



ISLE OF MAN
FINANCIAL SERVICES AUTHORITY

Lugħt-Reill Shirveishyn Argidoil Ellan Vannin

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ISLE OF MAN FINANCIAL SERVICES AUTHORITY

FINANCIAL RESOURCES REQUIREMENTS INDUSTRY REPORT

www.iomfsa.im



portfolio@iomfsa.im



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1 Glossary of Terms

<u>TERM</u>	<u>MEANING IN THIS REPORT</u>
Board	Board of Directors (of the licenceholder)
Licenceholder	The firm / business
FRR	Financial Resources Requirements
FSA08	Financial Services Act 2008
HOC	Head of Compliance
NED	Non Executive Director
QSL	Qualifying Subordinated Loan
Relevant Persons	In relation to a licenceholder, 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

2 Background

2.1 Executive Summary

The Authority has undertaken a Thematic project (“the Thematic”) involving low impact licenceholders, supervised by the Portfolio Supervision Division based on the Isle of Man. The licenceholders 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 include 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 licenceholder and sector level.

This report presents the key findings from the Financial Resource Requirements Thematic, incorporating the Authority’s insights on certain data, and highlighting best practice points.

The purpose and aim of the Thematic was to gain further insight into the financial resources requirements reporting governance and data collation through the collection of information. The data collected as part of this project supports the Authority’s understanding and will be used to inform potential future outreach and engagements.

The thematic exercise was made up of two core phases:

PHASE ONE

Consisted of a questionnaire issued to 15 mixed class low impact licenceholders (excluding classes 1, 6, 8 and 9) supervised by the Portfolio Supervision Division.

PHASE TWO

Consisted of 4 licenceholders being selected (on a % sample basis of phase 1) for a supplemental information gathering exercise and desk-based inspection.

Thematic reviews are an important part of the Authority’s supervisory approach



2.2 Data Analysis and Phase 1 and 2 Selection

Prior to the Phase 1 Questionnaire being issued, existing data held on all applicable licenceholders was analysed and considered.

Each licenceholder was considered by analysis of the following:

- Financial statements submitted
- Financial resources requirement submissions
- Full inspection history; and
- Any business meetings held.



Following this review, 15 licenceholders supervised by the Portfolio Supervision Division were chosen to

be included in Phase 1 of the thematic exercise, to obtain an indicative picture across the sector and to enhance the Authority's understanding and data of the overall sector.

In phase 2 a sample of the phase 1 licenceholders were required to provide supplemental documentation to help us understand the different ways they consider and evidence the compliance with Part 2 of the Rule Book, including extracts from any relevant internal procedures and governance processes.

3 Phase 1 and 2 Results, Key Findings and Observations

The Financial Resource Requirements questionnaire was made up of three main sections, broken down into a further 12 sub-sections.

1. **Management and Oversight**
2. **Governance and Data**
3. **Qualifying Subordinated Loans**

The first section of the questionnaire was to determine who oversees the financial resources of the licenceholder, liquid capital monitoring, FRR data compilation, approval and submission, and board reporting.

The second section of the questionnaire included questions on the monitoring and controls of the licenceholders' compliance with Part 2 of the FSRB accounting records and systems, and breaches.

The third and final section focused on qualifying subordinated loans.



Questionnaire was made up of 3 main sections and 12 sub-sections

3.1 Management and Oversight

Question 1

Who are the financial resources of the licenceholder managed by?

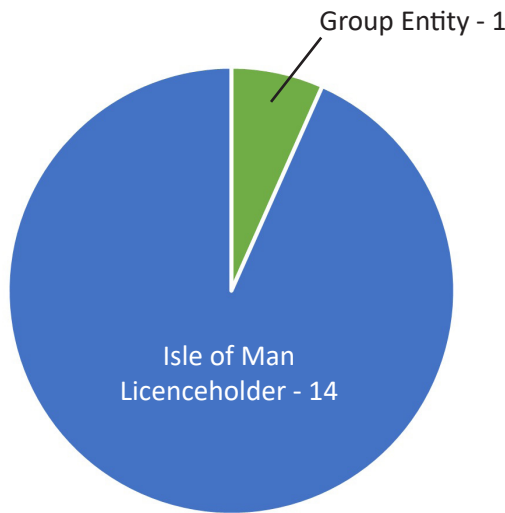
Answers provided by the 15 licenceholders:

14 Isle of Man licenceholder only

1 Group Entity

The licenceholder that stated the financial resources are managed by the Group Entity, also confirmed that their PII letter of undertaking is reviewed by the Board annually.

The Authority consider it best practice for the local Board to have sight of and ability to comment on the FRRs.



Question 2

How often does the licenceholder monitor the liquid capital?

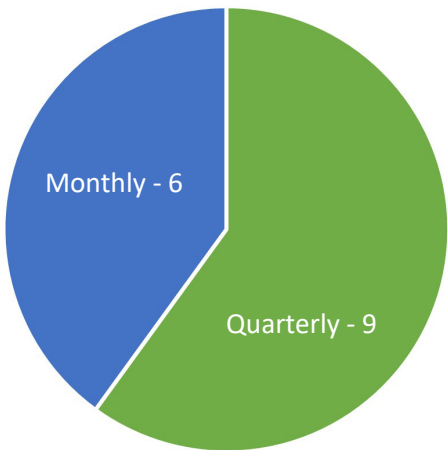
Of the 15 licenceholders the answers split out as follows:

6 monthly

9 quarterly

Rule 2.35 requires the licenceholder to evidence and document its compliance with the requirements of Rule 2.30 at least once in each quarter, no more than one month following the period to which it relates.

It is important to note that Rule 2.30 requires the licenceholder to always comply with the requirements of this



rule, so some Licenceholders may find it preferable to monitor the liquid capital monthly.

Question 3

Who compiles the FRR data returns for the licenceholder?

Of the 15 answers submitted, the data broke down to:

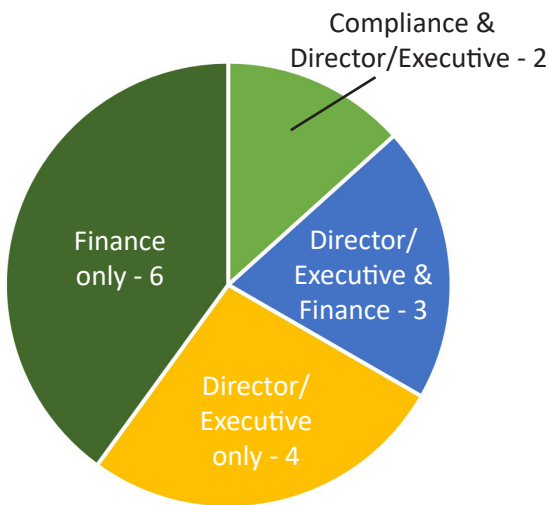
2 Compliance & Director/Executive

3 Director/Executive & Finance

4 Director/Executive only

6 Finance only

The Authority considers it an important good practice that senior management and or senior compliance personnel compile and or have direct oversight over the completion and submission of the licenceholder’s financial resource requirements and associated calculations, as they funda-



mentally demonstrate the liquidity of the licenceholder and compliance with the regulatory requirements.

Question 4

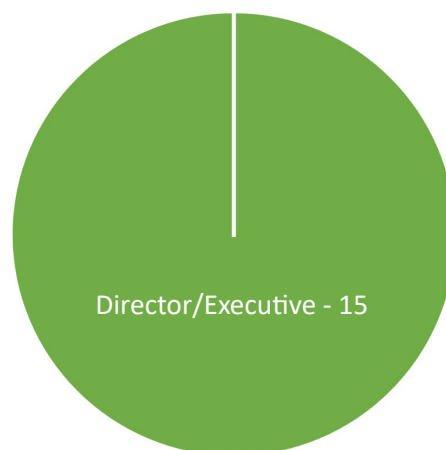
Who approves/signs off the FRR data returns for the licenceholder prior to submission?

All of the 15 licenceholders confirmed that a Director/Executive¹ approves/signs off the FRR data returns prior to submission to the Authority.

5 of those further advised the data returns are also checked by Compliance and 3 of those 5 advised the data returns are also checked by Finance.

The Senior Management of the licenceholder are directly responsible for the proper oversight and accurate reporting of financial calculations and liquid capital, as well as robust internal controls. If deficiencies arise due to poor governance or oversight, regulators may question the

fitness and properness of senior management to continue in their roles.



Question 5

This followed on from questions 3 and 4.

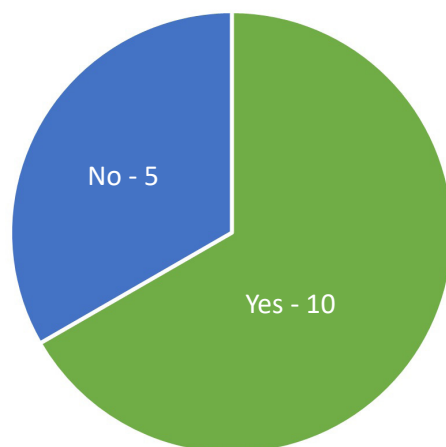
Are the roles of approver and compiler handled by different people?

10 Yes

5 No

The licenceholder must maintain appropriate procedures and controls for the purpose of monitoring its compliance with the requirements of Rule 2.30(4), which should include a procedure for when segregation of duties is not possible. An example of this is for smaller licenceholders where there are multiple roles held by the same individual. Segregating the check and challenge function from the completion of FRR calculations is a key component of sound financial governance and regulatory compli-

ance as it enhances objectivity and independence and strengthens internal controls. Further, it improves accuracy and reliability and supports business continuity and risk management.



Question 6

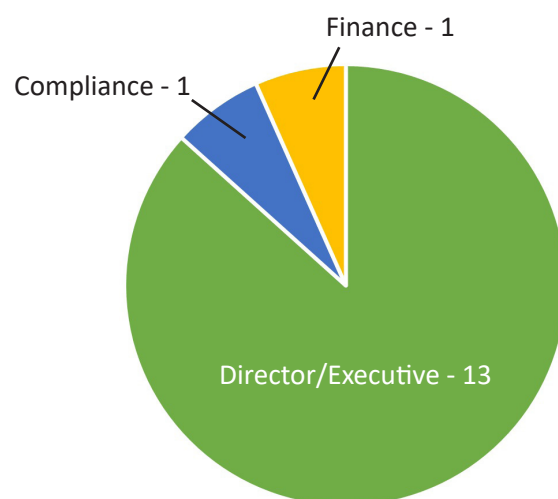
Who submits the FRR data returns for the licenceholder?

13 Director/Executive

1 Compliance

1 Finance

Whilst there is no formal expectation, the Authority deem it best practice to have an appropriately qualified and/or experienced person to submit the FRRs to the Regulator. It is considered good practice by the Authority that these individuals have explicit authority from the Senior Management of the licenceholder to correspond directly with the Authority on behalf of the licenceholder.



¹ Defined as the Director / Executive for the Licenceholder

Question 7 – Board Reporting

Is the information submitted to the Board for their noting and comment?

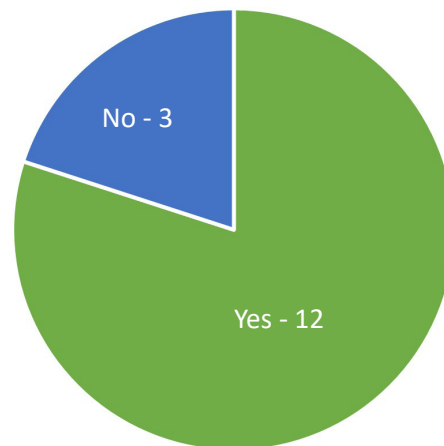
12 Yes

3 No

The Authority deems it to be best practice that the FRR information is submitted to the Board for their noting and review / comment on a regular basis.

Boards of directors have a legal and fiduciary responsibility to oversee the financial health and regulatory compliance of their business. Regular FRR reporting enables them to fulfil their duty of care and oversight to the licenceholder and ensure it maintains adequate financial resources; and helps them to identify and respond to emerging financial risks.

Further it provides the Board with insight into the liquid-



ity, capital adequacy and solvency of the licenceholder and promotes transparency between management and the Board. It also supports a culture of compliance and good governance.

Question 8

Following from question 7, if answered yes to question 7, how often?

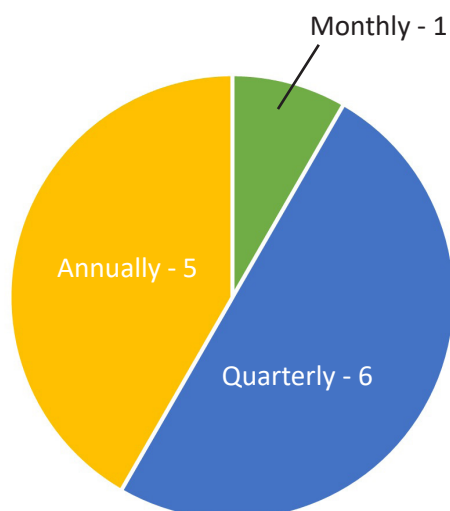
Out of the 12 Licenceholders that answered yes to question 7, the following advised that the information is submitted to the board for their noting and comment prior to submission to the Authority:

1 monthly

6 quarterly

5 annually

FRR reporting provides the Board with a basis for strategic decision making and contingency planning and provide early warning signals for potential breaches or financial stress.



3.2 Governance and Data

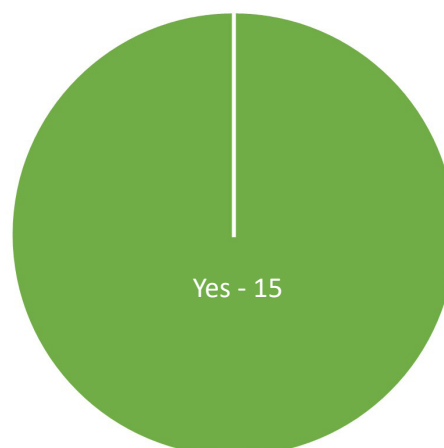
Question 10

Does the licenceholder maintain appropriate procedures and controls for the purpose of monitoring its compliance with the requirements of part 2 of the Financial Services Rule Book 2016 (“FSRB”)?

All 15 licenceholders selected responded ‘Yes’ to this question.

This was supported by the subsequent documentation received and reviewed during the phase 2 sample reviews.

It is a requirement of **Rule 2.30 (4)** to maintain appropriate procedures and controls for the purpose of monitoring its compliance with the requirements of **Rule 2.30**, which includes the calculation of the FRR.



Question 11

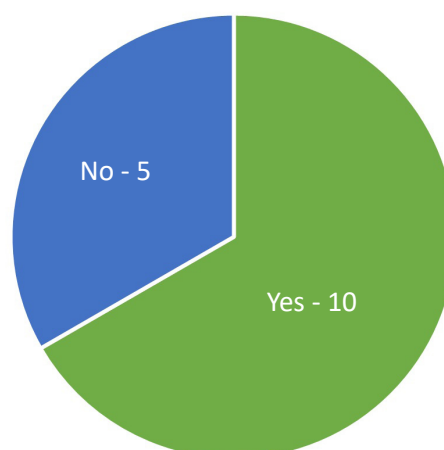
Does the licenceholder have a written procedure for the compilation and calculation of the FRRs?

Out of the 15 licenceholders selected for the thematic project the responses to this question were as follows:

10 Yes

5 No

The Authority deems it to be best practice to have a written procedure for the compilation and calculation of the FRRs. This is not only a regulatory expectation but is a key component of sound financial governance and is aligned to **Rule 2.30**.



Strong procedures support:

- Better decision-making by senior management
- Efficient resource allocation
- Enhanced investor and stakeholder confidence



Question 12

How long does the licenceholder retain its accounting records?

Out of the 15 licenceholders selected the responses were as follows:

5 6 years

10 More than 6 years

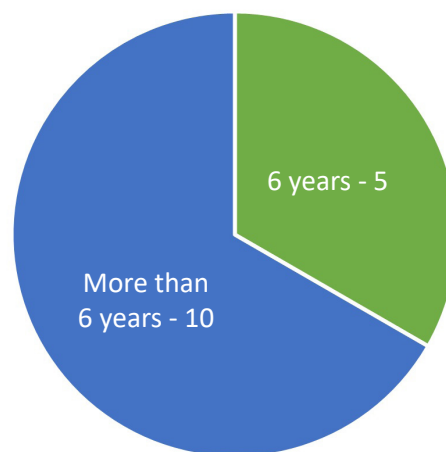
Of the 10 who answered more than 6 years this broke down to:

2 7 years

1 10 years

7 Indefinitely

Rule 2.12(2) requires a Licenceholder to preserve its accounting records for at least 6 years beginning with the date on which they are made. This includes financial statements, invoices, receipts, payroll records and tax documentation. Under the Isle of Man Data Protection Act 2018, accounting records containing personal data



must be retained only for as long as necessary for the purposes for which the data was collected.

The Authority is pleased that all Licenceholders taking part in the FRR thematic preserve their records for the minimum period, with some retaining the records indefinitely.

Question 13

Where is the data retained?

5 Specific finance platform/system

6 General business platform/system for example client database

4 Other, which can be broken down to:

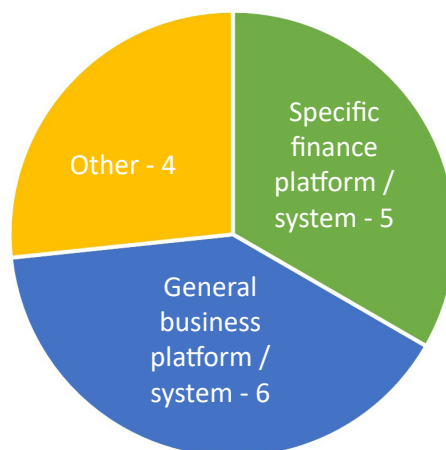
3 – hard copy

1 – other digital drive

Best practice for retaining accounting-related data, especially under the Isle of Man Data Protection Act 2018 and associated regulations, requires a balance of security, accessibility, compliance, and longevity.

The Rule Book states a licenceholder must establish and maintain procedures to ensure that sufficient information is recorded and retained about the conduct of its business and its compliance with the regulatory requirements.

Further, for information requests and inspections, the



Authority would expect the licenceholder to be able to readily produce relevant requested information and data without unreasonable delay.

It is prudent therefore that licenceholders regularly review their data storage to ensure it remains accessible, robust and fit for purpose.

Best practice for retaining accounting-related data requires a balance of security, accessibility, compliance, and longevity

Question 14

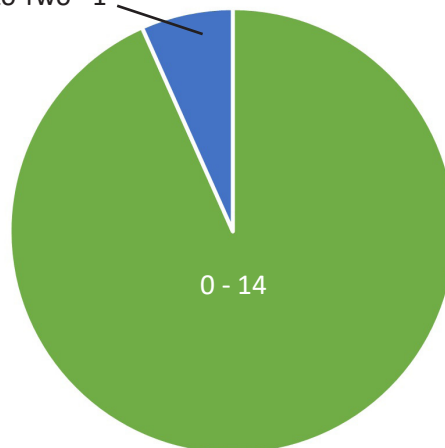
How many breaches has the licenceholder recorded under Rule 2.30 Financial Resources Requirements in the last 3 calendar years?

14 0

1 1 to 2

Rule 2.31 requires a Licenceholder to contact the Authority immediately in relation to potential or actual shortfalls of net tangible assets or liquid capital. The Licenceholder must provide a full explanation of the circumstances and detail steps that the Licenceholder is taking or has taken to prevent a breach of **Rule 2.30** or how they intend on remediating the breach.

One to Two - 1



3.3 Qualifying Subordinated Loans

Question 15

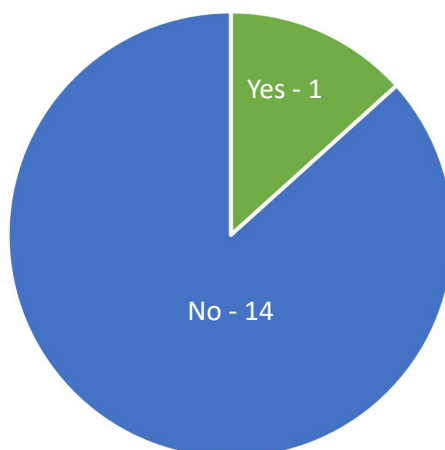
Does the licenceholder have in place a QSL?

Of the 15 licenceholders selected for the thematic project, the responses were as follows:

1 yes, they had a QSL currently in place and confirmed it was in place to cover a short-term position.

14 no, they did not currently have a QSL in place.

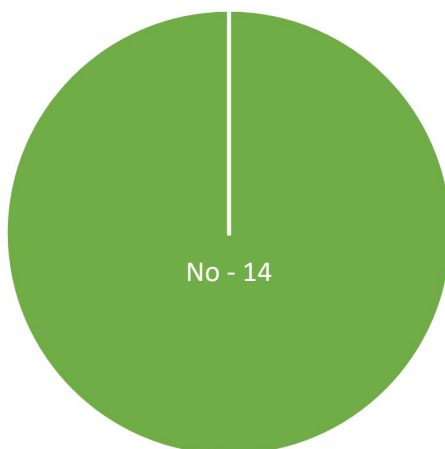
Guidance is provided relating to QSLs² to assist Licenceholders with their application to gain approval for a QSL, where they are required. The Authority will consider multiple factors prior to approving a QSL, such as the Licenceholder's financial circumstances and reasons for the loan.



Question 16

If the answer to question 15 was no, has the licenceholder had a QSL in place within the last 3 calendar years?

Of the 14 licenceholders who selected 'No' to question 15, all confirmed they had also not previously had a QSL in the last 3 years.



The Authority will consider multiple factors prior to approving a QSL

² Qualifying Subordinated Loans

4 In Conclusion

Effective financial resource management and reporting assists licenceholders in safeguarding against operational disruptions, prevent abrupt breaches of capital requirements and ultimately, protect client interests and licenceholder stability.

Senior management must understand the interrelationships between business lines and financial risks to enable informed strategic planning, efficient allocation of resources and good corporate governance.

The Authority expects licenceholders to have competent personnel for financial monitoring, and effective liquidity management frameworks. Further, robust and complete procedures governing the completion, check and challenge, and submission of FRR calculations are key.

Robust procedures ensure clarity on roles and responsibilities for the preparation, review, and approval of FRRs. They also assist with the segregation of duties to prevent conflicts of interest and or errors and provide effective audit trails for accountability and transparency.

Without such controls, licenceholders risk:

- Material misstatements
- Fraud or manipulation
- Reputational damage

A structured check and challenge process helps a licenceholder to identify errors and or inconsistencies in FRR calculations and to validate assumptions and methodolo-



gies. It can also ensure alignment with applicable accounting standards and regulatory definitions. This is especially important when dealing with complex instruments or evolving regulatory rules.

The impacts of incomplete or incorrect FRR submissions can include harm to client interests and expose the licenceholder to operational and financial risks. It can also lead to breaches of capital requirements, regulatory sanctions and questions about the fitness and properness of senior management.

Robust procedures help licenceholders to anticipate and mitigate these risks proactively, which is something the Authority would expect. The use of technology and automation helps to reduce manual errors along with the maintenance of appropriate internal governance



Segregation of duties is a fundamental control activity across multiple areas of a licenceholder's activity, including FRRs

frameworks around report accuracy and completeness. Procedures ensure consistency in how FRRs are compiled and calculated, whilst also providing continuity for staff changes and easier training of new personnel. They can serve as a reference point for audits and internal reviews; assist to establish clear roles and responsibilities; support segregation of duties between preparation, review, and approval; and help to prevent errors, fraud, and misstatements.

The Authority views it as best practice to have a written procedure for the compilation and calculation of FRRs. Whilst this is not only a regulatory expectation it is considered as a key component of sound financial governance.

With regards to the segregation of duties in terms of compilation and review / approval, it helps to reduce bias and conflict of interest and ensures that assumptions, inputs, and methodologies are critically assessed. Further, it helps to promote transparent and impartial oversight.

Segregation of duties is a fundamental control activity across multiple areas of a licenceholder's activity, including FRRs, it prevents errors and fraud by ensuring no single person has end-to-end control and creates a system of checks and balances that improves accuracy and accountability. It can also help detect misstatements or irregularities before submission to the Authority.

If FRR errors go unchecked due to poor segregation there could be consequences, dependant on the severity of the issues found, including penalties, reputational damage, and questions over fitness and propriety.



The Board of directors have a legal and fiduciary responsibility to oversee the financial health and regulatory compliance of their businesses. Providing the Board with regular financial resource reports enables them to fulfil their duty of care and oversight and ensure the licenceholder maintains adequate financial resources.

It can also help to identify and respond to emerging financial risks. This aligns with best practices in Board Governance so the Board can review budget versus actual performance, liquidity positions, and capital adequacy. It ultimately helps the Board to be equipped to challenge assumptions and request further analysis if needed

It was observed throughout the Thematic that all licenceholders' interactions and submissions were made within the requisite timeframes and the engagement with the Authority's Officers throughout was positive and in the spirit of **Rule 8.30³ - relations with the Regulator**.

The Board of directors have a legal and fiduciary responsibility to oversee the financial health and regulatory compliance of their businesses



³ Rule 8.30 of the Isle of Man Financial Services Rule Book 2016



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Lught-Reill Shirveishyn Argidoil Ellan Vannin

Our mailing address is:

PO Box 58
Douglas
Isle of Man
IM99 1DT

Email:
info@iomfsa.im