These Guidance Notes include principles in relation to the fair treatment of clients, general sales principles and requirements in relation to terms of business and provision of policy information.

SD no. 2020/0438 effective 31 December 2020 – Insurance Intermediaries (Corporate Governance) (General Business) Code 2020. These Guidance Notes include principles in relation to the corporate governance of the insurance intermediary, including responsibilities and constitution of the board of directors, as well as policies and procedures that must be established, followed and reviewed.

SD no. 2020/0439 effective 31 December 2020 – Insurance Intermediaries (General Business) Regulations 2020. These Regulations include a range of requirements applicable to general insurance intermediaries including in the areas of client money, financial resources and reporting to the Authority. They also set out exemptions from the requirement to register and exemptions from certain requirements.

SD no. 2020/0440 effective 31 December 2020 – Insurance Intermediaries (Restrictions on Advertising) Regulations 2020. These Regulations prohibit insurance intermediaries located outside of the Isle of Man from advertising for business in a way that targets Isle of Man persons. However, the Regulations do not preclude Isle of Man persons from purchasing products from off-Island insurance intermediaries that are not solicited by means targeted to Isle of Man persons.

SD no. 2020/0444 effective 17 November 2020 – Insurance (Amendment) Act 2017 (Appointed Day) (No. 3) Order 2020. This Order removes the requirement for insurance intermediaries to register on an annual basis.

SD no. 2020/0526 effective 4 January 2021 – Bank (Recovery and Resolution) (Class 1(3)) Order 2020. This Order excludes from the definition of 'bank' those institutions licensed to carry on Class 1(3) regulated activity.

SD no. 2020/0527 effective 15 December 2020 – Bank (Recovery and Resolution) (Appointed Day) Order 2020. This Order brought the Bank (Recovery and Resolution) Act 2020 into operation.

SD no. 2020/0528 effective 4 January 2021 – Bank (Recovery and Resolution) (Separation of Functions) Regulations 2020. These Regulations prescribe how the Authority must perform its functions in the capacity of resolution authority in a manner that is operationally separate from its functions as a regulatory supervisor. Also that relevant staff must be kept structurally separate.



APPENDIX G

Consultative documents issued between 1/4/20 and 31/3/21

Title of consultation	Date consultation published	Date consultation closed
Minimum Capital Requirements for Non Long Term Business PCCs and ICCs	03 April 2020	22 May 2020
Credit Unions – Savings Limit Change	03 August 2020	13 September 2020
Fees from 1 April 2020 and 1 April 2021	16 October 2020	11 December 2020
Funding Financial Regulation and Designated Business Oversight	30 October 2020	22 January 2021
Insurance Regulations 2021	10 November 2020	22 December 2020
Revised Insurance (Long Term Business) (Conduct of Business) Code	04 December 2020	15 January 2021
Insurance (Long – Term Business Valuation and Solvency) Regulations 2021	01 February 2021	01 March 2021
Bank (Recovery and Resolution) Act 2020 – Funding of administrative expenses of the Resolution Authority	08 February 2021	22 March 2021



GLOSSARY

AIM	Alternative Investment Market
AML	Anti-Money Laundering
AML/CFT	Anti-Money Laundering and Countering the Financing of Terrorism
AML/CFT Code	Anti-Money Laundering and Countering the Financing of Terrorism Code 2015
Atlas	Microsoft 365 Customer Relationship Management System
Authority	Isle of Man Financial Services Authority
BA	Bachelor of Arts Degree
BRRA20	Banking (Resolution and Recovery) Act 2020
BOA17	Beneficial Ownership Act 2017
CDD	Customer Due Diligence
CDIC	Canada Deposit Insurance Corporation
CEO	Chief Executive Officer
CFT	Countering the Financing of Terrorism
CIO	Chief Information Officer
CISA08	Collective Investment Schemes Act 2008
CISI	Compliance and Risk professional qualifications
CMI	Clerical Medial International
CODA09	Company Officers Disqualification Act 2009
COVID-19	An infectious coronavirus disease which led to the global pandemic in 2020/21

CSFI	Centre for the Study of Financial Innovation
CSPs	Corporate Service Providers
DHA	Department of Home Affairs
DBROA15	Designated Businesses (Registration and Oversight) Act 2015
DfE	Department for Enterprise
Designated Businesses	Persons registered with the Authority under the DBROA15
DNFBPs	Designated non-financial persons and business (Designated Businesses)
ECG	Enlarged Contact Group for Collective Investment Schemes Supervisors
ECU	Economic Crime Unit
EU	European Union
FATF	Financial Action Task Force
FAQ	Frequently Asked Questions
FCDO	Foreign, Commonwealth & Development Office
FINRA	United States General Securities Representative Exam
FIU	Financial Intelligence Unit
FSA	The Isle of Man Financial Services Authority
FSA08	Financial Services Act 2008
FSB	Financial Stability Board
FSC	Financial Supervision Commission

GIFCS	Group of International Finance Centre Supervisors	MBA	Master of Business Administration degree
GIICS	Group of International Insurance Centre Supervisors	MMOU	Multilateral Memorandum of Understanding
GFIN	Global Financial Innovation Network	MONEYVAL	Committee of Experts on the Evaluation of Anti-money Laundering Measures
GSC	Gambling Supervision Commission	MOU	Memorandum of Understanding
GTS	Government Technology Services	NASD	United States General Securities Representative Exam
HMRC	Her Majesty's Revenue & Customs	NGFS	Network for Greening the Financial System
HRCC	The Authority's Human Resources and Compensation Committee	PCC	Protected Cell Companies
IA08	Insurance Act 2008	PEP	Politically Exposed Person
IAIS	International Association of Insurance Supervisors	PHD	Doctor of Philosophy
ICA	International Diploma in Financial Crime and the Chartered Insurance Institute's Advanced Diploma in Insurance	PIFM	Predominantly Industry Funded Model
ICAEW	Institute of Chartered Accountants in England and Wales	POCA08	Proceeds of Crime Act 2008
ICC	Incorporated Cell Companies	PRA	the UK Prudential Regulatory Authority
ICP	Insurance Core Principles (published by the IAIS)	RACC	the Authority's Risk and Control Committee
ICRG	International Co-operation Review Group	Registered Firm	For the purpose of this report means a person registered under the DBRO15 or subject to requirements under the BO17
ICSA	International Certificate in Financial Services Regulation	Regulated firm	For the purpose of this report means a person, licensed under the FSA 08, authorised or registered under the IA08, subject to regulation under the CISA08 or covered by the RBSA00
IoD	Institute of Directors	RBSA00	Retirement Benefits Schemes Act 2000
IMF	International Monetary Fund	RESCO	Resolution Committee
IOSCO	International Organization of Securities Commissions		
IOPS	International Organization of Pension Supervisors		
Island	Isle of Man		
IT	Information Technology		

Rule Book	Financial Services Rule Book
SFA	Skills Funding Agency
SharePoint	Microsoft web-based collaborative platform
SNPO	Specified Non-Profit Organisation
SUGAR	Strengthening Uganda's Anti-Corruption and Accountability Regime
Swiss Re	Reinsurance Company based in Zurich, Switzerland
TCSP	Trust and Corporate Service Providers
TOCFR	Terrorism and Other Financial Crime (Financial Restrictions) Act 2014
TSPs	Trust Service Providers
UK	United Kingdom
UK FCA	United Kingdom Financial Conduct Authority
UK FRC	United Kingdom Financial Reporting Council
UK PRA	United Kingdom Prudential Regulation Authority
UNESCO	United Nations Educational, Scientific and Cultural Organisation
US	United States
VPN	Virtual Private Network

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FINANCIAL SERVICES AUTHORITY

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