



ISLE OF MAN
FINANCIAL SERVICES AUTHORITY

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ISLE OF MAN FINANCIAL SERVICES AUTHORITY

FINANCIAL ADVICE THEMATIC REPORT

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Glossary of Terms

<u>TERM</u>	<u>MEANING IN THIS REPORT</u>
Board	Board of Directors (of the firm)
CPD	Continuing Professional Development
Firm	Financial Advice Company
Relevant Persons	In relation to a licenceholder, means any of its officers, employees and tied agents and persons employed by them as defined in the Financial Services Authority Rule Book 2016
The Authority	The Isle of Man Financial Services Authority
The Rule Book	Financial Services Rule Book 2016
SME	Subject Matter Expert

2 Background

2.1 Executive Summary

The Authority has undertaken a thematic project involving low impact financial advisory firms supervised by the Portfolio Supervision Division based in the Isle of Man. The firms that were selected are licenced under the Financial Services Act 2008; the information sought was therefore requested under Schedule 2 of the Act.

The Authority’s work is driven by its three main 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

Key in achieving these objectives is the Authority’s oversight and supervisory functions, which encompass undertaking supervisory inspections and thematic reviews. Thematic reviews are an important part of the Authority’s supervisory approach, offering an efficient and effective way to identify and inform our picture of risk at a firm and sector level.

This report presents the key findings from the thematic project, incorporates the Authority’s insights on certain data, and highlights best practice points.

The purpose and aim of the thematic project, particularly with the first phase and supplemental information gathering, was to gain further insight into the financial advice sector through the collection of information and data.

The data collected as part of this project supports the Authority’s understanding of investment businesses and will be used to inform potential outreach and engagements.

The thematic exercise was made up of three core parts over two phases:

- **Phase 1** of the thematic consisted of a questionnaire issued to 20 Class 2 licence holders supervised by the Portfolio Supervision Division.
- This was supplemented by additional requests for information from a small number of firms to clarify points raised in the questionnaires. This was aimed at further understanding firms’ approach to considerations under Part 6 (Conduct of Business) and Part 8 (Risk Management and Internal Control) of the Rule Book, specifically:
 - Establishing whether what happens in practice:

1. Agrees to the firm’s policies and procedures etc.
 2. Is effective in being compliant and in the spirit of the legislation; and
 3. Is effective in managing the relevant risk.
 - Establishing governance arrangements in place (i.e. compliance monitoring, Board, Internal Committees, external assurance etc.)
 - Reviewing Board reporting and Board considerations relating to Investment Advice.
- **Phase 2** of the project consisted of 4 firms being selected (on a % sample basis of phase 1) for an onsite inspection.

2.2 Phase 1 & Supplementary Information Selection and Data Analysis

Prior to the Phase 1 Questionnaire being issued, existing data held on all registered financial advisors was analysed and considered.

Each registered financial advisory firm was considered by analysis of the following:

- annual statistical returns.
- full inspection history; and
- any business meetings held.

Following this review, it was deter-

mined that all 20 financial advice firms supervised by the Portfolio Supervision Division would be included in Phase 1 of the thematic exer-

cise, to obtain an indicative picture across the sector and to enhance the Authority's understanding and data of the overall sector.

In the supplemental information stage, 10 firms were required to provide supplemental documentation to help us understand the different ways firms consider and evidence the compliance with Part 6 and Part 8 of the Rule Book, including extracts from internal policies and procedures and relevant registers.



3 Phase 1 Questionnaire and Supplementary Information; Results, Key Findings and Observations

The Financial Advice questionnaire was made up of five main sections, broken down into a further twelve sub-sections.

- **Extent of Services**
 - Services provided by the firm
 - Split of retail/non-retail advice
- **Other Advice**
 - Investment Committee
- **Governance**
 - Procedures
 - Suitability Assessments
 - Vulnerable clients
 - Internal controls
- **Client Files**
- **CPD Records**

The first section of the questionnaire



was to determine what percentage of full advice, limited advice, restricted advice and execution only services are provided by each individual firm.

The second section of the questionnaire required the firm to state whether the firm retains confirmations on each client file, evidencing, that the basis of advice has been confirmed to the client and wheth-

er any possible reduced investor protection is clearly communicated to the client.

This second section also requested information regarding the firm's management of conflicts of interest and details regarding the Investment Committee.

The third section focused on governance; including the firm's procedures relating to conduct of business, client suitability assessments, the management of vulnerable clients and the firm's internal controls.

The fourth section related to the firm's client fact finding process, reason why letters and terms of business.

The fifth, and final section included questions covering the firm's management of its advisors CPD completion and the firms CPD records.

3.1 Extent of Services

Question 1

What services does the firm provide to clients?

Of the 20 firms licenced to provide financial advice, managed by the Portfolio Supervision Division:

- 13 undertake Execution Only
- 16 provide Full Advice
- 13 provide Limited Advice
- 5 provide Restricted Advice

Of the 20 licenced financial advisory firms, 1 confirmed that they do not provide either Limited or Restricted Advice.

Question 2

What type of clients does the firm provide services to?

Of the 20 firms licenced to provide financial advice, managed by the Portfolio Supervision Division:

- 8 provide advice to non-retail clients
- 19 provide advice to retail clients

Of the 20 firms, 1 confirmed that it did not provide advice to retail clients.

3.2 Other Advice

Question 3.1

Where the firm provides advice to clients does the firm retain confirmations on each client file evidencing that the basis of the advice has been confirmed to the client? (excluding execution only)

Of the 20 firms licenced to provide financial advice under the supervision of the Portfolio Supervision Division, 100% of the responses confirmed that confirmations to

the client regarding the basis of the advice is held on file.

Rule 6.18 (Limited Advice) and 6.19 (Restricted Advice) state that *‘a copy of this confirmation must be retained on the client file, or the transaction(s) will be considered to result from full advice and the Authority would expect all of the requirements relating to full advice to be met.’*



100% of firms retain confirmation of advice provided to each client

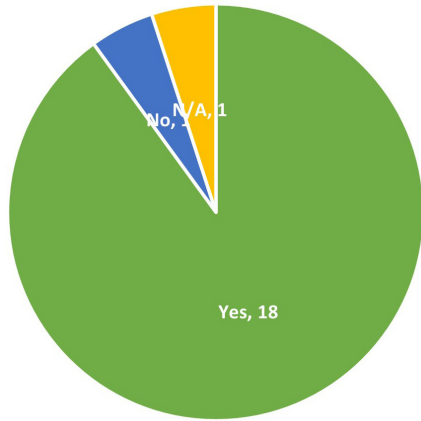
Question 3.2

Where the firm provides advice to the clients is reduced investor protection clearly communicated to the client?

Out of the 20 firms selected to take part in the Financial Advice Thematic, 18 of those confirmed that reduced investor protection is clearly communicated to the client. 1 firm replied ‘N/A’ to this question, and it was later determined that as the firm only provides advice to its own funds, this is not a requirement that fits within the firm’s business opera-

tions. 1 firm replied ‘No’ to this question, although it undertakes execution only instructions.

Rule 6.17(1) of the Rule Book states that *‘A licenceholder must not undertake regulated activities on an execution only basis for a client unless the client has requested to be treated as an execution only client in respect of a particular transaction; or for the purposes of all transactions, and the licenceholder has confirmed the execution only status in writing, pointing out*



the consequent reduction in investor protection to the client.’

Question 3.3

Where the firm provides advice to the clients, does the firm retain a full documented Conflicts of Interest Register?

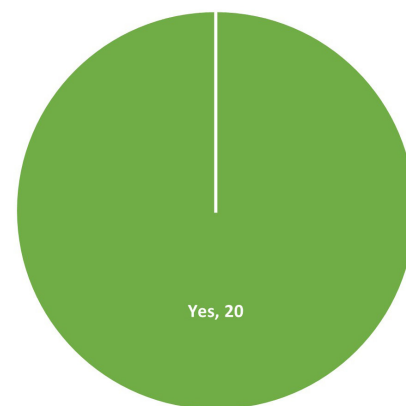
Out of the 20 firms selected to take part in the Financial Advice Thematic, all confirmed that a fully documented Conflicts of Interest Register is held.

Rule 8.10(1) of the Rule Book states that *'a licenceholder must maintain a Register of Conflicts of Interest.'*

Through supplemental information gathering, it was noted by the

Authority that in some cases potential Conflicts of Interest were not always recorded on the Conflicts of Interest Register. It is a requirement that the circumstances which constitute or may give rise to a conflict of interest (**per Rule 8.9(4)(a)**) are documented. The Authority does not consider it to be sufficient to purely note conflicts that have already taken place as that is not in the spirit of risk management, a risk-based approach or protecting the business from potential or actual harm.

A Conflicts of Interest Register allows the firm to log potential and actual conflicts and further acts as the evidence of how the firm has managed and mitigated any associ-



ated risks. It was further noted that some Conflicts of Interest Registers did not record sufficient information in line with **Rule 8.10(2)(b)** of the Rule Book, which outlines the requirements of the Register.

Question 3.4

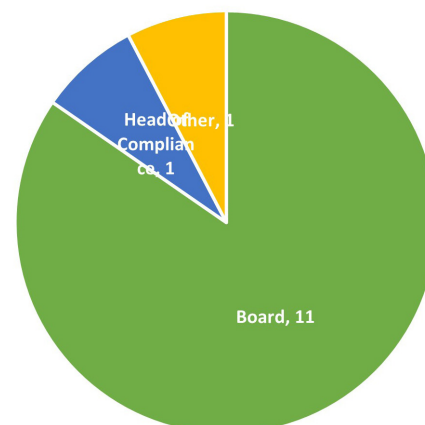
Where the firm provides advice to the client, who within the firm reviews the Conflicts of Interest Register?

Out of the 20 firms selected to participate in the Financial Advice Thematic, the following advised that the review of the Conflicts of Interest Register is designated to:

- Board – 11 firms

- Head of Compliance – 8 firms
- Director/Compliance Officer – 1 firm

The Authority believes it would be in the best interest of the Board, and is considered good governance, to maintain oversight of the Conflicts of Interest which impact, or may impact, the firm, its staff and its customers.



The Authority considers it best practice to review the Conflicts of Interest Register at least annually to ensure it remains up-to-date and effective

Question 3.5

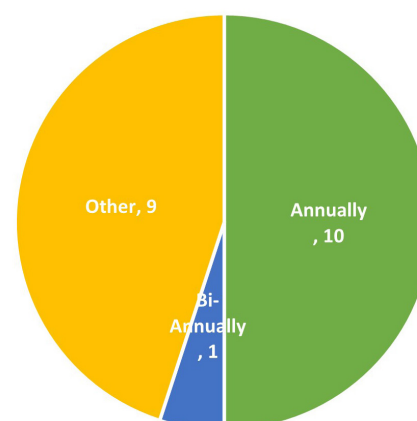
How often is the Conflicts of Interest Register reviewed by the Board?

Out of the 20 firms selected for the Financial Advice Thematic, 10 of those review the Conflicts of Interest Register annually.

1 of the 20 review the Register bi-annually. 9 firms selected the 'Other'

option and used a notes field to confirm that the Conflicts of Interest Register is reviewed quarterly or at each Board meeting.

The Authority considers it best practice to review the Conflicts of Interest Register at least annually to ensure it remains up-to-date and effective in identifying and managing conflicts of interest.



Question 3.6

Does the firm retain documentation evidencing the consideration and review of the Conflicts of Interest Register?

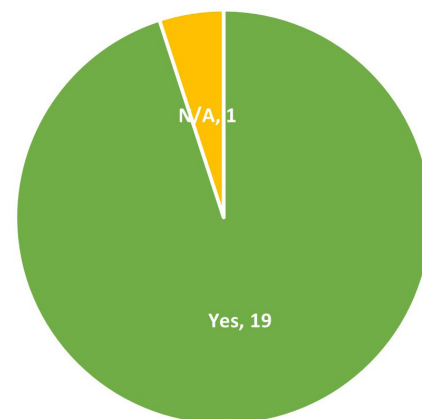
19 of the 20 firms selected for the Financial Advice Thematic confirmed they retain documentation evidencing the consideration and review of the Conflicts of Interest Register. 1 firm selected 'N/A' on the questionnaire, but it was later determined that the firm does have this in place.

Rules 8.9 and 8.10 go into specific

detail regarding the requirements surrounding the Conflicts of Interest Policy and Register, including that a Policy and Register must be established and maintained.

The Authority's website offers a [proforma Conflicts of Interest Register](#) and a [Conflicts of Interest Policy guidance note](#).

It is recommended that firms review this to ensure their Register aligns with the minimum requirements. Firms may wish to expand their Register with additional information dependent on their Board (and where



relevant to the size of the firm), any committee reporting requirements.

Question 3.7

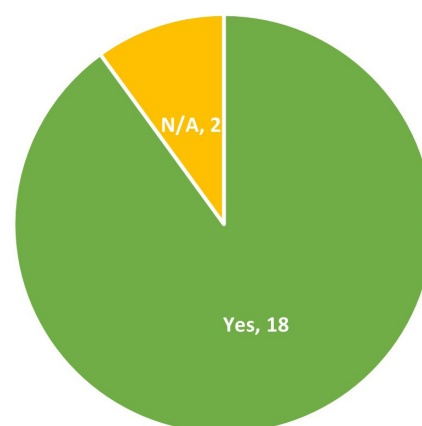
Where a conflict exists, is this clearly communicated to the client?

18 firms confirmed that when a conflict exists it is communicated

with the client. 2 firms that selected N/A stated that they do not currently have any conflicts of interest that involve a client but if the situation were to arise, they would ensure the client was notified.

Rule 6.11(1) states: 'Where a Conflict of Interest arises between the licenceholder or any relevant person and its clients; or between one client and another, in the course of carrying on regulated activities the licenceholder must promptly notify each of the clients concerned of that fact.'

Rule 6.40(2) goes into further detail to say 'where the Conflicts of Interest Policy referred to in Rule 8.9 is not sufficient to ensure, with reasonable confidence, that risks of damage to the interests of its clients will be prevented, a licenceholder must clearly disclose the general nature or sources, or both,



of Conflicts of Interest to the client before carrying on any activity on its behalf.'

Question 4.1

Does the firm have an internal Investment Committee?

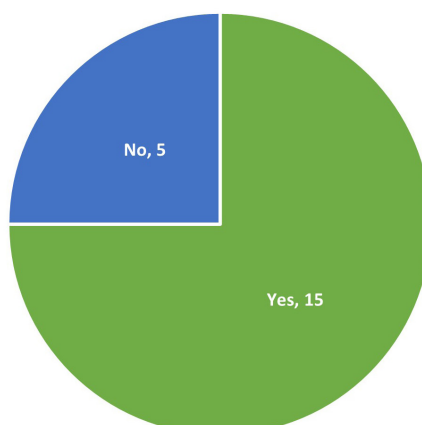
15 of the 20 firms selected for the thematic project confirmed that they do have an internal Investment Committee.

The 5 firms that responded 'No' provided further information in a comment field to confirm that Advisors attend group Investment Committee meetings or, due to the size of the firm, the investment strategy is discussed and documented

during Board meetings.

The Authority has created [guidance regarding Corporate Governance](#) including considerations surrounding Board composition and Investment Committees. It was noted in the supplemental information gathered during the thematic exercise that some members of the Investment Committees were not vetted by the Authority.

If an individual is contributing to investment advice for retail or non-retail clients, they should be vetted and



approved by the Authority to ensure they are suitable as per the [Training and Competence Framework](#).

Firms are encouraged to read the guidance on Corporate Governance

Question 4.2

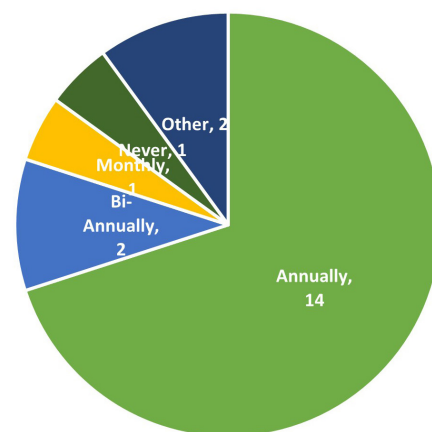
How often does the Investment Committee meet?

Out of the 20 firms selected for the Financial Advice thematic the responses to this question were as follows:

- Monthly – 1 firm
- Annually – 14 firms

- Bi-annually – 2 firms
- Other – 2 firms
- Never – 1 firm

The Authority considers it best practice for meetings to be held at least quarterly. Regular meetings help ensure that the committee can effectively oversee investment strategies, monitor performance, and make timely decisions.



The Authority considers it best practice for meetings to be held at least quarterly

Question 4.3

Does the firm retain documented minutes of the Investment Committee meetings?

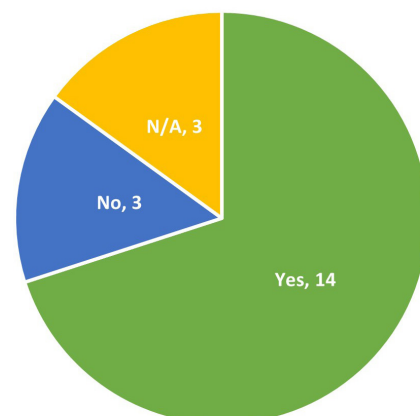
Out of the 20 firms selected for the thematic project the responses to this question were as follows:

- Yes – 14 firms
- No – 3 firms

- N/A – 3 firms

The Authority considers retaining documented minutes of Investment Committee meetings to be best practice for maintaining transparency, accountability, and compliance with regulatory requirements.

Documented minutes provide a clear record of the discussions, decisions and actions taken during the meetings.



Question 4.4

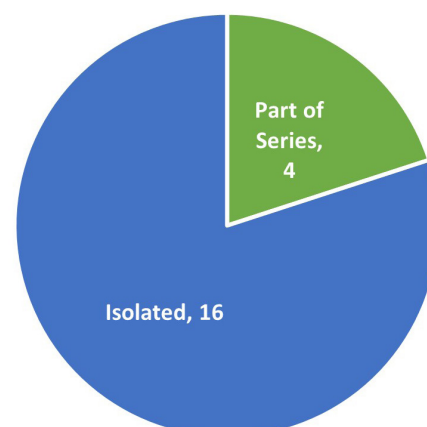
Does the firm consider top up transactions to be part of a series of transactions or as isolated transactions?

Out of the 20 firms selected, 16 of those confirmed they consider top up transactions to be isolated transactions. The remaining 4 consider top up transactions to be part of a series of transactions.

Top up transactions fall under subsequent business transactions and as

Rule 6.30(3) explains that “the fact-find must be updated prior to a licenceholder undertaking new business for a retail client and the steps in paragraph 6.30(2)(a-c) must be repeated during subsequent business transactions.”

such the Authority would expect firms to therefore have this documented in the client file for any top up transactions.



3.3 Governance

Question 5.1

Does the firm have documented procedures in relation to Conduct of Business?

This question asks the firms selected for the thematic exercise whether they have documented procedures in place relating to Part 6 of the Rule Book – ‘Conduct of Business’ and all firms answered ‘Yes’.

The Authority has [guidance on its website that is intended to assist licenceholders](#) in meeting the stand-

ards required by the Authority in Part 6 of the Rule Book.

It was noted during the supplemental information gathering that although policies and procedures may appear of sufficient detail in relation to the size of the firm, they may not be practical when put into operation by the employees of the firm on a day-to-day basis. The firm’s Conduct of Business procedures should be practical and concise as well as being appropriate to the nature and scale of the business.



Conduct of Business procedures should be practical and concise

Question 6.1

Does the firm’s Conduct of Business Procedure include the different types of services provided?

All firms included in Phase 1 of the thematic exercise confirmed that their Conduct of Business Procedures include the different types of services provided, as per question 1

of this report.

During the supplemental information phase of the thematic exercise, it was noted that although all Conduct of Business Procedures defined the different types of advice offered, the procedures for conducting each type of advice could contain more practical detail.



Question 6.2

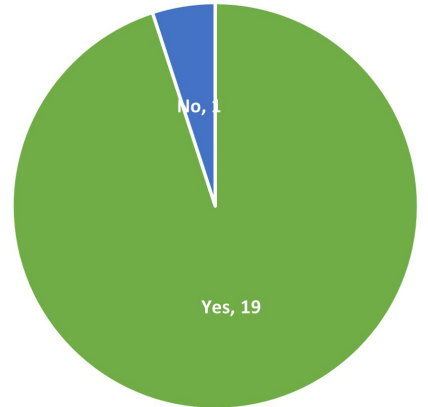
Does the firm’s Conduct of Business Procedure include the expectations on how to prevent Conflicts of Interest between the firm and its customers, or between one customer and another?

Rule 6.11(1) states that: ‘Where a conflict of interest arises between a licenceholder or any relevant person and its clients; or between one client and another, in the course of carrying on any regulated activities, the licenceholder must promptly notify each of the clients concerned of that fact.’

Further to this **Rule 8.9(1)** states

19 out of the 20 firms taking part in the Financial Advice Thematic confirmed that its Conduct of Business Procedure includes the expectations on how to prevent Conflicts of Interest between the firm and its customers, or between one customer and another.

that ‘a licenceholder must establish, implement and maintain an effective Conflicts of Interest Policy which must be in writing and appropriate to its size and organisation and the nature, scale and complexity of its business. (4) The Policy must identify, with reference to the specific activities of the licenceholder, the circumstances which constitute or may give rise to a Conflict of Interest



entailing a material risk of damage to the interests of one or more of its clients; and specify procedures to be followed and measures to be adopted in order to manage such conflicts.’

Question 6.3

Does the firm's Conduct of Business Procedure include the maintenance of a Conflicts of Interest Register?

All firms taking part in the Financial Advice Thematic confirmed that their Conduct of Business Procedure includes the maintenance of a Conflicts of Interest Register.

Rule 8.10(1) states that 'a licence-holder must maintain a register of conflicts of interest' and provides further detail regarding the format of the Register.

The Authority provides a [proforma Register](#) on its website to record Conflicts of Interest along with a [guidance note](#).



Question 6.4

Does the firm's Conduct of Business Procedure include the expectations regarding gifts or hospitality employees may give or receive from their clients or related parties?

All firms taking part in the Financial Advice Thematic confirmed that its Conduct of Business Procedure include the expectations regarding gifts or hospitality.

The Authority's Rule Book guidance states that licenceholders should set their own limits and procedures to demonstrate compliance with **Rule 6.9 (Gifts and other benefits)** which should be covered in the internal Policy. The Authority deems it to be best practice to establish a register or

other record of gifts received.

During the supplemental information phase of the thematic exercise, it was noted that the recording of gifts varied firm by firm. The Authority considers it to be best practice to implement lower limits for gift recording and reporting to ensure transparency and integrity within the firm.

Each firm should have a Gifts Policy and Procedure that demonstrates a clear approvals process to ensure that accepted gifts do not influence business decisions. Regular training should be provided to employees of the firm on the importance of ethical behaviour.

The Gifts Register should document



the nature of the gift, the giver and how any potential risks associated to accepting a gift will be mitigated.

The Gifts Policy, Procedure and Register should be reviewed periodically to ensure they remain effective and aligned with regulatory requirements.

The Authority considers it to be best practice to implement lower limits for gift recording and reporting to ensure transparency and integrity within the firm

Question 6.5

Does the firm's Conduct of Business Procedure include the expectation in relation to client records and documentation?

All firms taking part in the Financial Advice Thematic confirmed that

their Conduct of Business Procedure includes the expectation in relation to client records and documentation.

The Authority's website provides a guidance note referencing rules relating to record keeping and a breakdown of what is required per [each record keeping rule](#).



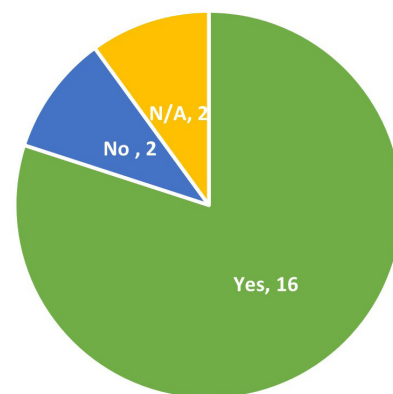
Question 6.6

Does the firm's Conduct of Business Procedure include the expectation regarding fair treatment of clients and financial inclusion?

Out of the 20 firms taking part in the Financial Advice Thematic, 16 of those confirmed they include the expectation regarding fair treatment of clients and financial inclusion in their Conduct of Business Procedure. 2 firms stated 'No' due to the small

size of the business and segregation of duties not being possible and 2 firms stated 'No'.

Rule 8.3(2)(c) states that *'the responsible officers of a licenceholder must establish and maintain appropriate internal and operational controls, systems, policies and procedures relating to all aspects of its business to ensure the fair treatment of clients.'*



Question 6.7

Does the firm's Conduct of Business Procedure include the expectation regarding transaction authorisation and segregation of duties?

All firms taking part in the Financial Advice Thematic confirmed that their Conduct of Business Procedure includes the expectations regarding fair treatment of clients and financial inclusion.

It was noted during the supplemental information phase of the thematic

Rule 8.3 (2) states that *'the responsible officers of a licenceholder must establish and maintain appropriate internal and operational controls, systems, policies and procedures relating to all aspects of its business to ensure (b) appropriate segregation of key duties and functions.'*

that due to the small size of a number of firms it was difficult to implement segregation of duties. In these cases, the Authority considers it to be best practice to ensure that any material



decisions are recorded along with an explanation on how any potential risks are mitigated.

Question 6.8

Does the firm's Conduct of Business Procedure include the identification and management of complaints where a customer expresses dissatisfaction?

All firms taking part in the Financial Advice Thematic confirmed that their Conduct of Business Procedure includes the identification and management of complaints where a customer expresses dissatisfaction.

For further detail regarding the identification and management of complaints firms should refer

Rule 8.32 (1) of the Rule Book states that *'a licenceholder must have documented procedures that comply with paragraph for dealing with complaints.'*

to **Rule 8.32**. The Authority also provides [further guidance relating to complaints](#) and a [proforma complaints register](#) on its website.

It was noted in the supplemental information phase that although all firms partaking in the financial advice thematic have a Policy relating to the identification and management of complaints, some procedures



were lacking practical guidance for employees. It is imperative that both employees and customers are provided with clear complaints procedures to ensure regulatory compliance.

It is imperative that both employees and customers are provided with clear complaints procedures to ensure regulatory compliance

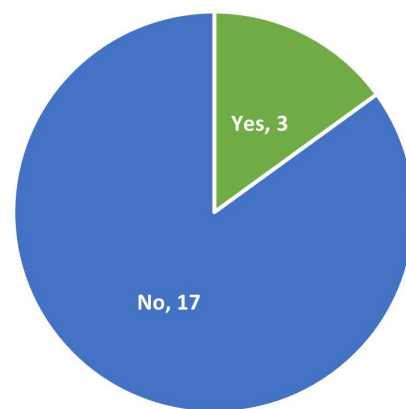
Question 6.9

Have any events occurred (internal or external) in the last year which have materially changed the policy or procedure documents?

17 out of the 20 firms chosen for the Financial Advice Thematic confirmed that no internal or external events occurred in the last year which have materially changed the Policy or

Procedure documents.

The 3 remaining firms that selected 'Yes' provided further information in a text field to explain that the reason for a material change in its Policy or Procedure documents was down to changes within the business such as changes in licence permissions or are currently undergoing a change in control.



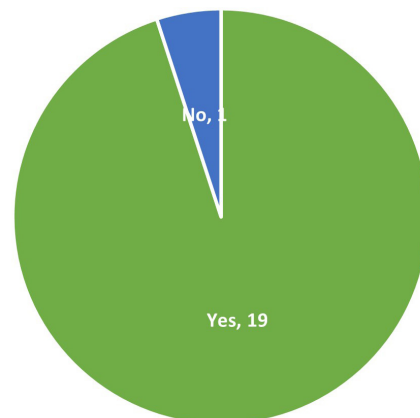
Question 7.1

Does the firm complete suitability assessments for all applicable clients?

19 of the 20 firms chosen for the Financial Advice Thematic confirmed that suitability assessments are completed for all applicable clients. Only 1 firm stated 'N/A' to this question as this was not applicable to that particular firm.

Rule 6.32(2) states that '*a licence-holder must ensure that any transaction for a client is suitable for his circumstances (including attitude to risk, time horizon for the investment, age, state of health and any vulnerability in terms of Rule 6.31).*'

Further guidance can be found on the Authority's website.



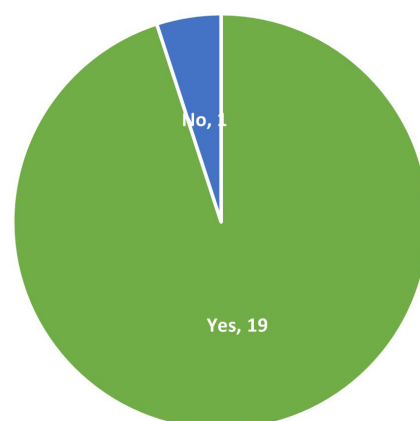
Question 7.2

Does the firm complete suitability assessments at client take on, prior to conducting new business?

19 of the 20 firms chosen for the Financial Advice Thematic confirmed that they complete suitability assessments at client take on, prior to conducting new business.

As with question 7.1, the 1 firm who stated 'N/A' to this question as it is not applicable to the firm.

Rule 6.32(1) states '*a licenceholder must ensure that when making recommendations or exercising discretion for any client, it has taken reasonable steps to inform itself of what is available on the market and any transaction undertaken is not unsuitable for the client; and if the client is a retail client, that it is positively suitable for him*' and as such it is a requirement that suitability assessments are undertaken at client take on, prior to conducting new business.



Question 7.3

Does the firm complete suitability assessments at client take on, after conducting new business?

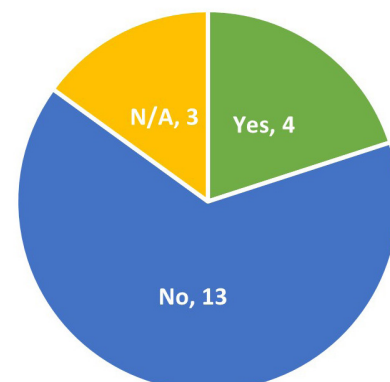
- No – 13 firms
- Yes – 4 firms
- N/A – 3 firms (per 7.1 – 7.2)

Of the firms who answered no or N/A

this is because they review at take on prior to conducting new business and then thereafter either:

- **On a trigger basis and/or**
- **During review cycles.**

The Authority deems this to be acceptable as the client file has the suitability assessment on file from the take on point.



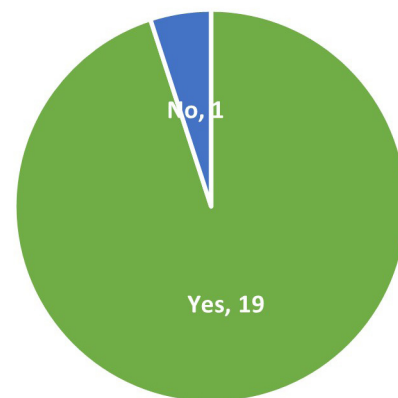
Question 7.4

Does the firm update the suitability assessment prior to undertaking additional business/transactions?

19 of the 20 firms chosen for the Financial Advice Thematic confirmed that they update the suitability assessment prior to undertaking additional business/transactions.

As with questions 7.1 and 7.3, the 1 firm who stated 'N/A' to this question provides investment advice to its own funds and therefore this was not applicable.

Rule 6.32(1) states 'a licence-holder must ensure that when making recommendations or exercising discretion for any client, it has taken reasonable steps to inform itself of what is available on the market and any transaction undertaken is not unsuitable for the client; and if the client is a retail client, that it is positively suitable for him' and as such it is a requirement for firms to reassess a clients suitability if additional business/transactions are undertaken.

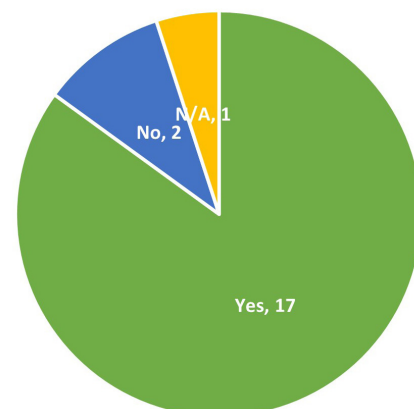


Question 7.5

Does the firm review suitability on a cyclical basis?

- No – 2 firms
- Yes – 17 firms
- N/a – 1 firm

The Authority considers it to be best practice to reassess a client's suitability for a product during the annual review to ensure that the product is still aligned with the clients' goals and overall situation, or sooner if a client is wanting to make any material changes to their product/take out a new product.



Question 7.6

What is the review cycle?

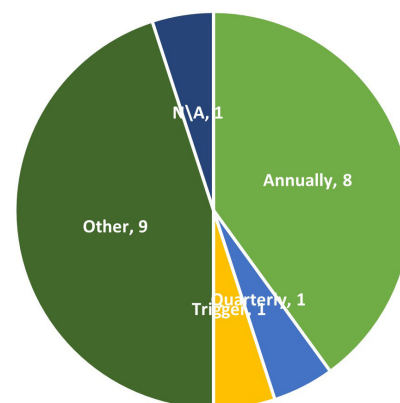
- Quarterly – 1 firm
- Annually – 8 firms – in line with annual reviews
- Trigger – 1 firm
- Other – 9 firms
- N/A – 1 firm (per 7.1 to 7.5)

The firms chose whether to provide

further information in a notes field on the questionnaire to advise that reviews are usually done depending on the client's needs and expectations i.e. on a trigger event basis.

This additional voluntary information was very useful to the Authority in order to gain an understanding of how the firms processes work.

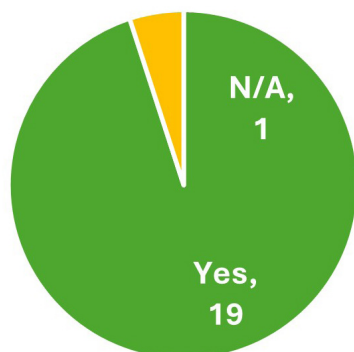
As above for question 7.5, the Authority considers this to be best practice in terms of cyclical reviews.



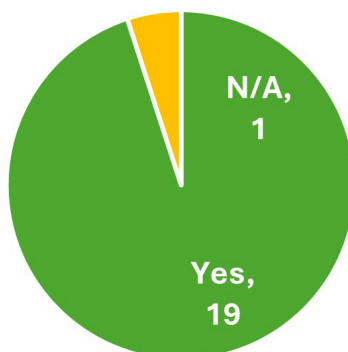
Question 8

Does the firm's suitability assessment include the following:

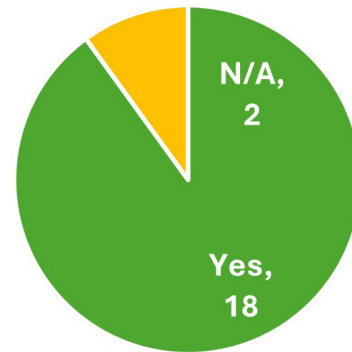
The client's risk appetite?



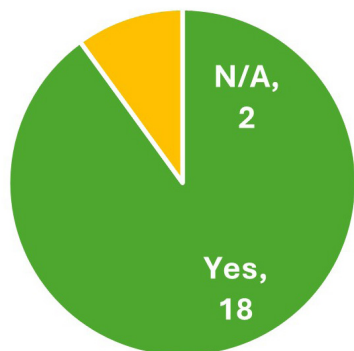
The client's investment objectives?



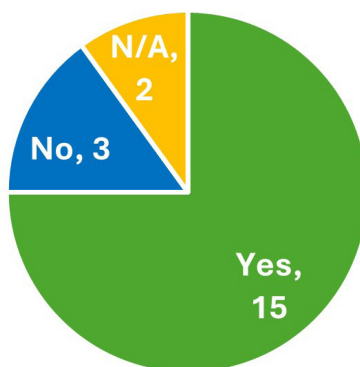
The client's investment time horizon and liquidity needs?



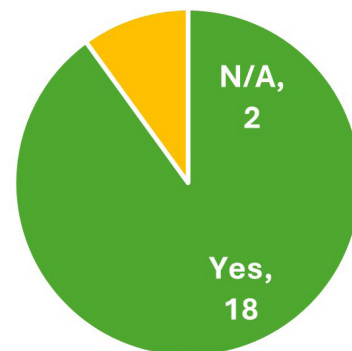
The client's age?



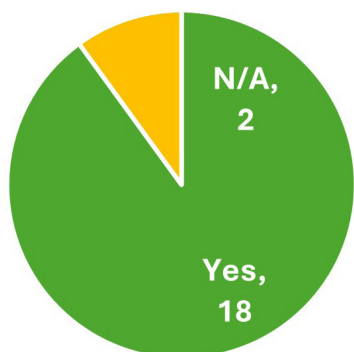
The risk profile of other investments in the client's portfolio (both with the firm or other providers)?



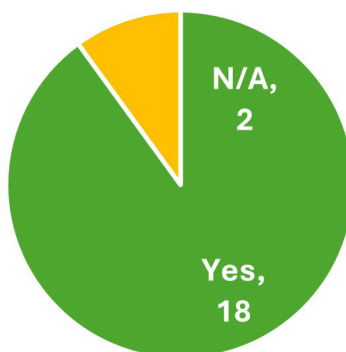
The client's health circumstances?



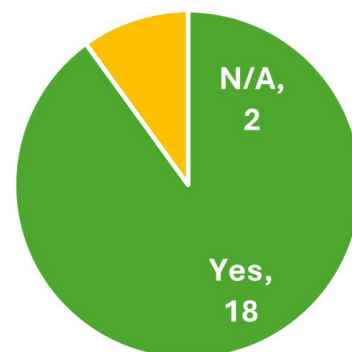
The client's family situation (marital status, dependents etc.)?



The client's financial situation?



The client's financial acumen?



Rule 6.30(1) states that 'a licenceholder must find out enough about a client's personal and financial circumstances, investment objectives, attitude to risk and time horizons to enable it to act properly for him in investment matters.'

Further to this, **Rule 6.32 (2)** states that 'a licenceholder must ensure that any transaction for a client is suitable for his circumstances (including attitude to risk, time horizon for the investment, age, state of health and any vulnerability in terms of Rule 6.31.'

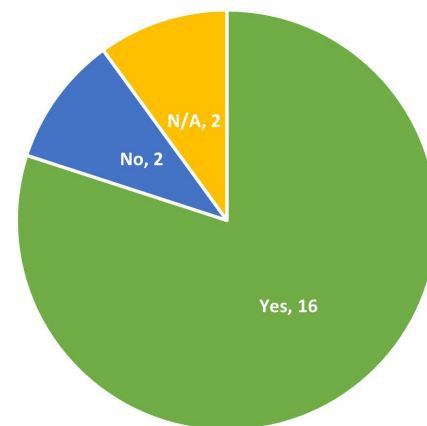
Question 8.10

Does the firm include documented considerations of rejected investments as well as those recommended as most suitable, and the rationale?

From the 20 firms selected for the Financial Advice Thematic, 16 of those confirmed they document considerations of rejected investments as well as those recommended as most suitable, and a rationale. 2 firms selected N/A and 2 firms select-

Rule 6.32(3) states that *'when advising or exercising discretion for a client, a licenceholder must maintain a copy of all research undertaken, details of the products it has considered, including those it has rejected as well as those recommended as being the most suitable, and the rationale for the recommendation or decision made.'*

ed no. The 2 firms that selected 'no' do not provide investment advice to retail clients.



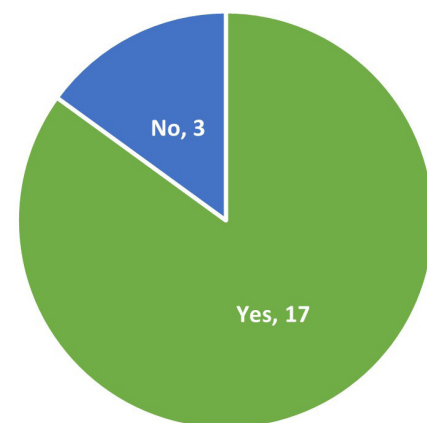
Question 9.1

Does the firm have any vulnerable clients?

Out of the 20 firms taking part in the Financial Advice Thematic, 17 of those confirmed they have vulnerable clients, while the remaining 3 selected 'No'.

As defined in the *'Financial Advice – Sales and Advisory Guidance'* and Rule Book, a vulnerable client may have one or more of the following characteristics —

- inexperienced, with little understanding of financial matters and financial planning;
- lower income or little disposable income.
- significantly impaired health.
- mental impairment or disability.
- reduced or limited life expectancy.
- not fluent in English (including where English is not a first language).



- other factors of a similar nature that make a person more vulnerable.

Question 9.3

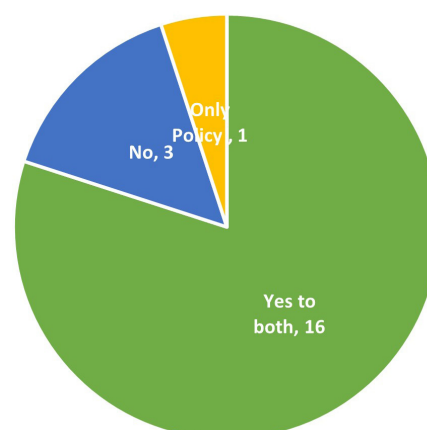
Does the firm have a separate documented Vulnerable Client Policy and/or Procedure?

16 of the 20 firms taking part in the Financial Advice Thematic confirmed they have both a Policy and Procedure for Vulnerable Clients. 1 firm advised that it has a Policy only and the remaining 3 advised they do not have a Policy. After further discussion with the 3 firms that responded no to this question, it was determined that 1 does indeed have a Policy and Procedure for Vulnerable Clients and

Rule 6.31 states that *'a licenceholder must establish and implement a Policy in relation to the provision of advice to, or exercise of discretion for, Vulnerable Clients.'*

the final 2 do not provide investment advice to retail clients.

The Authority considers it to be best practice for a firm to implement a Procedure for its staff to follow when communicating with a Vulnerable Client during the initial period of client contact and when reassessing



a client's vulnerability throughout the period of the client's relationship with the firm.

It is considered best practice to implement a Procedure to follow when communicating with a Vulnerable Client during initial contact

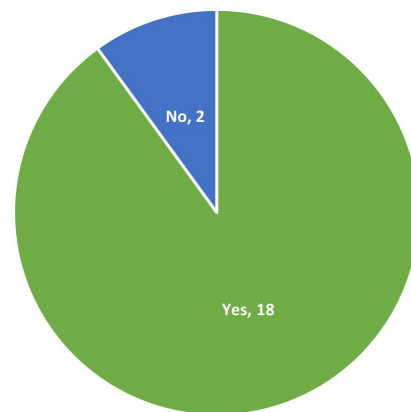
Question 9.4

Does the firm record a client's vulnerability in the systems e.g. as a flag or marker for awareness?

Out of the 20 firms selected for the Financial Advice Thematic, 18 of those confirmed they have a flag or marker to highlight a Vulnerable Client.

The 2 firms that responded 'No' do not provide financial advice to retail clients.

It is deemed best practice to mark a clients file with a flag or marker to highlight their Vulnerable Client status so that a staff member or Advisor interacting with the client is made aware of the client's vulnerability immediately.

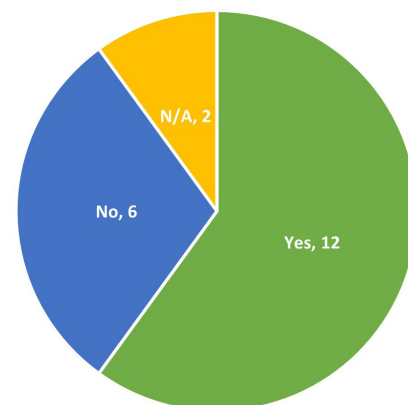


Question 9.5

Does the firm inform the client of their vulnerable status?

12 firms confirmed they advise the client of their vulnerable status, 6 selected 'No' and 2 selected 'N/A'. The 2 firms that selected N/A do not provide investment advice to retail clients.

While informing clients of their vulnerability is not a specific requirement of the Authority's, maintaining open and transparent communication with a client is crucial to providing effective support and advice. It is down to the firm to decide whether they feel that it is appropriate to inform the client and document their decision to not tell their client with a rationale.



Question 9.6

How often is the client's vulnerable status reviewed?

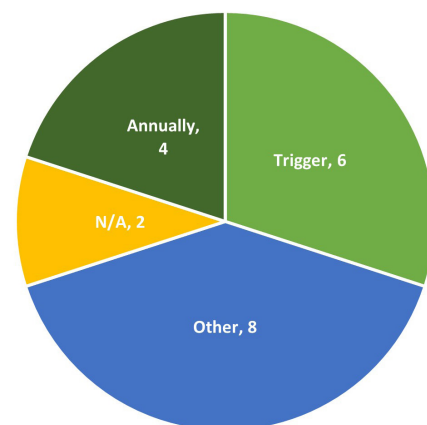
Out of the 20 firms taking part in the Financial Advice Thematic:

- 4 of those review a client's vulnerable status annually.
- 6 of those review the status at a trigger event (for example if a client is taking out a new product).
- 8 of those selected the 'Other' option and provided further

information in a text field to advise they review the client's status each time they have contact with the client.

- 2 firms that selected 'N/A' do not provide investment advice to retail clients.

The Authority considers it to be best practice that financial advisors review the vulnerable status at least annually or whenever there are trigger changes in the clients' circumstances and document this accordingly in the clients' records. Regular reviews help ensure that the advice provided



remains suitable and that the client's needs are appropriately met.

*Regular reviews
help ensure advice
remains suitable
and client's needs
are appropriately
met*

Question 9.7

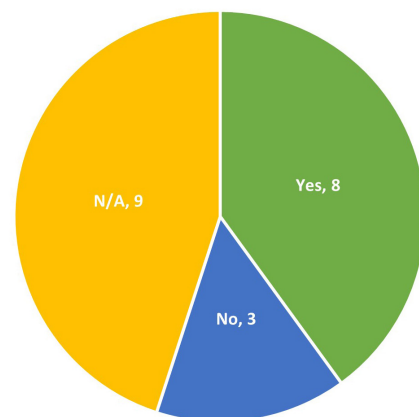
Does the firm record any instances of when transactions may have to be refused on the grounds of vulnerability?

Out of the 20 firms selected for the Financial Advice Thematic:

- 8 of those confirmed that they do record instances of when transactions may have to be refused on the grounds of vulnerability.
- 3 firms selected 'No'.
- 9 selected 'N/A' and used the provided text field provided to advise that they have not had

any instances of having to refuse a transaction on the grounds of vulnerability or they do not provide investment advice to retail clients.

Rule 6.32(3) states that *'when advising or exercising discretion for a client, a licenceholder must maintain a copy of all research undertaken, details of the products it has considered, including those it has rejected as well as those recommended as being the most suitable, and the rationale for the recommendation or decision made'* and as such, the advisor



should provide a rationale for the decision to reject an investment on the grounds of vulnerability.

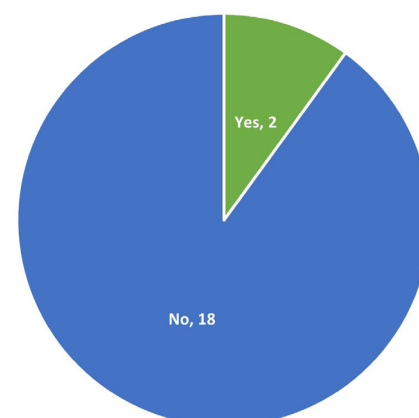
The Advisor should provide a rationale for the decision to reject an investment on the grounds of vulnerability

Question 10.1

Has the firm identified any control failures or weaknesses in the past 12 months?

Out of the 20 firms taking part in the Financial Advice Thematic, 2 of those confirmed that they had identified non-material control failures or weaknesses in the past 12 months which are now resolved, although these had not been reported to the Authority.

Rule 8.20(2) states that *'a licenceholder must notify the Authority as soon as it becomes aware that any of the following has occurred, whether within or outside the Island – the breakdown of administrative or control procedures relevant to any of the licenceholder's business (including breakdowns of computer systems or other accounting problems resulting, or likely to result in, failure to maintain proper records) or other material failures or weaknesses in systems and procedures.'*



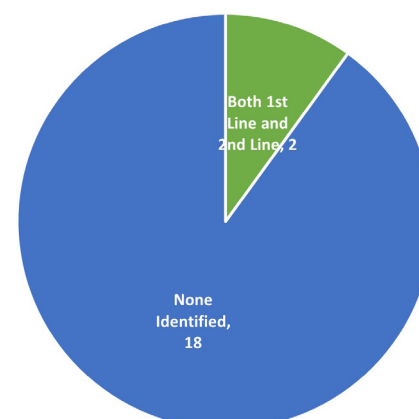
Question 10.2

Who within the firm identified the control failures or weaknesses?

The 2 firms that confirmed they had identified control failures or weaknesses in the last 12 months

confirmed that they were identified by both the 1st line and 2nd line.

Both firms have confirmed remediation of failures/weaknesses found and have implemented controls to prevent any reoccurrence.



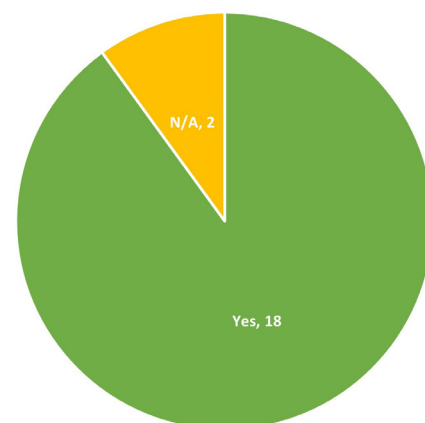
3.4 Client Files

Question 11.1

Does the firm conduct a Fact Find for each client?

Out of the 20 financial advice firms taking part in the Financial Advice Thematic, 18 of those conduct a fact-find for each client. The two that selected 'N/A' on the questionnaire do not provide investment advice to retail clients.

Rule 6.30 (2) states that 'where a licenceholder is providing investment advice to a retail client, it must complete a fact-find which must be signed by the client.' Completing a fact find ensures compliance with **Rule 6.30(1)** which states 'a licenceholder must find out enough about a client's personal and financial objectives, attitude to risk and time horizons to enable it to act properly for him in investment matters.'



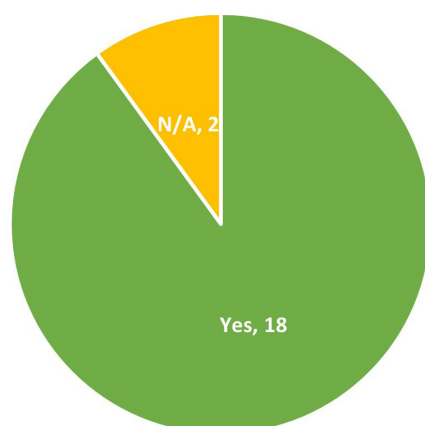
Question 11.2

If yes, is a copy of the fact-find maintained on the client file (electronic and paper)?

Out of the 20 firms taking part in the Financial Advice Thematic, 18 of those confirmed that a copy of the fact-find is held on the client file. The 2 firms that answered 'N/A' do

not provide financial advice to retail clients.

Rule 6.30(c) states that 'where a licenceholder is providing investment advice to a retail client, it must retain a copy of the signed fact-find on the client's file.'



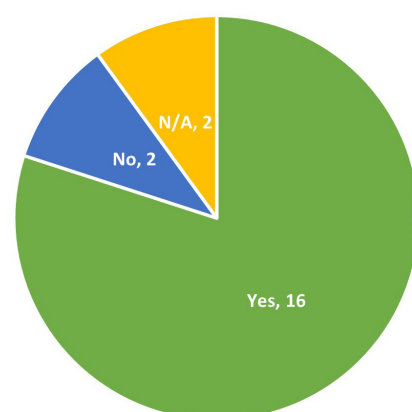
Question 11.3

Does the firm provide the client with a signed copy of the fact-find?

Out of the 20 firms taking part in the Financial Advice Thematic, 16 of those confirmed that they provide the client with a signed copy of the fact-find. Of the remaining 4, 2 of those selected 'No' and 2 of those

selected 'N/A' as they do not provide investment advice to retail clients.

Rule 6.30(b) states that 'where a licenceholder is providing investment advice to a retail client, it must provide a copy of the signed fact-find to the client.'



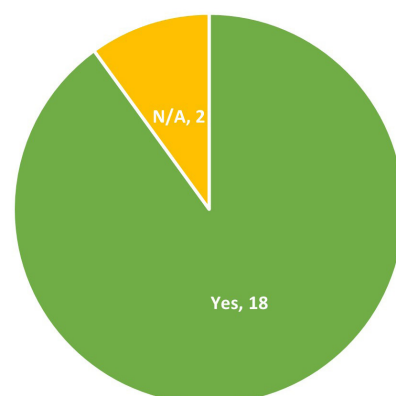
Question 11.4

Except for Execution Only, does the firm update the client's file with a 'Reasons Why Letter'?

Out of the 20 firms taking part in the Financial Advice Thematic, 18 of those confirmed that a Reasons Why Letter is kept within the client file.

The 2 firms that answered 'N/A' to this question do not provide investment advice to retail clients.

Rule 6.37(3) states that 'a copy of the reasons why letter must be retained on the client's file.'



Question 11.5

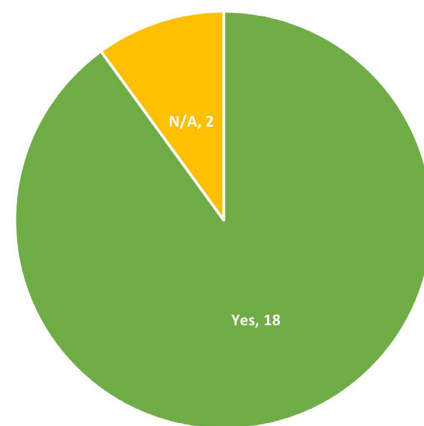
Except for Execution Only, does the firm provide the client with a copy of the 'Reasons Why Letter'?

Out of the 20 firms taking part in the Financial Advice Thematic, 18 of those confirmed that a copy of the Reasons Why Letter is provided to the client.

The 2 firms that answered 'N/A' to

Rule 6.37(3) states that *'where a licenceholder is providing investment advice, prior to the arrangement of any deals the client must be provided with a comprehensive 'Reasons Why Letter' which contains a full explanation of the benefits and risks of any recommendation.'*

this question do not provide investment advice to retail clients.



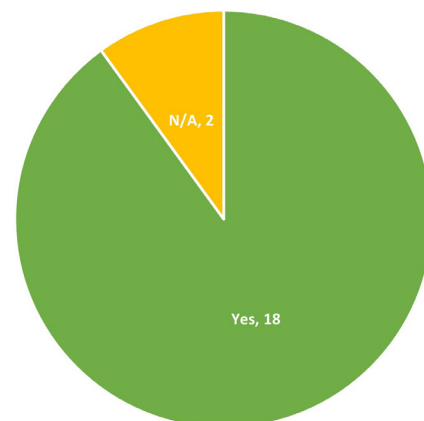
Question 11.6

If yes, is the 'Reasons Why Letter' tailored to the client and jargon free?

Out of the 20 firms taking part in the Financial Advice Thematic, 18 of those confirmed that the 'Reasons Why Letter' is tailored to the client and jargon free.

Rule 6.37(3) states that *'The reasons why letter must be tailored to the client's situation; be in plain, jargon-free English.'*

The 2 firms that answered 'N/A' to this question do not provide investment advice to retail clients.

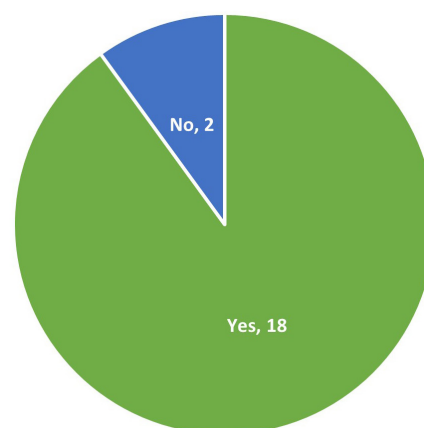


Question 11.7

For applicable clients, does the 'Reasons Why Letter' identify all costs for proceeding with the recommendations, including terms of charges, fees, early surrender penalties, market value reduction factors and commissions and remuneration?

Out of the 20 firms taking part in the Financial Advice Thematic, 18 answered 'Yes' to this question. The 2 firms that answered 'No' to this question do not provide investment advice to retail clients.

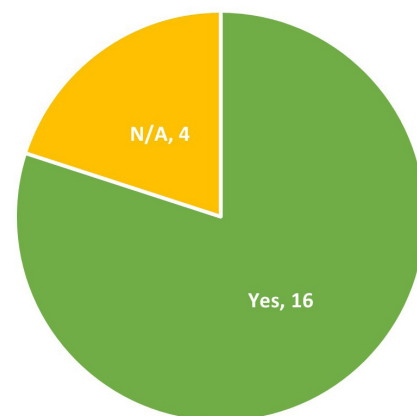
Rule 6.37(4) states that *'where a licenceholder will receive any commission or other remuneration, payment or benefit howsoever arising as a result of the transaction being undertaken or service being provided, the licenceholder must disclose that sum (or the formula for its calculation if the amount is unknown, together with a clear and simple example of the calculation) to the client prior to the transaction being undertaken or service being provided.'*



Question 11.8

For retail clients, where applicable, are contract notes, vouchers, and transaction data made available to the client?

Out of the 20 firms taking part in the Financial Advice Thematic, 16 answered 'Yes' to this question. 2 of the firms that answered 'N/A' to this question do not provide investment advice to retail clients.



Rule 6.44(1) states that 'a client agreement with a retail client should be easy to understand, not likely to be misunderstood and not deprive the client of any rights which he would have had if the agreement or terms had not existed. It must include terms relating to the following matters, so far as applica-

ble – (f) the client's right to inspect copies of contract notes, vouchers and entries in books or electronic recording media relating to the clients' transactions, together with a statement that such records will be maintained for 6 years from the date of the transaction or indefinitely in the case of pension transfers,

pension opt-outs or free-standing additional voluntary contributions (see Rule 8.58(4)).'

Question 11.9

If yes, how long is this retained (in either paper or electronic format)?

The firms participating in the Financial Advice Thematic used a free text field to advise how long contract

notes, vouchers, and transaction data is retained for and all firms confirmed that these records are retained for 6 years, in line with record retention rules or indefinitely if the customer remains active for longer than this term.

Rule 8.28 states that '(1) a licence-holder must keep and maintain proper records to show and explain transactions effected by it on behalf of its clients. (2) Those records must be – (d) kept for at least 6 years after the transaction.'

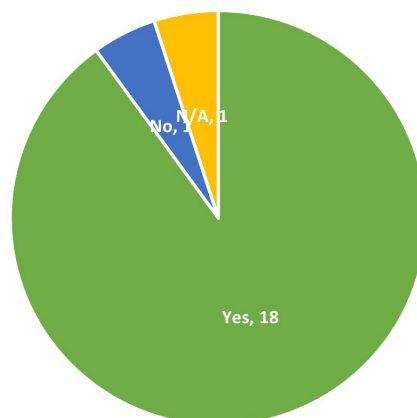
All firms confirmed they held records in line with record retention rules

Question 11.10

Does the firm provide a copy of the Terms of Business to its clients?

Out of the 20 firms taking part in

the Financial Advice Thematic, 18 answered 'Yes' to this question. The 2 firms that answered 'No' and 'N/A' do not provide investment advice to retail clients.



Rule 6.41(1) states that 'subject to paragraph (2) (please refer to the Rule Book), a licenceholder must not carry on any regulated activity for a client unless either (a) it has entered into a written agreement (a "client agreement") with the client, a copy of which has been signed by the client, relating to the services

it provides; or (b) it has provided the client with a written terms of business, a copy of which has been signed by the client. Where the activities are to be undertaken on an execution only basis, the written terms of business must specifically refer to that type of service.'

Question 11.11

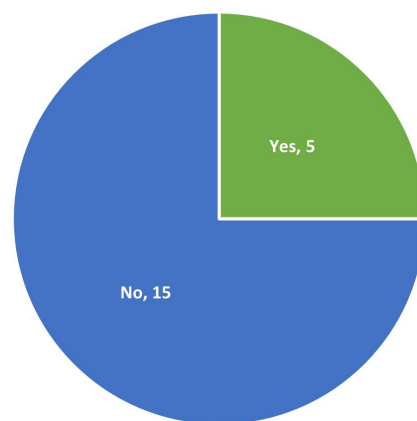
If 'Yes', is the Terms of Business provided adapted to the client's needs (clients native tongue and additional needs)?

15 of the 20 firms taking part in the Financial Advice Thematic answered 'No' to this question, with the remaining 5 confirming the Terms of Business are adapted to the client's needs. The Authority would consider it best practice and in the spirit of **Rule 6.41** to ensure that their clients fully understand the terms of business that they are signing, including any potential commissions and or fees being charged. Further, where there are any additional needs, that these are documented in the client file detailing that the terms have been explained to the client sufficiently prior to them being signed.

Adapting terms of business to meet clients' needs can be highly beneficial for several reasons:

- 1. Customer Satisfaction:** Tailoring terms to better align with clients' expectations can enhance their overall satisfaction and loyalty
- 2. Competitive Advantage:** Businesses that are flexible and responsive to client needs often stand out in the market
- 3. Long-Term Relationships:** Customising terms can help build stronger, long-term relationships with clients, fostering trust and collaboration

However, it's important to balance flexibility with maintaining clear and



consistent policies to ensure fairness and manageability.

Rule 6.42 states 'a licenceholder must not carry on any regulated activity for a client unless either — (a) it has entered into a written agreement (a "client agreement") with the client, a copy of which has been signed by the client, relating to the services it provides; or (b)

it has provided the client with a written terms of business, a copy of which has been signed by the client. Where the activities are to be undertaken on an execution only basis, the written terms of business must specifically refer to that type of service.'

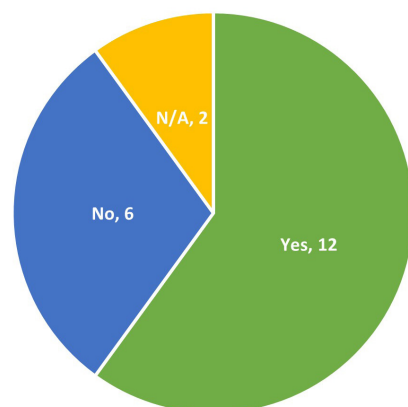
3.5 CPD Records

Question 12.1

Does the firm have Level 6 qualified Advisors?

12 of the 20 firms taking part in the Financial Advice Thematic confirmed that they have level 6 qualified Advisors working for the firm. A free text field was used to confirm that 24 Level 6 advisors work across the 12

firms that selected 'Yes' to this question. As per the [Authority's Training and Competence Framework](#) where advice is provided to retail clients an appropriate RDR level 4 qualification must be held which is relevant to the role. Where the role is within a stock-broker and includes oversight then a Level 6 (or equivalent) qualification is required.



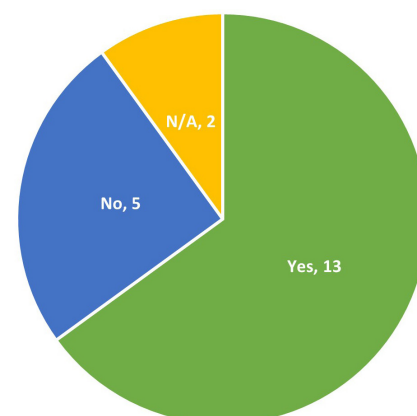
Question 12.2

Does the firm require Advisors to undergo an annual competency assessment in relation to their role?

13 of the 20 firms taking part in the Financial Advice Thematic confirmed an annual competency assessment is undertaken for its financial Advisors.

The 2 firms that answered 'N/A' to this question do not provide financial advice to retail clients.

The Authority's Training and Competence Framework states that 'a regulated entity should have appropriate arrangements in place to ensure that an employee who has been assessed as competent remains so.'



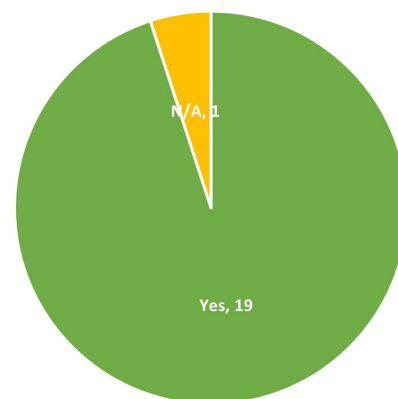
Question 12.3

Does the firm ensure Advisors complete their required CPD?

19 of the 20 firms taking part in the Financial Advice Thematic selected 'Yes' to this question. It was later determined that the firm that select-

ed 'N/A' does in fact ensure its advisors complete their CPD.

Firms are responsible for monitoring and ensuring that their advisors complete their required CPD. The [Authority's CPD guidance](#) provides further information regarding the recommended structure of CPD.



Question 12.4

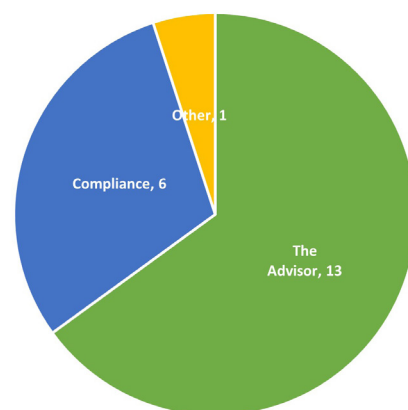
Who within the firm maintains CPD records?

Out of the 20 firms that were selected to complete the Financial Advice Thematic:

- 13 of those confirmed the Advisor is responsible for maintaining their own CPD records
- 6 confirmed that the Advisor's CPD records are maintained by the compliance team

- 1 firm that selected 'other' used a free text field to advise that the CPD records are maintained by the firm's Quality Assurance team.

The Authority considers it to be best practice for the responsibility of maintaining CPD records to fall to the compliance officer or a designated training and competence officer within the firm, to ensure that the Advisor's CPD records align with the requirements of the [Training and Competence Framework](#).



The Authority considers it to be best practice for the responsibility of maintaining CPD records to fall to the compliance officer or a designated training and competence officer within the firm

Question 12.5

Who within the firm is responsible for the review of CPD records?

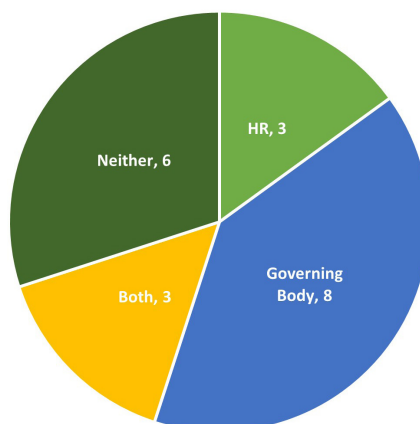
Out of the 20 firms selected to take part in the Financial Advice Thematic the responsibility of reviewing the CPD records falls to the following:

- Governing Body – 8 firms
- HR – 3 firms
- Both – 3 firms
- Neither – 6 firms

Out of the 6 that responded 'Neither'

3 of those firms used the comment box provided to state that the Head of Compliance reviews the CPD records, 2 of those did not provide an explanation and 1 noted that the review was the responsibility of the advisor.

Although it is determined by the governing body whether the advisor has undertaken sufficient CPD annually to be issued with a Statement of Professional Standing, the Authority considers it to be best practice for the firm to review the advisor's CPD records.



Question 12.6

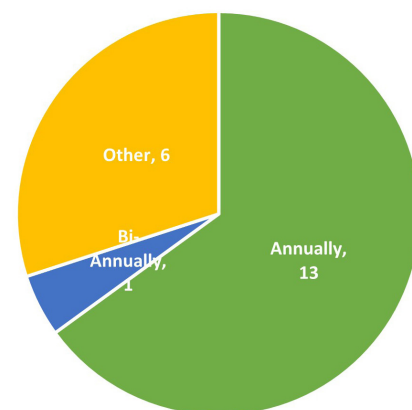
How often are the CPD records reviewed?

Out of the 20 firms selected to take part in the Financial Advice Thematic:

- 13 of those confirmed the CPD records are reviewed annually.
- 1 of those selected 'Bi-annually' and
- 6 selected 'Other'. In a free text

field, the firms that selected 'Other' advised that the CPD records are reviewed either monthly, quarterly or half yearly.

The Authority considers it to be best practice to review the CPD records at least annually, in line with the Advisor's appropriate governing body membership. A Statement of Professional Standing is provided by the governing body annually after reviewing the advisor's CPD records. A statement of professional standing is required in order to provide invest-



ment advice to retail clients, as per **Rule 8.5(4)**.

4 In Conclusion

The firms' interactions and submissions were all made within the requisite timeframes and the engagement with the Authority's Officers throughout the thematic was positive and in the spirit of **Rule 8.30** of the Isle of Man Financial Services Rule Book 2016 - Relations with the Regulator.

On a more general note, the Authority supervises a large and diverse population of firms and undertakes supervision and oversight of these firms through four dedicated supervisory divisions that work closely together.

As part of our planning across the Authority, we have grouped our supervisory priorities into the four broad themes of: Countering Financial Crime; Culture, Governance & Risk Management; Financial & Operational Resilience; and Quality of Supervisory Data.

Going forward, firms in the Portfolio Supervision Division will typically only be the subject of one Prudential and Conduct thematic review in any one year. Where heightened risk is identified through ongoing supervision, one-to-one engagement will continue including full inspections where necessary.



The Portfolio Supervision Division oversee a large cohort of Isle of Man regulated entities who are considered to be low impact, per the Supervisory Methodology launched in May 2023. In this publication it details that impact is a cornerstone of the Authority's risk-based Framework for all non-AML/CFT supervision.

For each licenceholder, the Authority assessed its "impact" as the degree of disruption that would be caused to its consumers, and to the financial system, the economy and the reputation of the Isle of Man were it to fail or carry on its business in an unsafe manner. In general, the higher the impact rating is for a licenceholder, the more intensely it is supervised i.e. through relationship manage-

ment and Enhanced Supervision.

Since this launch, the Portfolio Division have been on a significant growth journey building out a full complement of SMEs. We have split the Division into two sub-teams in order to manage the large volume of licenced low impact firms.

This means that whilst there is not a 'relationship manager' per Portfolio firm, or regular meetings, each licenceholder will instead deal with a small cohort of dedicated people for their day-to-day queries, excluding AML/CFT.

We welcome open dialogue with our licenceholders at all times on aspects that arise.



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