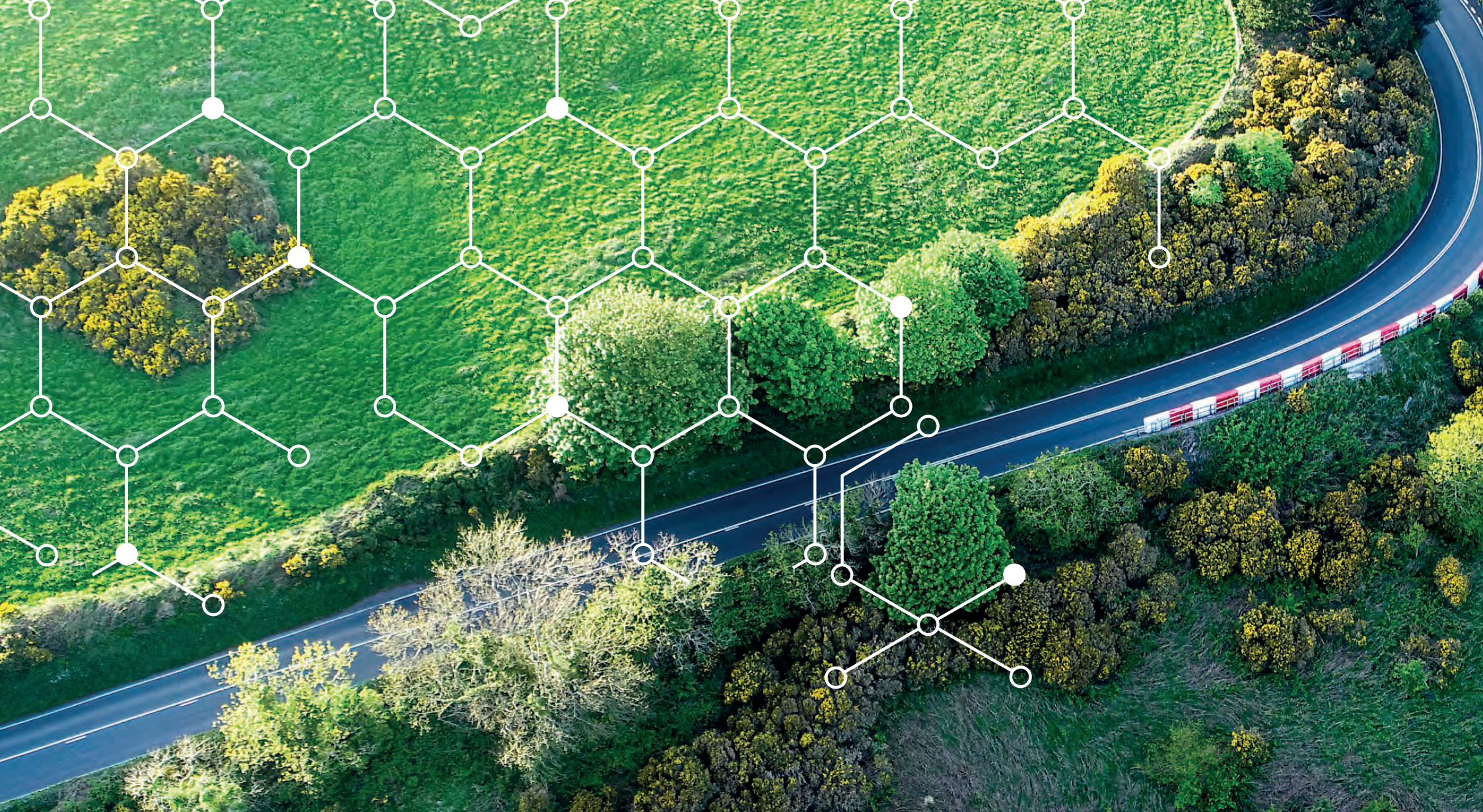


ANNUAL REPORT 2021/22



ISLE OF MAN
FINANCIAL SERVICES AUTHORITY

Lught-Reill Shirveishyn Argidoil Ellan Vannin



CHAIR'S OPENING REMARKS

‘By actively engaging and collaborating with our community of financial services sector organisations, government agencies and international peer groups, we are enabled as a proactive regulator to be responsive and effective.’

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

CONTRIBUTING TO A STRONG AND DIVERSE ECONOMY

In the Authority’s recent annual reports we have highlighted the relentless pace of change we have all faced, both in our work and personal lives, through adapting to, managing, and now living with the COVID-19 virus.

In 2022 we have had to face a further set of challenges through the impact of the war in Ukraine. There have been far-reaching implications in our consideration and monitoring of financial transactions following the very necessary imposition of extensive and ongoing sanctions. This has again illustrated the need for regulators to step up when the societal and political landscape reshapes. We continue to support the Isle of Man Government in its implementation of sanction regimes.

The Authority’s annual reports do, by necessity, contain reflections on our work over the past year. However, we also believe that a number of the actions we have taken throughout the past 12 months have set us on a path to support the future-proofing of the wider financial services sector in the Island. With this firm vision we intend to continue to build out a framework of regulation that will provide a sound environment to meet ongoing and new challenges.

We have this year provided more detail on the Authority’s three regulatory objectives of protecting consumers, reducing financial crime, and providing effective regulation to maintain confidence in the Island’s financial services sector. Each one of these is a cornerstone to the Authority’s role.

By actively engaging and collaborating with our community of financial services sector organisations, government agencies and international peer groups, we are enabled as a proactive regulator to be responsive and effective. We encourage and support innovation and sustainability to underpin the Island’s economic prosperity. Our strategic priorities, which are detailed within the report, are closely aligned with the Government’s [Island Plan](#) to build and maintain a strong and diverse economy. We are committed to ensuring that we fully contribute to the success of that Plan.

As a Board we continue to oversee the various strands within the Authority’s Strategic Plan and have recently updated and published our Enterprise Risk Tolerance Statement. This brings focus to the way in which we consider risk and its impact in pursuing our regulatory objectives. We believe that publishing the statement assists in providing further transparency regarding how the Authority approaches its role, and allows those with whom we interact to have greater insight into our risk process.

The framework the Board operates within utilises a system that allows us to dedicate resources in this area through our Risk and Control Committee. This is complemented by our HR and Compensation Committee, which oversees matters relating to our people management. Also, since January 2021 we have operated a Resolution Committee, which embodies our role as the Island’s Resolution Authority. All of these committees benefit from the specialised skills we have within our Board and I would like to acknowledge the dedication that is given to the work of all three committees by Board members and the Executive team who support them.

Finally, it is my pleasure to introduce Bettina Roth, our new Chief Executive. Bettina joined us in October 2021 and has a wealth of experience in a number of international financial centres. In her introduction Bettina highlights many of the areas where we are seeking greater development through technology, the aim and purpose being to meet the widening role the Authority plays in bringing new initiatives to fruition. In doing this we are working with our partners in the Digital and Finance Agencies within the Isle of Man Department for Enterprise.

Technological development is at the very forefront of the Authority’s strategy. Progress will ensure we create effective and agile in-house processes to keep pace with the regulatory initiatives we are committed to introducing to promote and benefit the financial services sector in the Isle of Man.





CHIEF EXECUTIVE'S REPORT

‘Sharpening our focus on innovation will enable us to keep pace with evolving markets, services and products within an increasingly dynamic industry.’

BETTINA ROTH, CHIEF EXECUTIVE OF THE ISLE OF MAN FINANCIAL SERVICES AUTHORITY

A WARM MANX WELCOME

I joined the Isle of Man Financial Services Authority last autumn and was immediately struck by the warmth of the Manx welcome and excited by the possibilities that exist here.

I have enjoyed meeting as many organisations and individuals as possible in recent months to set out our plans for the future and to gain a deeper understanding of your aspirations, thoughts and concerns.

Collaboration will be key to our mutual success, and engagement with stakeholders will remain one of my personal priorities in the time ahead.

The Isle of Man’s economic journey, in particular its resilience and ability to continually reinvent itself, has been a source of inspiration to me.

The Authority will continue to demonstrate those characteristics as it responds to a period of challenge in a positive and pragmatic fashion.

We are embracing change to meet shifting demands while maintaining the core supervisory, oversight and enforcement activities that safeguard the integrity of our regulatory system.

Sharpening our focus on innovation will enable us to keep pace with evolving markets, services and products within an increasingly dynamic industry. This includes a willingness to flex our regulatory framework – where appropriate – to provide a pathway to the marketplace for more creative solutions.

Within the Authority our aim is to leverage technology to enhance our means of gathering, triaging and utilising data, thereby strengthening our ability to make informed, evidence-based decisions.

Greater automation will enable us to devote more resources to value-added and risk-based supervision, while exploring ways to streamline authorisation processes and improve the speed to market for lower risk entities.

Clear communication is essential if we are to move forward with confidence, and I am keen to maintain a two-way dialogue on a range of key topics, including the phased introduction of the proposed new funding model.

This represents a step change for the Island’s regulatory environment and we understand that asking firms to pay more will never be popular.

Our intention is to put in place a structure that is proportionate, competitive, and more accurately reflects the regulatory activities being carried out. We will keep you informed of progress as part of our overall commitment to openness and transparency.

We are genuinely excited about the future and will strive to ensure the Authority is well positioned to deliver its objectives and priorities. Standing still is not an option.

This means achieving transformational change, adopting a consistent supervisory approach based on impact and risk, and nurturing a workplace culture that maximises value and ongoing efficiency.

The time ahead will hold many more challenges and opportunities, as the accelerated rate of change continues to disrupt traditional methods of delivering financial services and products.

Environmental, Social and Governance (“ESG”) matters, as well as the transition to carbon neutral outlined in [Our Island Plan](#), will increasingly come to the fore. The Isle of Man must influence behaviour and safeguard its reputation by being aligned with international standards in this fast evolving area.

On a personal level, I am fully committed to playing my part in ensuring the continued prosperity of the Island’s financial services sector.





FUTURE-PROOFING THE ISLAND'S FINANCIAL SERVICES SECTOR

As the Isle of Man's financial services regulator, the Authority is focused on protecting consumers, reducing financial crime, and maintaining confidence in the financial services sector.

The Authority was established as an independent Statutory Board on 1 November 2015 and provides updates on its proceedings and activities to the Isle of Man Treasury through regular meetings at Board and Executive level and by way of an annual report.

The report, which will be laid before Tynwald, covers the period 1 April 2021 to 31 March 2022 and includes the Authority's accounts, audited in accordance with the [Audit Act 2006](#).

This year's theme is 'future-proofing the Island's financial services sector' and highlights the progress being achieved in key areas such as innovation and AML/CFT-related supervisory work.

It builds on our updated [Strategic Plan for 2021-24](#), which sets out the six priorities that will drive our work over the next three years:

- transitioning to a more sustainable regulatory funding model
- updating our supervisory methodology
- ensuring more effective use of data
- strengthening resources to respond to AML/CFT-related risks
- building out operational resilience
- introducing updated legislation in respect of the financial services and pensions industries, and Designated Businesses.

Transparency continues to be at the heart of the Authority's approach and key performance metrics are provided to the Treasury Board and published on our website. Open engagement will help to strengthen co-operation, trust and understanding between the Authority and our stakeholders.

The information set out in this report highlights the progress that has been achieved on multiple fronts over the past year, and we are excited at the prospect of bringing many more workstreams to fruition in the time ahead.





Members of the Board:

Left-right: Peter Hahn, Bettina Roth, Mark Waterhouse, Lillian Boyle, Jo Hill, Kevin Garland, Lucy McClements, Leam Thompson, Jane McAndry.

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

Being transparent and
accountable, sharing
information, reporting
information, being accessible,
enhancing our governance,
using new technology

THE AUTHORITY'S YEAR AT A GLANCE 2021/22



Authority Funding Model

We published a consultation paper and held meetings with Treasury and industry to invite feedback aimed at progressing the introduction of a new funding model and fees structure.

Crisis Preparedness

The Bank Resolution and Deposit Compensation team was established and continued to work in collaboration with the Island's banking community to put in place appropriate preventative measures and protections.



Data Management and Analytics

We introduced a new data warehouse for all regulatory returns in order to realise the benefits of automatic data validation.

Supervisory Methodology

We carried out design work, including new supervisory risk guidance, to prepare for the implementation of a new supervisory framework to categorise firms based on their potential risk and impact to the Island's financial system.



AML/CFT

We strengthened our resources, updated guidance, and worked in conjunction with industry to carry out a thematic review of foreign Politically Exposed Persons (PEPs).



Innovation

Our regulatory sandbox was used by a new e-money business, we launched a dedicated innovation web section, and we continued to work in partnership with the Department for Enterprise to support the future development of fintech.



Supporting Consumers

We continued to support consumers by maintaining the security and integrity of the Island's finance industry and raising awareness of matters of public interest.



Strategic Plan 2021-24

A new Strategic Plan was published to explain how we intend to deliver our long-term goals to support an evolving and dynamic industry.



Communication

We stepped up our engagement and outreach programmes to help strengthen co-operation, trust and understanding with our stakeholders.



ESG – Climate Change

We developed a roadmap to set out how we will integrate climate-related and environmental risks into our supervisory approach.



Strategic Plan on a page

Our Core Purpose

Why we do it

In carrying out its statutory objectives the Isle of Man Financial Services Authority aims to uphold trust, confidence and integrity.

Our Core Values

How we conduct ourselves

Acting with Integrity. Respecting Others. Achieving Excellence.

Our Key Principles

How we deliver and engage

We seek to **understand** the business of, and risks posed, by regulated entities: this allows us to **prioritise** our work, focus on what truly matters and take actions **proportionate** to the benefit received.

We welcome **early dialogue** with the industry so that we understand emerging risks and also new opportunities: this helps us **consider** the potential impact and how best to address change.

Regulation and regulators are only effective if they are **understood**: our aim is **not to overcomplicate** matters.

We **intervene** at an **early** justified stage in issues to help prevent unacceptable risks crystallising.

We seek to **understand, collaborate** and follow a reasonable path of **remediation** to achieve the **right outcomes**.

Enforcement is pursued where **proportionate, reasonable** and **appropriate**, which may be in parallel with remediation.

Regulated entities are **responsible** for managing the risks within their business. Our job is to **design** and **advance** a regulatory framework that promotes **effective** controls, good risk management and suitable **disclosure**; this is how we contribute to the soundness of our industry.

Our Long Term Goals

How we will focus on the right things



Continue to review and enhance frameworks so that:

- users of financial services are appropriately protected and can make informed decisions; and
- financial crime is effectively deterred.



Ensure effectiveness of our regulatory, supervisory and enforcement approaches.



Work in partnership with stakeholders to embrace innovation within a dynamic, appropriately regulated, international financial sector.



Preserve our independence and build our resilience while remaining accountable and transparent.

Our Strategic Priorities

What we plan to do

1. Authority Funding Model

- 1.1 Move to a "predominantly industry funded model"
- 1.2 Continued engagement and consultation with industry
- 1.3 Enhancements in transparency

2. Supervisory Methodology

- 2.1 Implement updated approach to regulatory inspections; issue public guidance
- 2.2 Revised supervisory framework for assessing risk and impact
- 2.3 An updated and transparent supervisory engagement model

3. Data Management and Analytics

- 3.1 New data warehouse and analytical functions to be implemented
- 3.2 Enhanced digital offering for interaction between the Authority and regulated and registered entities
- 3.3 Replacement of legacy systems

4. Maintaining and Updating our Framework

- 4.1 Introduction of revised Retirement Benefit Scheme Legislation (enhanced regulatory framework for pension schemes and pension providers)
- 4.2 Introduction of a Financial Services (Amendments) Bill, amending existing Acts and to include the introduction of civil penalties against individuals

5. Crisis Management

- 5.1 Embedding the role of the Authority as "Resolution Authority"
- 5.2 Policyholder (insurance) Compensation Scheme review work
- 5.3 Deposit (banking) Compensation Scheme review work (in conjunction with Treasury)

6. AML/CFT

- 6.1 Defining (and implementing) the role and responsibilities of the new AML/CFT Division
- 6.2 Maintenance and review of guidance
- 6.3 Continued engagement with Government AML/CFT Policy

KEY STATISTICS

The Authority regularly publishes statistics on its website that summarise the size and level of activity within the various sectors of the Island's finance industry.

As well as current figures, some historical figures are also included to show how the sectors have developed over recent years.

£472,409

NET DISCRETIONARY
CIVIL PENALTIES LEVIED
DURING 2021/22

9 MEETINGS OF
THE BOARD



£13.6 bn

FUNDS UNDER
MANAGEMENT IN THE
PENSIONS SECTOR

£38.2bn

TOTAL BANK DEPOSITS



19

CIVIL PENALTIES
ISSUED FOR
FAILURE TO
SUBMIT ANNUAL
RETURNS AND/OR
PAY ANNUAL
OVERSIGHT FEE

1,249

TOTAL NUMBER OF
RETIREMENT BENEFITS
SCHEMES

£80.6bn

FUNDS UNDER MANAGEMENT
IN THE INSURANCE SECTOR



PROACTIVELY MANAGING OUR STRATEGIC PRIORITIES

The Authority has improved its oversight of priority projects, with additional resource enabling us to manage issues in a more proactive way.

Achieved 2021/22:

- The Authority Funding Model is progressing well and has involved significant engagement with external stakeholders.
- Primary legislation changes have been delayed, primarily by drafting resource being engaged in other more urgent priorities. However, draft Bills are now in progress.
- The Supervisory Methodology and AML/CFT projects are closely linked and external stakeholders will have already seen evidence of AML/CFT initiatives, while the Supervisory Methodology project has focused largely on the design of the framework.
- In Data Management and Analytics, we have achieved a major milestone in implementing our data warehouse. This enhances our ability to analyse financial reports received from regulated entities.
- Engagement has taken place with key stakeholders to understand their level of preparedness in the event the life insurance policyholder compensation scheme should be invoked.

Planned 2022/23:

- We are on target for new regulations to be implemented from 1 April 2023 to support the transition to the new funding model.
- Consultations are planned to take place over the coming year to progress the implementation of required new legislation.
- We will continue to develop our approach to crisis management and enhance our ability to deal with crisis events.

ENHANCING OUR APPROACH TO RISK

The Authority has updated its [Enterprise Risk Tolerance Statement](#), which informs decision-making at every level of the organisation.

It sets out how we identify and manage different categories of risk to ensure our resources are focused on areas that have the potential to cause most harm to the fulfilment of our regulatory objectives.

Progress during the reporting period has included enhancing our ability to respond to crisis events, working closely with other Government agencies on matters such as innovation and preparation for the Island's next MONEYVAL evaluation, and ensuring there is transparency across Government about the Authority's responsibilities.

Our communications plans have been updated to ensure that the Authority and its stakeholders understand each other's expectations and that we provide outreach and guidance regarding our risk-based approach to supervision.

Technology risk is also of concern and we liaise closely with our provider, Government Technology Services (GTS), in respect of the security of our systems and data.

The Authority has increased the frequency of its risk horizon scanning to strengthen its ability to anticipate emerging risks, consider their potential impact, and take the appropriate action. The Executive Risk Committee meets regularly and reports to the Risk and Control Committee, which meets quarterly.

Understanding the Authority's approach to risk is important for all businesses that are subject to its regulation, supervision and oversight.

SUPPORTING OUR ISLAND PLAN AND ECONOMIC STRATEGY

The Authority supports initiatives to enhance the Isle of Man's reputation as a responsible and forward-looking international finance centre.

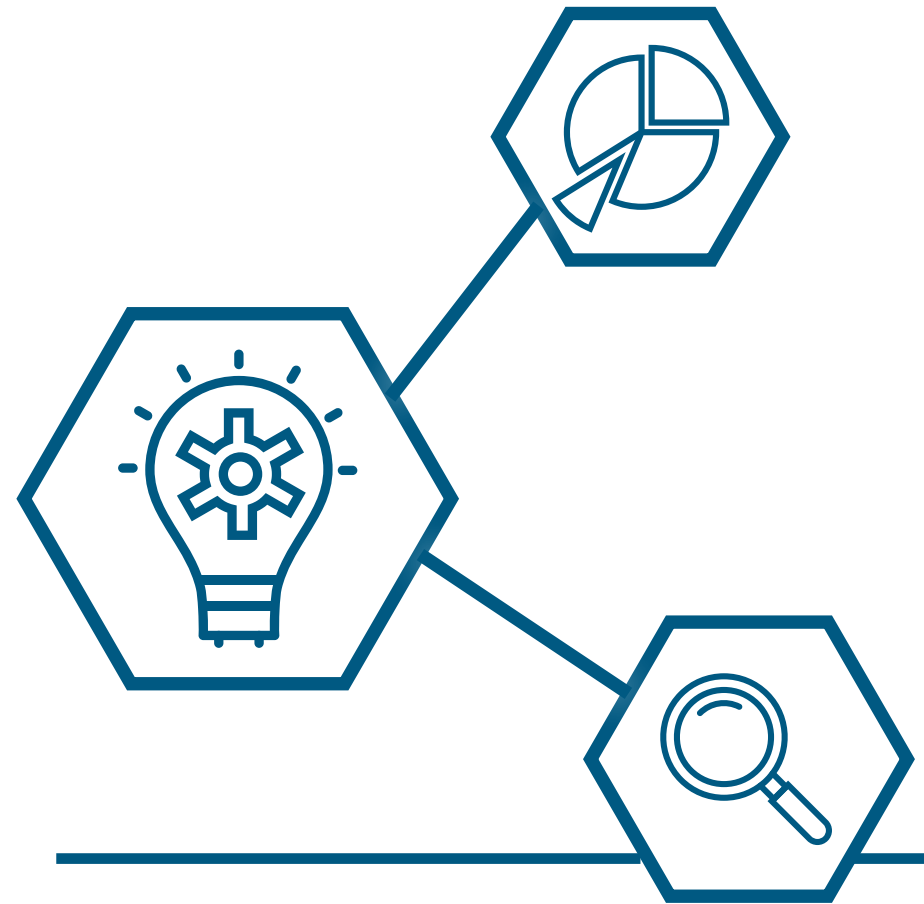
Our strategic priorities are aligned to the vision outlined by the Government in [Our Island Plan](#) and [Our Island, Our Future: Isle of Man Economic Strategy](#).

We understand that maintaining a strong, diverse, vibrant and sustainable economy is in all our interests. The integrity of our regulatory system adds value to the Isle of Man's offering, protects our core foundations, and helps to attract new quality businesses and job opportunities.

Looking ahead, we remain flexible and responsive to the increasing demand for fintech innovation and more digital ways of transacting, both externally with firms and internally within our own environment.

Our aim is to embrace innovation while ensuring the appropriate level of compliance and consumer protection.

The future will hold many challenges and exciting opportunities for the Authority – and for the Isle of Man as a whole. We will continue to accept and effectively manage risk in order to maintain the robust financial environment that sets the Island apart from competitor jurisdictions.



Our aim is to embrace innovation while ensuring the appropriate level of compliance and consumer protection.



PROTECTING CONSUMERS

GATEKEEPER TO THE REGULATED FINANCIAL SECTOR

One of the most important roles fulfilled by licensing and authorisation is that of gatekeeper – monitoring access in respect of who is able to operate in the regulated financial sector. This is a fundamental way in which the regulatory regime provides protection for consumers.

To ensure the Authority meets its regulatory objectives, and that its regulatory framework complies with international standards, it is essential that regulated firms meet certain requirements.

Applicants wishing to undertake regulated activity must evidence that they have a suitable presence in the Island, with the regulated activity taking place in or from here. They must also be financially sound, have appropriate systems and controls, have competent and experienced management and staff 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 the regulatory standards. This involves striking a balance between prudence and compliance on one hand, and the encouragement and support of innovation on the other, while making it clear that authorisation will not be granted if the minimum requirements are not met.



SIMPLIFYING THE AUTHORISATION PROCESS

Applications for licensing, authorisation or registration are considered in line with established requirements – for the entity itself, as well as the individuals associated with the entity, such as its key personnel, management and controllers.


Potential applicants are encouraged to contact the Authority prior to making a formal application, including talking to us about tentative initial queries, so that we can discuss their plans, and provide support and guidance where appropriate.

We continue to witness a strong pipeline of enquiries. During the reporting period, the Authority dealt with a number of formal applications, predominantly from payment service providers, trust and corporate service providers, and those interested in the provision of life and non-life insurance (including insurance intermediaries).

Individuals in specified roles, known as Controlled Functions, are required to be either 'notified or accepted' by the Authority or 'notified only'. This is required as part of the initial application process and also ahead of new appointments in relation to firms that are already regulated or registered.

Following a review conducted in February 2022, some lower risk and lower impact Controlled Functions were moved to a 'notified only' approach in order to simplify the process and allow the Authority to focus its resources on roles that pose the most risk.





DEVELOPING OUR SUPERVISORY METHODOLOGY

The development phase of the Authority's new Risk-Based Supervisory Framework is progressing well.

This framework is designed to enable the Authority to categorise firms based on impact in respect of the potential level of damage or disruption the firm could cause to the Isle of Man financial system and wider local economy. We have undertaken work to identify key impact metrics, and develop how best to use new technology to drive our work.

We have focused on staff training and awareness, with allocated resource providing internal presentations/workshops for supervisors on key aspects of the framework proposals. In particular, we have been developing tools to further assist the Authority's supervisors in making consistent, informed judgements around risk (inherent and/or residual), as well as the adequacy of a firm's risk management and governance (controls).

As part of the new supervisory methodology, the Authority published enhanced [Inspections Guidance for Firms](#) in October 2021. This guidance promotes transparency by providing firms with timelines and an understanding of what happens during each phase of an inspection. It also outlines expectations of the firm and the Authority throughout the process.

The next phase will focus on the Authority's Supervisory Engagement Model, implementation of the new suite of risk and impact assessment templates, and our internal governance framework to ensure consistency. This work will commence during 2022/2023, with completion planned for 2023/2024.

PUTTING IN PLACE THE BUILDING BLOCKS TO PROTECT CONSUMERS

One of the three regulatory objectives of the Authority is 'securing an appropriate degree of protection for policyholders, members of retirement benefits schemes and the customers of persons carrying on a regulated activity'. In short, 'protecting consumers'.

There are three main building blocks to the Authority's approach to protecting consumers:

- Having appropriate and proportionate requirements in place, including regulations, rules and guidance, which firms have to comply with. This includes requirements for firms to be financially solvent, protect clients' assets, be transparent and fair with consumers, to have robust compliance and risk management functions, and to tell the Authority when things go wrong.
- Undertaking risk-based supervision of firms and sectors (our supervisory approach).
- Having appropriate safety nets in place if things do go wrong and consumers suffer loss or harm. For example, this includes firms having indemnity insurance in place, recourse to the Financial Ombudsman Scheme (where applicable), and in some cases statutory protection schemes to deal with firm failures.

The ability to identify and categorise firms that have the capacity to cause the most harm or damage to consumers should they fail, or carry on business in an unsafe manner, is essential to operating a risk-based supervisory framework. This is known as 'impact'.

Similarly, an understanding is needed of which sectors and firms pose the highest risk, pertaining to possible poor consumer outcomes. Consumers can suffer harm not only if a firm fails or does not adequately protect its clients' assets, but also if a firm's governance and control frameworks do not align to the complexity and risks of the products and services that it offers.

Therefore, in relation to consumer protection, the Authority aims to devote an appropriate level of supervisory resources to firms/sectors that pose the highest impact or the highest residual risk to consumer harm, regardless of impact.

The intensity and frequency of risk assessments, at firm level, depends on the impact rating. Examples of inputs into a firm risk assessment are shown in figure 1.

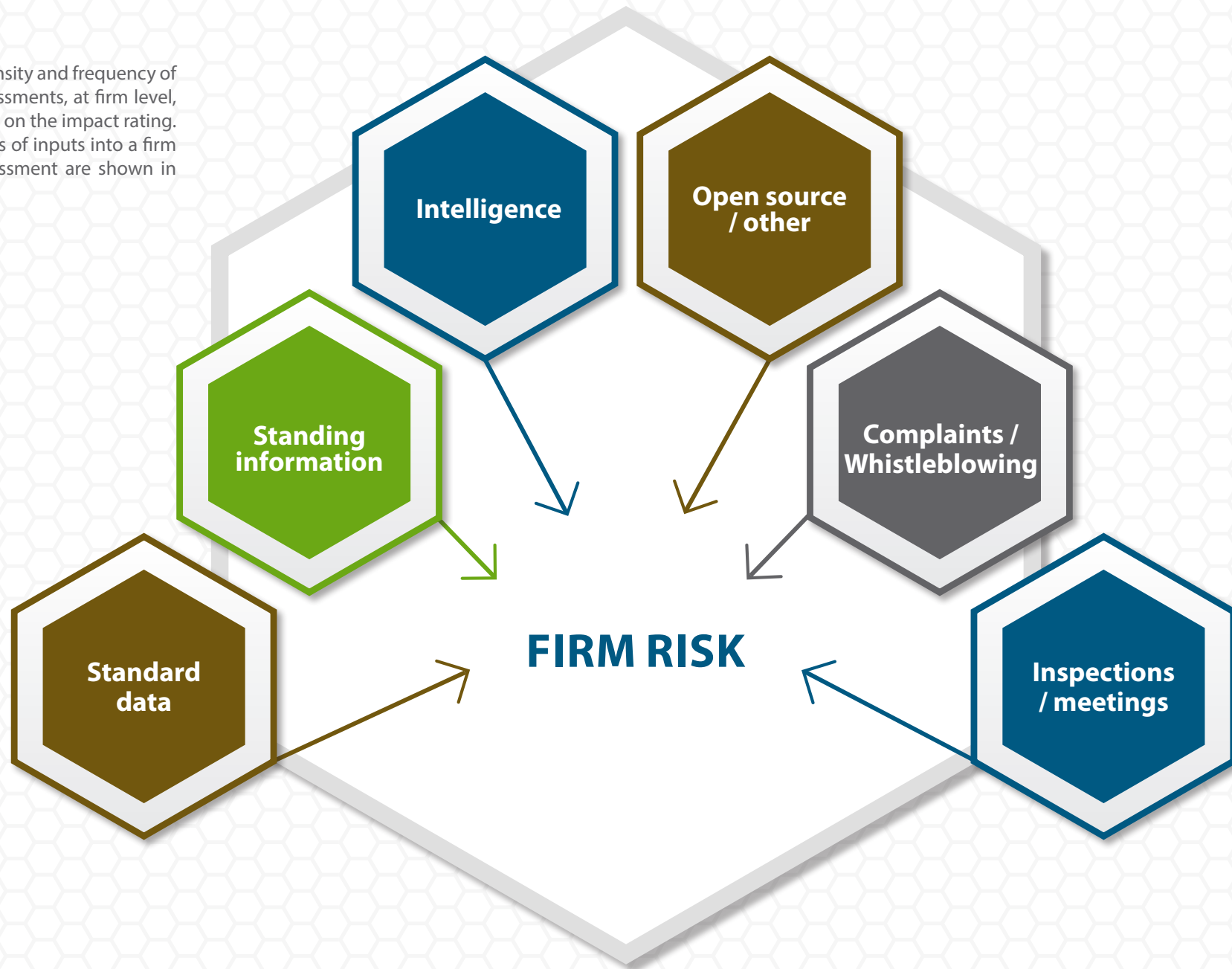


Figure 1

The planning of supervisory work takes place annually and the approach generally means that there is more intensive supervisory engagement with individual firms and sectors that pose the highest impact and highest risk. Planning focuses on:

- Regular event-driven supervisory work which helps to protect consumers; for example an important aspect is the review of periodic financial returns to make sure firms remain compliant with prudential requirements.
- Pro-active work such as:
 - targeted inspections
 - thematic work (this may include an inspection element)
 - periodic meetings with firms: these can be focused on specific topics, or with specific functions.

Achieved 2021/22:

- Commenced a thematic review into banks' reimbursement of customers impacted by Authorised Push Payment ("APP") fraud.
- Authorisation of an e-money firm included a specific focus on consumer information and protection of client funds.
- Continued to review banks' loan books and approach to managing arrears following wind down of COVID-19 support measures.
- Our annual inspection programme included: firm specific inspections focused on risk management, board responsibility and oversight; reviews of more recently licensed firms; and thematic AML/CFT Politically Exposed Persons ("PEP") inspections.
- Played an active part in regulatory assessments conducted by the Group of International Finance Centre Supervisors ("GIFCS").
- Continued preparations for new non-life insurance framework, including assessment of firm preparedness.
- Progressed a thematic review in relation to the Policyholder Compensation Scheme.
- Completed the registration of 54 new pensions schemes.

Planned 2022/23:

- Commence a thematic review of banking services focused on operational and cyber resilience.
- Enhance monitoring of banks' local mortgage portfolios in a rising interest rate environment.
- Roll out new data set to financial advisors to help identify trends in advisory activity and practices.
- Annual Business Meetings with life insurers to focus on operational resilience and firms' current strategy in relation to ESG.
- Conduct a thematic review into treatment of expenses for regulatory solvency purposes and potential impacts of high inflation environment.
- Continue the review of applications for registration of pension schemes.

The cycle connecting the assessment of risk (which may be at sector and firm level) to supervisory work is shown in figure 2 below. The frequency and intensity of action will reflect assessed risk and impact.

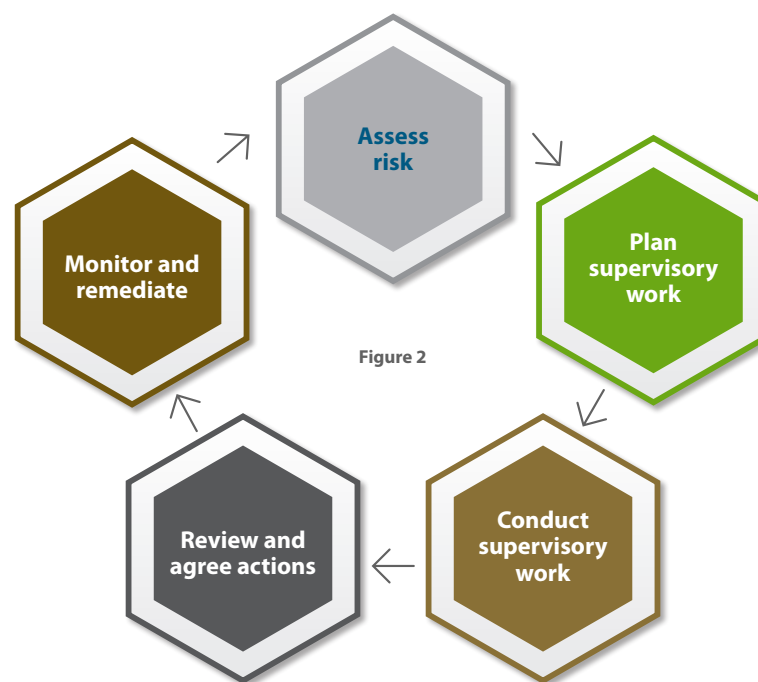


Figure 2



REDUCING FINANCIAL CRIME



HELPING TO MAINTAIN THE ISLAND'S POSITIVE REPUTATION

The Authority is committed to reducing financial crime as part of its work to maintain the Island's reputation as a well-regulated and internationally-responsible jurisdiction.

As an international financial centre, the Isle of Man offers a wide range of services and facilities to individuals and businesses on a global basis. No country is immune from financial crime, and wherever there are financial services there will always be the possibility of laundering the proceeds of crime or disguising the movement of funds linked to terrorist activities or corruption.

To help protect businesses, their employees, and the community from falling under the destructive influence of criminals, and to help protect the Island from reputational and economic damage, the Isle of Man has set out a [Financial Crime Strategy for 2021–2023](#) and the key risks in a [2020 National Risk Assessment](#). These sit alongside [Anti-Money Laundering and Countering the Finance of Terrorism \("AML/CFT"\) legislation](#), including the [Proceeds of Crime Act](#) and the [AML/CFT Code 2019](#), which set out obligations and requirements on individuals and businesses.

Failure to comply with AML/CFT requirements could lead to businesses being used or targeted by criminals or their associates, and could expose businesses and employers to a number of serious risks, including criminal and regulatory sanctions and the loss of their regulatory licences. Relevant businesses can, and should, take a strong position on breaches of AML/CFT requirements, and require employees to pay scrupulous attention to the processes of protection against money laundering which business, the law, and the well-being of the Island demands.

All businesses regulated or supervised by the Authority are bound to meet the obligations set out in the AML/CFT Code to properly understand and document the risks they face, have effective measures and controls in place to prevent the use or abuse of their business for money laundering, and be able to show and evidence these. The Authority has oversight of the compliance of relevant people with their obligations to protect themselves and prevent money laundering.



Achieved 2021/22:

- Created a new AML/CFT Division to help provide focus to our AML/CFT activities. The new division has been integrated into the Authority's systems and approach to supervision.
- Set out our [Strategic Plan for 2021-24](#), including the development of the approach to AML/CFT, and maintenance of published guidance to help relevant persons comply with their AML/CFT obligations.
- Published a new AML/CFT Handbook setting out guidance on the requirements and compliance with the AML/CFT Code, and produced new sector-based guides to accompany the Handbook.
- Published updated [sector reports](#) based on AML/CFT statistical returns received from regulated businesses.
- Undertook a major cross-sector programme looking at supervised entities' identification, risk assessment and management controls for customers who may be Foreign Politically Exposed Persons ("PEPs"), or associated to foreign PEPs:
 - The programme will produce data that will inform our future risk assessment of relevant persons, sectors and industry, as well as the Isle of Man's next National Risk Assessment.
 - The review will also help to identify areas of best practice, or any weakness that may pose a threat to our regulatory objectives.

Planned 2022/23:

- Following public consultation in February 2022, new legislation on civil penalties under the [Beneficial Ownership Act 2017](#) came into effect from 31 July 2022.
- Joint work with the Department for Enterprise on improving the data quality on the Beneficial Ownership database is progressing well, with a number of initiatives, including more focus on risk-based oversight inspections by the Authority.
- Liaison with relevant industry bodies and groups to refresh or develop AML/CFT working groups.
- Significant input to a Cabinet Office-led assessment of the Island against international standards on AML/CFT.
- Continuation of risk-based AML/CFT inspections across all sectors, including an exercise on real presence for businesses in the Convertible Virtual Currency ("CVC") sector.

A PROPORTIONATE AND EFFECTIVE ENFORCEMENT FUNCTION

A proportionate and effective enforcement function is an integral part of the regulatory environment and helps the Authority to fulfil its objectives and meet international standards.

The Authority operates a risk-based approach to supervision, which is supported by the credible threat of enforcement. Our regulatory strategy is aimed at promoting effective controls and governance amongst the firms we regulate, and appropriate behaviours for those who work within such entities. We will take appropriate action through supervision or enforcement where regulated entities and/or individuals fall short of those expected standards of behaviour.

The [Enforcement Decision Making Process](#) ("EDMP"), first issued in November 2019, sets out the approach the Authority follows when exercising certain statutory powers. The EDMP is scheduled to be reviewed in 2022/23, as part of our ongoing checks on the procedures we manage, with the intention of refining and improving the decision-making processes based on experience gained to date.

Key points:

- All firms undertaking business in the regulated sector have an obligation to conduct their affairs in a manner that adequately mitigates the risks they face in order to ensure that the Isle of Man retains its reputation as a responsible and well-regulated international financial centre.
- The Authority requires businesses that adopt a higher risk model, or take on higher risk clients, to have appropriate expertise, experience and sophistication within their resources and within their AML/CFT framework and controls.
- Mitigating risk to the greatest degree requires more than a set of well-documented procedures and policies; it requires a top-down culture that pervades an attitude within the business of demanding a risk-based mindset. This culture should be a 'living thing', reflected operationally, and demonstrated through adherence to the regulatory requirements in areas such as gifts, hospitality and conflicts of interest.
- Any weaknesses in the design, implementation and operation of AML/CFT controls can expose a firm to being exploited by persons who may wish to launder money or finance terrorism. The degree of ML/TF risks faced by different sectors is recognised in the Isle of Man Government's National Risk Assessment 2020, and persons in inherently higher risk sectors will be required by the Authority to have and to maintain a robust control environment at all times.
- The design and operation of any effective suite of AML/CFT controls, particularly any systems-driven solutions, need to appropriately reflect the risk environment faced by firms in terms of preventing and detecting breaches of the Island's regulatory framework.

Achieved 2021/22:

- Net discretionary civil penalties totalling £472,409 (2021: £160,044) levied on regulated entities as a result of successful enforcement actions, including the use of settlement agreements. These funds were paid to general Government revenues.
- The use of enforcement action, and transparency in relation to these actions through the publication of public statements, served to act as an effective deterrent, and provided learning points for members of the financial services industry.

Planned 2022/23:

- Further develop the operational capability of our enforcement function.
- To suitably prioritise and progress ongoing and new investigations as part of a risk-based approach.
- Further refine our Enforcement Decision-Making Process.
- Review our policies and guidance to further enhance the transparency of our work.



EFFECTIVE REGULATION

LEGISLATIVE UPDATES COME INTO EFFECT

During the reporting period, the Authority introduced various updates to insurance legislation.

Achieved 2021/22:

- Brought into effect the powers in the amended [Insurance Act 2008](#), which establish a new risk-based capital and solvency framework for non-long-term business insurers, including minimum capital requirements and regulatory capital requirements.
- Prescribed the basis for determining an insurer's minimum capital requirement and regulatory capital requirement.
- Applied enhanced governance requirements to all insurers with proportionality applied to insurers authorised to conduct lower risk 'Class 12' insurance business.
- Set out the criteria for classes of insurance authorisation, in particular for lower risk 'Class 12' insurance business, and enhanced regulatory reporting requirements.
- Expanded the list of jurisdictions that the Authority accepts as being equivalent, in terms of conduct requirements, to the Island.

These updates represent the conclusion of a project to develop a risk-based supervisory framework that is appropriate for the Island's insurance business, as well as being compliant with the [International Association of Insurance Supervisors' Insurance Core Principles](#) ('ICPs').

Other legislative updates include improvements to the regulations concerning civil penalties in respect of contraventions of the [Beneficial Ownership Act 2017](#) and changes to the Financial Services Tribunal Rules to provide for grounds of appeal.

Planned 2022/23:

- In the forthcoming period, the Authority plans to consult on two Bills that will amend existing regulatory legislation.
 - A draft Retirement Benefits Schemes (Amendment) Bill will improve the Retirement Benefits Scheme Act 2000.
 - A draft Financial Services (Miscellaneous Provisions) Bill will update the Financial Services Act 2008, the Insurance Act 2008, the Collective Investment Schemes Act 2008 and the Designated Businesses (Registration and Oversight) Act 2015.
- Updates to, or the introduction of, some secondary legislation is also planned, including civil penalties for entities regulated under the Insurance Act 2008.

TRANSITION TO A MORE SUSTAINABLE FUNDING MODEL

During the reporting period, the Authority continued its work to move towards a Predominantly Industry-Funded Model of financing its activities.

This began with the announcement by Treasury in 2020, and in subsequent Treasury Budgets, to reduce the level of financial support provided to the regulator by the Government. This subvention is currently passed on to firms in the form of reduced fees.

The intention is to put in place a more sustainable approach to the Authority's funding that aligns with international best practice, while being mindful of the Island's competitive position.

The new funding model will support the Authority's work to protect consumers, meet the needs of a dynamic industry, and enhance the Island's international reputation, while reducing the level of taxpayer subvention.

The secondary legislation for phase one of the initiative was approved by Tynwald in March 2021.

A Fees Working Group, formed in 2021/22, continues to meet weekly and two independent external experts were appointed to assist the project. Work has included researching and considering various matters such as jurisdictional comparisons, transparency, and potential metrics, as well as conducting detailed modelling for the new method of fee calculation.

In May 2022 a [consultation](#) was issued regarding the proposed new funding model and fees structure for firms regulated or supervised by the Authority.

The consultation document set out the proposed annual fees, transaction fees and application fees that would be payable from 1 April 2023, as part of a simplified and more consistent funding structure. The new model includes a three-year implementation period in order to provide firms with time to plan and certainty regarding the fees payable.



SUPPORTING THE TRANSITION TO NET ZERO

The Isle of Man is committed to reaching carbon neutrality by 2050 – and the financial services sector will play an important role in helping to achieve an orderly transition to net zero.

There will be a significant impact for households and businesses, and for the Isle of Man economy as a whole. Regulation can influence financial behaviour to support a low-carbon economy and the Authority has developed a roadmap to set out how it will integrate climate-related and environmental risks into its supervisory approach.

The Authority will continue to work with Island businesses, particularly those in the banking and insurance sectors, to better understand how ESG matters feature in their thinking.

We are also engaging with various international regulatory bodies to develop awareness and understanding, including the [Network for Greening the Financial System](#), the [Sustainable Insurance Forum](#), the [International Association of Insurance Supervisors](#), the [International Organisation of Securities Commissions](#), the [Basel Committee on Banking Supervision](#), and the [Financial Stability Institute](#).

Our efforts in this area will help to enhance the resilience of the financial system to better serve the needs of the Island's businesses and consumers, as the world moves towards a carbon-neutral future.

Firms are encouraged to review their business models to understand any material climate-related and environmental risks that they may be directly or indirectly exposed to, and to consider what action they could take to mitigate any risks.

EMBRACING INNOVATION IN THE FINANCE SECTOR

The Authority continues to support, through a number of initiatives, finance sector firms that are 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 Isle of Man.

We launched a [dedicated website](#) presence in February 2022 to support the development of fintech innovation in the Island. These pages provide useful guidance and a transparent application process for businesses seeking to provide regulated services using new technology in or from the Island. We encourage early dialogue with businesses that are seeking guidance about potential innovative business models.

During the reporting period we issued our first financial services licence to a money and payment services company operating within [our regulatory sandbox](#) – a controlled environment for testing innovative financial services products, while managing risk to consumers.

The Authority collaborates with Government, specifically the [Digital](#) and [Finance](#) Agencies, to support innovation. In particular, we have collaborated with the agencies to launch a Fintech Innovation Challenge to develop technological solutions to obstacles facing the financial services industry. We are also continuing to work with the Finance Agency on its insurance-technology 'Insurtech' initiative, and on a common entry point for relevant interested parties/applicants as part of the 'Finnovation Hub' concept.

The Authority issued a [Request for Input](#) early in 2022 to seek information and opinion on the implications of innovation with regard to certain activities, for example, to explore the possible regulation of crypto-asset businesses. Feedback will be published in 2022/23.

EARLY INTERVENTION TO IMPROVE OUTCOMES

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 of a bank failure, the Resolution Authority seeks to manage the potential exposure or loss to taxpayers.

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, especially if a bank provides services which are critical to the functioning of the Isle of Man economy.

Achieved 2021/22:

- We created a dedicated division and commenced the drafting of resolution plans.
- Our functions as a regulatory supervisor of banks have been operationally and structurally separated from our functions as a Resolution Authority to ensure there are no conflicts of interest.
- The Annual Bank Levy for the Resolution Authority was issued for Public Consultation and has received Tynwald approval.

Planned 2022/23:

- As the Island's Resolution Authority, we will continue to prepare resolution plans to deal with the possible failure of each bank that is incorporated in

the Island.

- Communication plans will be formalised and quarterly meetings of the Isle of Man Bankers Association will ensure that industry continues to be informed of developments.
- We will liaise with 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.



CONTINUING TO IMPROVE OUR CRISIS PREPAREDNESS

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

Achieved 2021/22:

- Regular participation in European Forum of Deposit Insurers (“EFDI”) meetings of small jurisdictions, alongside Treasury (which is the Scheme Manager of the Depositors’ Compensation scheme), including attendance at the annual EFDI and Affiliation of Micro-European States (“AMES”).

Planned 2022/23:

- 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.

DATA-DRIVEN DECISION-MAKING

As an Authority, we are committed to challenging ourselves to refine the way we work, to strive for continuous improvement and to ensure the effectiveness of our regulatory and supervisory approaches.

Atlas, our back office system implemented in 2019, has enabled the provision of automated statistical data for relevant stakeholders, including the Authority's Board, Government and external agencies, including the Group of International Finance Centre Supervisors (GIFCS) and MONEYVAL. Additional transparency will be provided through the publication of quarterly key performance metrics.

Recent IT developments have enhanced the quality of our management information, enabling us to better understand how we are allocating our time. This supports evidence-based decision-making and our ability to devote more resources to value-added and risk-based supervision.

The rate of change within the financial services sector continues to accelerate, with more data-driven and digital ways of working. We recently implemented a new and fully operational data warehouse for all our regulatory returns, to enable us to realise the benefits of automatic data validation, threshold check functionality to identify anomalies and supervisory analytics, and reporting functionality.

The Authority is progressing a number of significant workstreams, including:

- To review and enhance our returns to reduce duplication where possible and refine our data requirements. We are engaging with industry for feedback on the proposed changes.
- The transfer of our returns to the new data warehouse to realise its benefits and remove reliance on legacy systems.

This work will enable us to:

- Make better use of the data we receive from firms;
- Reduce duplication and ultimately better understand the risks faced by firms; and
- Make risk-based supervisory plans and assist the effective allocation of our resources.

Achieved 2021/22:

- The design and user acceptance testing of our new data warehouse, leading to final sign-off and implementation.
- Introduction of automated threshold check functionality for a sample of existing returns to flag data deviations to our supervisors.
- Changes to Atlas back-office system to allow for integration with the new data warehouse.
- Approach to new sector specific statistical returns agreed.

Planned 2022/23:

- Implementation of data visualisation tools integrated with the data warehouse.
- Continue the review, enhancement and automation of returns.
- Transfer returns to the new data warehouse. Due to the volume of returns to be migrated, this process is anticipated to extend into 2023/24.



STRENGTHENING KEY AREAS OF THE AUTHORITY

As a modern regulator the Authority is focused on keeping pace with a rapidly evolving industry in order to remain relevant, responsive and effective.

Like many organisations, we have sought to future-proof our operations at the same time as dealing with inflation pressures, increasing demands on resources, and continued international scrutiny.

Headcount increased from 79 to 86 during the reporting period in line with support from Treasury to strengthen key areas of our organisation. The additional staff have enhanced the Authority's ability to devote more resources to value-added and risk-based supervision, in particular through the establishment of a dedicated AML/CFT Division.

With the market for talent becoming increasingly competitive in the Island, the Authority aims to provide a supportive and flexible environment to attract and retain staff.

In terms of budget, the Authority's income for the year included a subvention from Treasury of around £3.5 million. From 2023/24, it is proposed that the Authority will gradually move towards a Predominantly Industry-Funded Model with the intention of reducing the level of support currently provided by Treasury.

Achieved 2021/22:

- A home working policy was formalised, while an ongoing programme of courses was put in place to support the well-being of our colleagues, with a focus on mental health initiatives.
- The Authority continued to support professional development and to provide opportunities for staff to become professionally qualified.

- A number of colleagues completed the Institute of Leadership and Management, International Compliance Association, and Institute of Risk Management qualifications.
- The Authority continued to operate within the budget agreed by Treasury during 2021/22.

Planned 2022/23:

- Build out a new performance management framework, with the addition of a people manager.
- Further support for innovation to support the strong pipeline of applications and potentially increase the speed to market for lower risk businesses.
- Accelerate the Authority's efforts to integrate climate-related and environmental risks into our supervisory approach.
- Support preparations for the Island's next MONEYVAL evaluation.
- Continue to build out our governance and control to bring additional rigour to processes and improve operational performance.



MEETINGS OF THE AUTHORITY

During the reporting period there were nine 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 Control Committee and the Resolution Committee.

During the reporting period:

- The Risk and Control Committee met five times
- The Resolution Committee met four times
- The Human Resource and Compensation Committee met three times

USEFUL LINKS

- The functions of the Authority are set out in paragraph 2 of Schedule 1 to the [Financial Services Act 2008](#)
- [Biographies of our Board Members](#), the [Code of Conduct for Board Members](#), an overview of our [accountability and corporate governance](#), and details about the [Authority's three standing committees](#) are available on the Authority's website
- [Consultations](#) issued by the Authority are published on our website
- [Register Search](#) of current and former regulated entities
- [Legislation and Guidance](#)
- [Publications and webinars](#)
- [Latest news](#)

APPENDIX A

Our Accounts

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.

The Members of the Authority are responsible for the maintenance and integrity of the corporate and financial information included on the Authority's website.

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 statement 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 2022 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 2022 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 statement 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 statement in the Isle of Man, 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 FRS 102. 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 statement 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 statement is 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 judgement 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 - 38 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 43, the Chief Executive is responsible for the 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 related 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 are 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 these 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 statement 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 audit team.
- We assessed the susceptibility of the Authority's financial statement 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 judgments made by management in its significant accounting estimates; and
- identifying and testing journal entries, in particular any unusual journal entries postings.

A further description of our responsibilities for the audit of the financial statement 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 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: 3 October 2022



**Income and
Expenditure
Account for
the year ended
31 March 2022**

	Note	£	2021-22 £	2020-21 £	2019-20 £
Income					
Fee Income	1(b), 2		3,563,887	3,055,560	3,101,040
Civil Penalties	2		26,629	17,100	19,300
Government Grant	13		3,497,973	3,353,494	3,215,289
Other Income			3,120	2,029	-
Total Income	1(b)		7,091,609	6,428,183	6,335,629
Expenditure					
Salaries	3, 14	5,534,580		5,093,481	5,022,600
Members' Remuneration	4	221,776		216,903	161,102
Recruitment	6	109,535		27,516	11,532
Agency Staff		-		1,688	3,649
Premises	8	293,981		285,236	312,835
Training	6, 14	56,533		25,804	52,403
Travel and Subsistence	6, 14	669		-	64,182
Professional Fees and External Consultancy	5	592,442		518,807	364,295
Operating Expenses	6	35,283		22,415	38,459
Information Technology	6	122,038		101,958	91,475
Professional Subscriptions	6	107,502		113,748	88,464
Other Expenses	6	5,660		1,680	12,662
Loan Charges	7	-		49,000	53,000
Bad Debts	9	11,610		18,498	58,971
Reimbursements (from)/to Internal Funds	11	-		(48,551)	-
Total Expenditure	1(c)	(7,091,609)		(6,428,183)	(6,335,629)
Surplus/(deficit) for the year	1(a)	-		-	-

The notes on pages 45 to 48 form part of the Income and Expenditure Account.

The income and expenditure account was approved by the Financial Services Authority on the 3 October 2022 and signed on its behalf by Ms Lillian Boyle, Chair and Ms Bettina Roth, Chief Executive.



NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2022

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 of the Isle of Man Government and 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.

The increase in fee income, relative to earlier periods, reflects an increase to annual fees for all sectors for 2021/22. A similar uplift in fees is applicable in 2022/23 also. These increases follow an announcement by Treasury, when delivering the 2020/21 Isle of Man Budget, that over the longer term the Authority is working towards becoming predominantly industry funded. The plan is that further stepped increases in annual fees will be applied, over a three year period, starting in 2023/24, to achieve the desired level of industry funding for the Authority.

Civil penalty income reflects administrative civil penalties levied on regulated and registered entities. In addition £472,409 (2021: £160,044) was charged in respect of discretionary penalties levied on regulated entities arising from successful enforcement actions or settlement agreements. The discretionary penalty receipts are not treated as income of the Authority, and are therefore not reflected in the Authority's income and expenditure account, and are accounted for as credits to the IOM Government's general revenue.

3. Salaries

Included within "Salaries" are employer pension contributions of £584,839 (2021: £490,518 restated – 2020/21 account at note 3 had shown NI figure).

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

	2022 Number of employees	2021 Number of employees
£0 - £49,999	41	41
£50,000 - £99,999	39	33
£100,000 - £149,999	5	4
£150,000 - £199,999	0	0
£200,000+	1	1
Total	86	79

The 86 members of staff equate to a full time equivalent of 83.78 employees (2021: 72.66). In addition, two staff members are employed on zero hours contracts. 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 COVID-19 pandemic and the Isle of Man state of emergency ending in late June 2020 and two further periods of 'lockdown' in January and March/April 2021 had impacted the progress of this

recruitment during 2020/21. During 2021/22 the Authority has been able to increase its recruitment activity, with recruitment to all of the new permanent roles expected to be completed in early 2022/23. This increased recruitment activity is reflected in the higher number of employees against the prior year.

4. Members' Remuneration

During the year, two Members retired from the Board and two new Members were appointed. Membership of the Board remains at nine, including the Chief Executive. 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, as reported in 2020/21, partly due to an increase in external actuarial support partly due to introduced new standards in the period arising from the Authority's Insurance Core Principles project. During 2021/22, there is also additional short-term expenditure, attributed to the cost of a third party adviser engaged to provide independent advice and guidance on the development of the Authority Funding Model and associated fee structure linked to the aim for the Authority to become predominantly industry funded. Treasury had approved a one-off addition to the Authority's 2021/22 budget to offset the cost of this third party adviser.

6. Variances

Some areas of expenditure show significant variances on the prior years. 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 had an impact on a number of costs, for example travel and training, notably during 2020/21 resulting in a lower spend in these areas during that year. The impact of the pandemic has not had such a severe impact in 2021/22 and this is reflected by the increase in expenditure in these areas. The increase in recruitment costs is related to the increased recruitment activity during the year (see note 3). Also see Note 16.

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 in line with its standard approach for capital expenditure - 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 to be treated on the same repayment basis.

These ring-fenced funds are largely 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.

The absence of a loan charge in 2021/22 follows Treasury's move to an alternative method of funding capital projects. No loan repayment charges, or equivalent, will appear in the Authority's income and expenditure account in future years; there are no other impacts on the Authority's income and expenditure for 2021/22, or for future years, as a result of this change of method.

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 £11,610 (2021: £14,815) reflect outstanding fee payments for 2021/22, where there is little or no expectation of recovery, and were written off at the year end.

10. Segmental Reporting

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

11. Reimbursements from or to Internal Funds

There are no reimbursements from or to internal funds in 2021/22.

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 (SAF). In 2020/21 the Authority incurred

costs in this respect of £48,551 and this amount was reimbursed by Treasury at the year end. For 2021/22 the Authority received

Treasury approval for an additional £400K of funding from the SAF for the funding of specific ongoing enforcement activity. The Authority has incurred costs during 2021/22 in relation to this enforcement work, however a reimbursement is generally only applied by Treasury if there is a year-end deficit position.

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. For 2021/22, there were no fees generated, from entities where Members are Directors of registered and regulated entities, which compares to £3,176 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 2021/22 was approved by Tynwald at its February 2021 sitting. This grant secured the provision of up to £4,135,363 (2020/21: £3,592,822) to cover any shortfall.

14. Resolution Authority

Under the Bank (Recovery and Resolution) Act 2020 which came into force on 4 January 2021, the Authority was 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. In 2020/21 Treasury approved the addition of £140K to the Authority's 2021/22 employee costs budget in respect of the estimated operational cost of the Resolution Authority. The Resolution Authority's operational costs will be recovered annually, in arrears, by means of a levy on the banking industry.

15. Other work carried out by Grant Thornton

Grant Thornton Limited, 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.

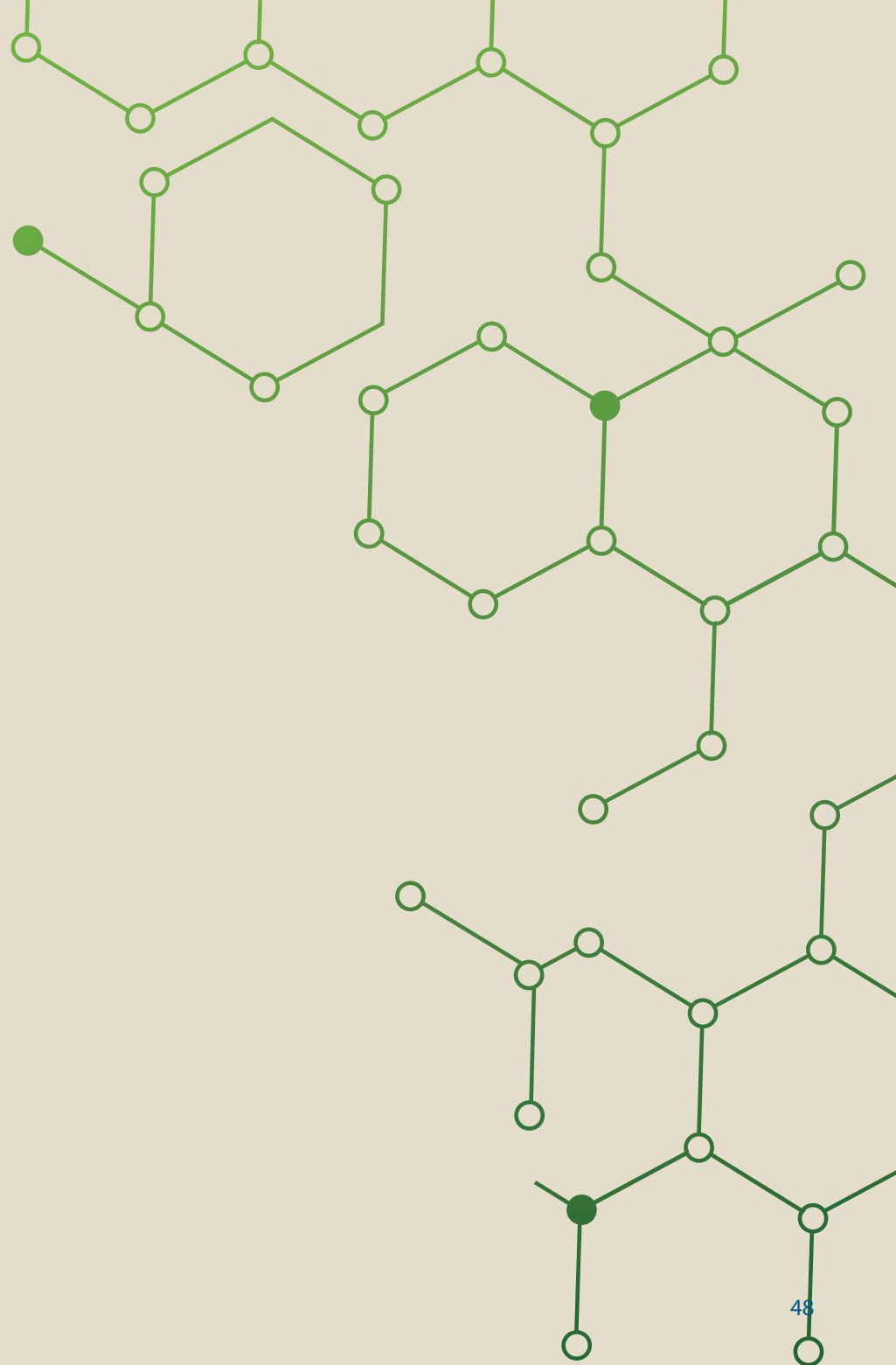
Grant Thornton Limited Advisory team has recently been appointed to carry out a project for the Authority. This will be carried out by a team not involved in the audit.

16. 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 Authority able to continue to discharge its statutory functions. The effect to date has been restricted to revised working practices and some improvement projects being delayed. Following the Isle of Man’s Government’s lifting of all COVID-related restrictions from 1 April 2022, the Authority has returned to normal working practices, whilst adhering to the Government’s current COVID-19 guidance.

Given its role as a regulator any longer term impact of COVID 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 monitor any impact and to liaise with the industry to determine any effect on business.



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ISLE OF MAN
FINANCIAL SERVICES AUTHORITY

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