The Commission’s regulatory objectives are to:

- secure an appropriate degree of protection for the customers of persons carrying on a regulated activity,
- reduce financial crime, and
- support the Island’s economy and its development as an international financial centre.
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It gives me great pleasure to present the Annual Report and Accounts of the Financial Supervision Commission for the year ended 31 March 2011.

This Report on the Commission's activities has been prepared for submission to Treasury and to be laid before Tynwald in fulfilment of the Commission's obligation under Schedule 1 of the Financial Services Act 2008.

The year has been a period in which both markets and the global regulatory environment have continued to adjust in a post-crisis environment.

The Commission has been proactive in supporting industry in reshaping its strategic model for the new environment.

John Aspden  Chief Executive

In many Western countries sentiment continues to be affected by uncertain prospects for economic recovery and the reality of having to reduce substantial deficits. The regulatory environment has seen the start of many important initiatives to restore financial stability and the credibility of regulatory oversight, although consensus on some important issues - like resolution arrangements for too-big-to-fail institutions - still remains elusive.

Against this backdrop the Commission had to remain highly responsive to external events. The Island is exposed to changing fortunes in international wealth flows, since most of its client base comes from overseas. Business has therefore been challenging and the Commission's licenceholders have had to contain costs and work hard to sustain volumes.

For its part the Commission has been proactive in supporting industry in reshaping its strategic model for the new environment. In the funds sector this has resulted in active participation with the Funds Development Group, while discussions have been held with the banks who have been reviewing their own vision for the future. The Commission is very
To ensure effective use of the powers given to the Commission it is important that, where necessary, cases can be escalated through the remedial process in a timely and effective manner to ensure a fair and efficient result. This review has commenced and will form a core part of the coming year's work programme.

As an organisation funded by our licenceholders and with public money, it is important that we should look to achieve meaningful cost savings. Central to this, in particular to ensure that the Commission can continue to perform its statutory functions effectively, are the steps which we have begun, and are continuing to take, to examine in detail the processes which we use to carry out our work and how they can be streamlined or even eliminated. Through a combination of cutting back on general expenditure, a reduction in headcount and the introduction of efficiencies we have ensured that we remain within the budget allocated by Government.

The Commission is a statutory board, which helps to distinguish it as a separate body with distinct powers. However there is a clear expectation of international standard-setting organisations that regulatory bodies should be independent. Operationally the line can become blurred especially where the regulator does not have complete financial independence because of the way in which wider revenues have been re-allocated.

The effect of this can be seen in the Annual Accounts of the Commission where for the first time expenditure exceeds revenue because of a Government decision to transfer Companies Registry away from the Commission.

The Commission's liaison and contact with international regulatory bodies is extremely important. On a day-to-day basis this will frequently be in the context of an ongoing dialogue with home regulators. More widely, for example in the context of Basel and IOSCO, the Commission participates in standard-setting work which is a valuable way of contributing towards cross-border convergence and understanding. The international regulatory architecture is changing including with a new framework in Europe. It will be important that, even as a non-member of the EU, we develop our links with the new authorities.

The Government's strong support for the Small Countries Financial Management Programme, organised in conjunction with the World Bank and designed by faculty from Oxford University's Said Business School, is another example of how international liaison can successfully work.

For a regulatory organisation to operate successfully it needs support from its many different stakeholders. It is important for me therefore to thank our licenceholders for the time which they devote to commenting constructively on regulatory proposals: it is only in this way that we can hope to implement a regime which to be effective also needs to be workable.

All of the staff would also want me to thank the Board for their continued and proactive support without which it would be impossible to deliver under a demanding programme.

Which leaves me to say how grateful I am to my executive colleagues, who have found themselves working under an increasingly lean regime with an exacting and professional ethos to sustain. I am most appreciative.

John R Aspden
Chief Executive and Commissioner
Global economic growth has improved overall in the last year, particularly in emerging economies. The euro-zone in particular is suffering significant financial uncertainty, with Greece, Ireland and Portugal especially vulnerable. Some 70-80% of these countries’ debt is held by foreign investors. Whilst Britain is outside the euro, UK banks are exposed to France and Germany, whose banking systems have greatest exposure to the most vulnerable euro economies. It is expected that the forthcoming stricter Basel III capital and liquidity requirements, and proposed ring-fencing measures, will enhance stability in banking groups and help reduce the systemic risks that impact on wider economies.

Global economic growth has improved overall in the last year, particularly in emerging economies. In the UK, GDP was slightly positive in the first three quarters, but tumbled to -0.6% at the year-end. The USA fared slightly better, finishing the year at a positive 3.1%, which is similar to the UN’s estimate for world growth for 2011. The IMF had projected an
increase in global output of over 4% in 2010, but in general growth remains uneven and focussed on the emerging markets. In addition, there has been a significant weakening in the fiscal positions of advanced economies over the last three years, half of which are envisaged to have debt levels of at least 75% of GDP by the end of this year, compared to less than a quarter before 2008.

The strengthening of emerging economies during the period has been reflected in corresponding capital flows from more advanced economies, and also evidences attempts to benefit from interest and exchange rate movements, as interest rates remain low in advanced countries. However, whilst large capital inflows to less developed economies are generally considered beneficial, concerns exist that excessive inflows may lead to overheating and even to destabilising asset price bubbles.

Within advanced economies capital has tended to move from higherrisk equities to less risky assets, but there have also been increasing investments into corporate debt by those seeking higher yields. Gold, the traditional safe haven, remained popular and rose steadily in value from $1100 to $1400 during 2010, and to over $1500 by May 2011.

Although Britain’s economy is less exposed to emerging economies than some, concerns exist regarding property prices and bond markets in the Far East to which UK banks do have some exposure.

In some areas, such as the Middle East and North Africa, geopolitical risks in early 2011 have led to rapidly rising oil prices. Whilst oil rose from $80 to $95 per barrel (Brent crude) during 2010, it has since risen to over $120, due principally to continuing political crises in these countries. The impact of the natural disaster (earthquake and tsunami) in Japan in March 2011, which has affected car production in the UK and USA, may impact upon world economies for some time.

Globally, financial markets have been more positive in the last two quarters than in the preceding year, due to a cautiously positive global economic climate and a re-emergence of a low appetite for risk. Liquidity is healthier than it was a year ago, as have been commodity and stock markets which generally rose steadily, particularly in developing economies. In more advanced economies there is a trend towards widening CDS spreads amongst both sovereigns and banks, notably in euro territories. For example, Greek sovereign CDS spreads rose dramatically during the year: from 3% to 10% and spreads for Ireland, Portugal and Spain were all above 3% by January 2011, with Italy and Belgium not far behind.

In the UK, the bank rate remains at its historically low level of 0.5%. However, there are still fears of future rising interest rates which could expose banks that have lent to over-extended borrowers. Finance for larger companies is still readily available in the UK, but smaller firms and private borrowers are sometimes struggling to find credit and there is concern that it is only the fact of low interest rates which has enabled many companies to avoid default so far. Some 30% of UK banks’ corporate lending is in respect of commercial property, with up to 70% of loans that were due to mature in 2010 being rolled over. However, future roll-overs may be less likely if economic conditions worsen and property values fall. House prices in the UK fell by 0.3% in 2010 and are now around 14% below their October 2007 peak.

In the USA, by comparison, real-estate values are the major concern - as voiced by the IMF - as the large numbers of forced sales and repossessions serve to continue the current depressed state of the housing market. Approximately 28% of households are reported as in negative equity and increasing numbers are subject to foreclosure, in contrast to the UK where negative equity levels remain negligible. Additionally, nearly half of US commercial real estate mortgages maturing between 2010 and 2014 are reported as currently being in a state of negative equity.

Deposits with UK banks increased in late 2010, despite interest rates being significantly lower than at pre-crisis levels. With inflation in the UK now running some 1% higher than a year ago real interest rates are generally negative. Partly as a result of this, in Autumn 2010, most new retail deposits were for more than a year - five times the proportion of late 2008 - as savers sought the higher rates that were available for longer-term deposits. Payment systems and the general financial infrastructure seem to have been unaffected by the financial crisis, with negligible fluctuations in the volume and value of payments transacted through CHAPS and other payments systems.

In terms of equities, the UK stock market performed better than most in the developed world in 2010, with the FTSE 100 11% higher than at the start of the year (at 6,000) and the FTSE 250 up 23% to

11,700. The Dow Jones index also rose through most of 2010, although the Nikkei finished the year a little lower than it began. Yields on Government bonds in the major advanced economies have increased recently, but still remain very low in historical terms.

Exchange rates have shown less volatility in 2010, with sterling down slightly from $1.61 to $1.55 and level against the euro at 1.17. The euro/dollar rate moved from $1.44 to $1.33 during the period.
Isle of Man economy

In the last two decades the Isle of Man has enjoyed an enviable combination of high growth, stable prices and full employment, but the recent global crisis has inevitably derailed it from its previous growth path.

Nevertheless, the Isle of Man is now in its 28th consecutive year of economic growth, the period since the mid-90s having seen a particularly impressive performance with real growth averaging almost 7% per annum. Although the rate of growth has slowed recently the economy is still expanding at an estimated 5% per annum.

The key primary sectors in generating this performance over the last two decades have been financial and professional services. Despite continuous diversification of the Island’s economic base, financial services activity together still accounts for the largest single sector contribution. Banking generates around one-sixth of the Island’s gross domestic product, with the rest of the finance industry producing a similar total. One of Government’s key objectives is to diversify its economic base so as not to become too dependent on the finance sector. As a result there are now greater contributions being recorded in areas as varied as film production, professional services, e-business and the space industry.

The Island’s direct tax system sees a standard zero rate of tax on company profits, with the exceptions of deposit-taking and land and property income from Isle of Man sources where the rate is 10%.

The Isle of Man Treasury is predicting that 2011/12 will see continued growth in GDP in the local economy.

The standard rate of personal income tax is 10% and the higher rate of personal income tax is 20%. The maximum individual tax liability stands at £115,000 on personal incomes.

The Island has continued to receive AAA credit ratings from both Moodys and Standard & Poors, indicating that plans for handling the public finances are considered satisfactory. The ratings have also no doubt been influenced by the Island’s established, and self-imposed, legislative requirement that Government must not budget for a deficit in respect of its annual revenue spending. Government actions in reducing spending have already allowed for amended plans to have to tap into reserves.

Unemployment fell over the course of 2010 and as at April 2011 the Island’s unemployment rate was 2%. What job losses there have been in the past year have occurred principally in the construction and retail sectors, with the primary, export-earning sectors of the economy relatively unaffected in net terms.

Employment costs on the Island have generally been contained in the last year. The latest figure, from the Treasury’s 2010 Earnings Survey, showed that average earnings from employment had increased by 3.4% over the 12 months to June (compared with a rise in the cost of living over the same time period of 5.3%, as measured by the RPI). Private sector wage settlements continue to be modest, whilst the public sector is in the second of a two year freeze on the pay vote. As a help to employers, the Isle of Man Treasury has chosen not to follow the UK in increasing the rate of employers’ national insurance contributions by 1%.

The Island’s inflation rate as measured by the Retail Price Index stands at 6.7% (March 2011) and at 6.6% under the Consumer Price Index. Both measures have shown increases every month since August 2010, with energy costs and related expenditures the most culpable item, but with above average increases also in categories including food and drink. The Island under its Customs and Excise Agreement with the United Kingdom is obliged to follow changes in UK VAT and excise duties. Accordingly another factor, estimated at having added around 1.5% to RPI, has been that of the impact of the changes to VAT to 20% since 4 January 2011.

The Island is heavily reliant on the United Kingdom for its imports of consumer goods, so if expectations of falling inflation for the UK later in 2011 and into 2012 are borne out then we can anticipate the same trend for the Island. Global commodity prices will continue to be key.

After losing ground in 2009/2010, property prices on the Island have since recovered, although activity in the property market remains relatively subdued.

Global economic recovery, and in particular in the UK, can only benefit the Isle of Man’s open, export-orientated economy. With one or two exceptions the Island’s primary sectors have continued to perform well and are ready to take full advantage of any upturn. Also ‘new’ sectors of activity such as in e-gaming, data hosting and aircraft registration have added substantially to the Island’s employment and national income over the recent years and these too are positioned for further growth.

There are several, prospectively serious, destabilising scenarios still troubling financial markets, not least those concerning sovereign debt levels in the Eurozone, so any growth expectations come, naturally, with attendant caveats. But the Isle of Man Treasury is predicting that 2011/12 will see continued growth in GDP in the local economy.
Market statistics

Bank deposits

Deposits (net of local inter-bank placings) with Isle of Man deposit taking licenceholders (“banks”), including those held with overseas branches of Isle of Man incorporated banks totalled £59.53bn as at 31 March 2011, consisting of £37.49bn sterling deposits and £22.04bn non-sterling deposits. Of the £59.53bn, £11.40bn relates to deposits held with overseas branches of Isle of Man incorporated banks.

Distribution of locally incorporated banks by risk asset ratio

The capital adequacy of Isle of Man incorporated banks is measured on a risk-weighted basis in accordance with international standards. The higher the ratio, the greater is the level of adequacy. The statutory minimum risk asset ratio is 8%.

Of the 19 locally incorporated banks four had actual risk asset ratios between 10% and 15%, seven had risk asset ratios between 15% and 20% and eight had risk asset ratios above 20%. All figures are at the end of March 2011.

Assets and liabilities of licensed banks (£ billion)

<table>
<thead>
<tr>
<th>Assets</th>
<th>At 31 March 2011</th>
<th>At 31 March 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money market assets, due from banks and building societies</td>
<td>53.8</td>
<td>55.8</td>
</tr>
<tr>
<td>Loans, advances and assets leased**</td>
<td>9.9</td>
<td>11.3</td>
</tr>
<tr>
<td>Investments</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Other assets</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>Total assets</td>
<td>64.4</td>
<td>67.8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>At 31 March 2011</th>
<th>At 31 March 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposits due to banks and building societies</td>
<td>10.5</td>
<td>12.2</td>
</tr>
<tr>
<td>Deposits due to customers</td>
<td>50.5</td>
<td>51.8</td>
</tr>
<tr>
<td>Other deposits (held as security and interest payable) including deposits due to public sector bodies</td>
<td>0.3</td>
<td>0.7</td>
</tr>
<tr>
<td>Sub Total</td>
<td>61.3***</td>
<td>-</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>0.6</td>
<td>0.6</td>
</tr>
<tr>
<td>Capital and reserves</td>
<td>2.5</td>
<td>2.5</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>64.4</td>
<td>67.8</td>
</tr>
</tbody>
</table>

** At 31 March 2011, 62% of loans, advances and assets leased were classified as being secured on residential property (31 March 2010: 52%).
*** £61.3bn includes deposits/loans received from other Isle of Man banks of £1.77bn.

Geographical source of non-bank deposits

<table>
<thead>
<tr>
<th>Country</th>
<th>31 March 2011</th>
<th>31 March 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Isle of Man</td>
<td>28%</td>
<td>29%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>36%</td>
<td>34%</td>
</tr>
<tr>
<td>European Union (excluding UK)</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>Europe (non EU)</td>
<td>8%</td>
<td>9%</td>
</tr>
<tr>
<td>Middle and Far East</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>North America</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Other</td>
<td>11%</td>
<td>11%</td>
</tr>
</tbody>
</table>

Ultimate country of origin of banking and building society groups* operating in the Isle of Man

<table>
<thead>
<tr>
<th>Country</th>
<th>At 31 March 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>Subsidiaries</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>17</td>
</tr>
<tr>
<td>Ireland</td>
<td>4</td>
</tr>
<tr>
<td>Spain</td>
<td>3</td>
</tr>
<tr>
<td>South Africa</td>
<td>2</td>
</tr>
<tr>
<td>Switzerland</td>
<td>1</td>
</tr>
<tr>
<td>Cayman Islands</td>
<td>1</td>
</tr>
<tr>
<td>USA</td>
<td>1</td>
</tr>
<tr>
<td><strong>Sub total</strong></td>
<td><strong>32</strong></td>
</tr>
<tr>
<td><strong>Isle of Man</strong></td>
<td><strong>1</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>33</strong></td>
</tr>
</tbody>
</table>

* Excluding Kaupthing Singer & Friedlander (Isle of Man) Limited – in liquidation

Deposits (including inter-IoM banks) March 2011

- 40% Corporate/trust /fiduciary deposits
- 38% Retail deposits
- 14% Group deposits
- 7% Other bank deposits
- 1% Other deposits
Collective Investment Schemes

There has been a reduction of c.$4.5billion in both net asset value and gross asset value of funds under management/administration over the year. This has been contributed to primarily by continued tough trading for the Island’s Alternative Asset funds, whereby inter alia leverage, commercial property, credit squeeze and liquidity issues continued to affect recovery. Asset classes in more traditional assets, for example equities, have generally seen positive performance and net in-flows. The asset value of Qualifying Funds and Legacy EIFs increased during the year and the number of Isle of Man Funds also increased.

During 2010 the Regulated Fund product was introduced and two new funds were launched. This type of fund is aimed at retail investors or markets requiring a fiduciary depositary. The Full International Scheme has been superseded by the Regulated Fund; therefore, no new International Schemes are being established but existing funds may continue.

Sectoral breakdown of Isle of Man Funds by value as at 31 March 2011

<table>
<thead>
<tr>
<th>Category of Collective Investment Scheme</th>
<th>Number of schemes</th>
<th>Gross asset value of funds under management/administration $million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authorised Schemes</td>
<td>7</td>
<td>1,084</td>
</tr>
<tr>
<td>Full International Schemes</td>
<td>13</td>
<td>1,293</td>
</tr>
<tr>
<td>Regulated Funds</td>
<td>2</td>
<td>37</td>
</tr>
<tr>
<td>Professional Investor Funds</td>
<td>3</td>
<td>41</td>
</tr>
<tr>
<td>Specialist Funds</td>
<td>22</td>
<td>626</td>
</tr>
<tr>
<td>Qualifying Funds</td>
<td>13</td>
<td>900</td>
</tr>
<tr>
<td>Experienced Investor Funds -</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Qualifying Experienced Investor Funds</td>
<td>9</td>
<td>1,252</td>
</tr>
<tr>
<td>• Legacy Experienced Investor Funds</td>
<td>20</td>
<td>2,024</td>
</tr>
<tr>
<td>• Closed Experienced Investor Funds</td>
<td>20</td>
<td>335</td>
</tr>
<tr>
<td>Exempt Schemes</td>
<td>193</td>
<td>7,470</td>
</tr>
<tr>
<td>Sub total</td>
<td>302</td>
<td>15,062</td>
</tr>
<tr>
<td>Overseas Funds</td>
<td>108</td>
<td>8,636</td>
</tr>
<tr>
<td>Closed ended investment companies*</td>
<td>46</td>
<td>11,608</td>
</tr>
<tr>
<td>Total</td>
<td>456</td>
<td>35,306</td>
</tr>
</tbody>
</table>

The figures in this table show all funds except those that are managed/administered under an inward outsourcing agreement. The total funds managed or administered in the Isle of Man is $37.4billion.

*statistics are only collected in relation to services provided to CEICs that are listed vehicles or with a minimum NAV of US$50 million.
The Isle of Man has strong international business and regulatory relationships.
The Commission is an independent Statutory Board established under the Financial Supervision Commission Order 1983. The Commission has in its previous Reports described how it operates: except as described in this Report, this modus operandi remained broadly in place during the period.

A key principle inherent in all of the international standards applicable to regulatory bodies relates to independence. This is to ensure that regulators can take the necessary decisions in fulfilment of their functions, independently. It also means that they can equip themselves with the necessary tools to carry out their role effectively. It is then for the regulator to be fully accountable for the decisions which it takes and in how it uses its resources.

**Organisation of the Commission**

The functions of the Commission are set out in Appendix A. The membership of the Board is set out in Appendix B.

Appointments to the Board of the Commission are approved by Tynwald. Commissioners are appointed for a five year term. During the year there were no changes to the membership of the Board.

The organisation of the Commission remained the same during the year (see page 42). However after the previous year end, on 1 April 2010, Companies Registry moved from the Commission to the Department of Economic Development.
The Commission's statutory objectives are to:

- secure an appropriate degree of protection for the customers of persons carrying on a regulated activity,
- reduce financial crime, and
- support the Island's economy and its development as an international financial centre.

These objectives are supported by the following matters to which the Commission must have regard when discharging its functions:

- the need for the regulatory, supervisory and registration regimes to be effective, responsible to commercial developments and proportionate to the benefits which are expected to result from the imposition of any regulatory burden
- the need to use its resources in the most efficient and economic way
- the desirability of implementing and applying recognised international standards
- the desirability of co-operating with governments, regulators and others outside the Island
- the need to safeguard the reputation of the Island
- the responsibilities of those who manage the affairs of permitted persons
- the international character of financial services and markets and the desirability of maintaining the competitive position of the Island, and
- the desirability of facilitating the development of the financial services industry.

On a day-to-day basis we have adopted three key messages which underpin the work we do. These are:

- Risk mitigation
- International recognition
- Economic development

The full Board meets monthly. In addition a quorum (comprising a minimum of three persons) of the Board meets monthly to consider licensing matters. The following meetings were held during the period:

Meetings of the Financial Supervision Commission 12
Meetings of the Licence Application Committee 11

There are three sub-committees of the Board: the Risk and Internal Control Committee, the Remuneration Committee and the Complaints Committee (to provide a review body for complaints made against the Commission and initially dealt with by the Chief Executive). The following meetings of these committees were held:

Meetings of the Risk and Internal Control Committee 3
Meetings of the Remuneration Committee 3

There were no meetings of the Complaints Committee as described above, during the period.

A range of policy, risk, case and operational matters were discussed by the Board during its monthly meetings. Other topics included (in no particular order):

- Regional banking situations and their potential impact on the Island
- EU stability issues
- AML/CFT developments
- Regular reviews of progress with implementing recommendations following the IMF review
- Increased liaison and co-operation with other regulators
- The establishment and work of the Funds Development Group, and related funds matters
- Evidence submitted to and appearance at the Select Committee on KSFIOM, recommendations arising and changes adopted
- Report of the Special Investigations Commission on Iceland
- Exercise of the Commission’s powers in respect of remediation, and the process of escalating action to protect investors/consumers as situations become more serious
- EU Alternative Investment Fund Managers Directive
- Group of International Financial Centre Supervisors (previously known as the OGBO)
- Licenceholders that have surrendered their licences where business plans do not materialise
- Fees: the bi-annual review of fees, but a need also to be more innovative in bringing revenue into line with the cost of supervision
- Wider use of civil penalties
- The introduction by Government of a new DCS
- The current review of the Basel Core Principles being undertaken in response to the global financial crisis.

Under Schedule 1 of the Financial Services Act 2008 the Commission is required to submit to Treasury a Report on its proceedings and activities for the previous year, together with its accounts audited under the Audit Act 2006. This Report for 2010/11 is being submitted to Treasury in fulfilment of this obligation. Under the Financial Services Act 2008 the Report must also be laid before Tynwald.

The Commission’s Annual Report and Accounts for 2009/10 were laid before Tynwald in July 2010 in fulfilment of the requirement as set out in the Financial Services Act 2008.
Corporate governance and risk management

The Chief Executive of the Commission is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and for developing and operating internal controls to ensure that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.

In discharging this accountability and reporting to the Board, the Chief Executive and senior officers are required to put in place adequate arrangements for the governance of the Commission’s affairs and the stewardship of resources at its disposal. This is also embraced within the Isle of Man Government’s Corporate Governance Principles and Code of Conduct. The Commission is required to submit to Government an annual Statement of Internal Control covering implementation of these arrangements.

The Commission operates within an environment which includes appropriate controls such as the Government’s Financial Regulations, a framework of functions and responsibilities delegated to individual officers within detailed job descriptions, a staff handbook (including codes of conduct, etc) and an internal reporting mechanism through the Senior Management team to the Chief Executive and to the Board.

This sets the overall structure for internal control and the responsibilities of the Commissioners, Chief Executive, Directors, and Officers in regard to all matters, including such areas as the:

- accomplishment of established goals and objectives
- compliance with legislation and regulations, policies, plans and procedures
- reliability and integrity of management information
- economical and efficient use of all resources
- safeguarding of all assets.

Whilst responsibility and accountability for internal control is vested with the Chief Executive, the Treasury has a role for reviewing the adequacy of the Commission’s internal controls through a programme of internal audit work.

The Commission’s RICC has now completed its fifth full year of operation. The RICC has defined published terms of reference. Its role is to consider the adequacy of the control environment within the Commission. Matters covered by the RICC at its meetings during the period included:

- A meeting with the Commission’s External Auditors to consider any issues arising from the audit of the Commission’s Annual Report and Accounts for the year ending 31 March 2010 in advance of the Board’s consideration of the Audited Accounts.
- The Commission’s Statement of Internal Control for the year ended 31 March 2010 and arrangements for the preparation of the Commission’s Statement of Internal Control for the year ended 31 March 2011.
- Risk factors, including in the macro environment, affecting the Commission and how they can be mitigated as identified at Divisional level.
- Risks for the Isle of Man in relation to AML/CFT and the G20.
- Contingency planning for licenceholder failure and high-level risks facing the industry.
Activities under all of these headings are reported on throughout the Report.

In October representatives of the Board of the Commission met Board members of the Guernsey and Jersey Financial Services Commissions. These meetings are usually held annually and they provide a very useful opportunity to exchange views, discuss areas where a common approach can be adopted and learn from each others’ supervisory experiences.

In July the Commission held a briefing event for all licenceholders to update on developments in the financial sector and regulatory initiatives under consideration.

Consultation with industry is the main way in which the Commission discusses and seeks comments on regulatory proposals, and the Commission appreciates the time which licenceholders and practitioners set aside to make sure this process works effectively.

In conducting its work and communicating with stakeholders the Commission met regularly (usually quarterly) with the following industry representatives and practitioners:

- Accountancy and Isle of Man Law Society representatives
- Association of Corporate Service Providers
- Financial Planners & Insurance Brokers Association
- Funds Development Group
- Isle of Man Bankers Association.

The Select Committee of Tynwald on Kaupthing Singer & Friedlander (IOM) Ltd has been gathering evidence as part of its investigation into the collapse of the bank. During the period the Commission submitted written evidence to the Committee. In addition, the Commission made a further appearance before the Committee to give oral evidence.

The Commission is a strong supporter of the Small Countries Financial Management Programme, which promotes sustainable development of small economies and their effective integration into the global economy.

Complaints against the Commission

Most of the decisions taken by the Commission in the course of exercising its regulatory functions are subject to review in accordance with the Tribunals Act 2006, if the affected person so requests. This is an important safeguard for licenceholders, and at the same time ensures that the Commission must be ready to justify its actions and be accountable on the procedures which it has followed.

Sometimes a person may wish to lodge a formal complaint about the Commission and how it has handled a matter. The Commission has published its procedures for dealing with complaints made against it, on its website. In short this provides for a review of the matter and response by the Chief Executive. If the complainant is still dissatisfied, then he or she may seek a further review by the Board of the Commission.

During the period there was one complaint made against the Commission. No complaints were outstanding at the end of the period.
This Annual Report describes how the Commission delivered under the business plan set for the period 2010/11.

In preparing the Commission’s business plan for 2011/12 three overarching disciplines were identified to govern the manner in which the Commission aims to deliver under its formal objectives.

- an appropriate ethos and culture for operating as a professional regulator
- the most efficient and productive way to conduct and manage the business
- the need to communicate effectively with the different stakeholders involved.

The Commission’s business plan for 2011/12 has been established under the Commission’s regulatory objectives.

**Objective : Secure an appropriate degree of protection for customers of persons carrying on a regulated activity**

- review and update the Rule Book and related FSA08 secondary legislation
- Civil Penalties, and the potential wider use of fines
- the extent to which mortgage business should be subject to special requirements
- how the principles of the UK’s Retail Distribution Review should be adopted on the Island
- a review of the large intragroup exposures policies applicable to banks
- the implementation of Basel III capital requirements (in conjunction with relevant home and sister host regulators), and appropriate changes to liquidity requirements.

**Objective: Reduce Financial Crime**

- adopt and implement the AML/CFT recommendations identified by the IMF
- monitor international AML/CFT standards and update guidance as required
- issue sectoral-specific AML/CFT guidance for the industry.

**Objective : Support the Island’s economy and its development as an international financial centre**

- consider an appropriate regulatory response to the AIMFD
- implementation of appropriate auditor oversight arrangements for EU equivalence purposes
- draw up an effective strategy for communicating with stakeholders, including product awareness for consumers
- reduction of the compliance burden for lower-impact licenceholders
- publication of additional statistical information.

Although not a statutory objective, to maximise efficiency and ensure the most productive use of resources the following key objectives were also identified:

- consultation on the method of charging licence fees
- enhance efficiency and productivity, in particular through the Lean process, and adopt any necessary change in the Commission’s organisational structure
- update and refresh the Commission’s website
- implement SharePoint (see page 39)
- introduce an online Reporting System for Collective Investment Schemes
- as appropriate introduce new technology and systems or make changes to existing systems to support efficiency initiatives under the Lean process
- review the Pay and Performance Management Framework
- review offsite storage requirements.
The guiding principles for the Commission’s regulatory approach continue to be those set internationally. If the Island is to continue to attract reputable institutions and enjoy market access overseas, then these are the standards against which it will be judged.

Authorisations

The Commission has sought to display a positive and welcoming, open-for-business approach to new business proposals wherever they meet the Commission’s criteria. Central to this is the need to protect the Island’s reputation.

The Authorisations function of the Commission is the point of entry for business to the Island’s financial services sector. It is also the stage at which the regulator can have an important influence on the quality of business accepted. If inadequate standards are applied it leaves open the possibility for subsequent problems. It is usually easier to set down the ground rules at the outset than to try to remedy problems later.

The Commission publishes a licensing policy so that everyone can be fully informed on its expectations, and be guided on what licence permissions are available and how an application should be framed. It is important that prospective applicants should consult this guidance because the more complete an application is when it is received, the speedier it can be processed.

The Commission is very willing to talk applicants through the licensing procedure. The following is an outline of the process:

Licensing Process

In order to demonstrate a more business-like approach to licence considerations, the Commission has significantly streamlined the stages described by adopting a Lean approach to the application process. This has included a reduction in the number of forms which are used.

When a recommendation on an application has been drafted, it is considered by an internal committee which conducts a preliminary review of what is proposed. Importantly the committee will include members of Supervision Division as this will be the area which takes over with day-to-day supervision once any licence is granted. By way of guidance some of the key challenges with applications which arose during the period were:

- lack of competency of staff proposed for key roles
- the meeting of the full licensing criteria as set out in the licensing policy
- failure to inject sufficient financial resources in order to demonstrate ongoing compliance with the solvency requirements.
Supervision

Supervision sits at the core of the Commission’s functions. Its work has the central aim of protecting customers of licensed entities. However although the Commission has this important supervisory function, it is vital that at all times consumers should take responsibility for their own decisions.

There is the general principle that the greater the reward, the greater is the potential risk. This applies whether one is addressing interest rates offered on deposits or performance returns claimed for equities or collective investment schemes.

Similarly, persons using company or trust structures need to be aware that they are placing their assets into separate legal arrangements which have independent status and are administered as such. Beneficial owners and settlors must appreciate the full implications of ceding a significant element of control over their assets in this way.

The purpose of supervision and the implementation of prudential requirements is intended substantially to reduce but not eliminate the risk of failure. The Commission does not manage the businesses which it supervises on a day-to-day basis, nor is it a lender of last resort. So it should be understood that businesses may ultimately fail and it is possible that consumers may lose money.

Although the Commission does not have a statutory role in consumer education, it has amended its website to draw attention to some of these risks and how to guard against them. It will continue to publish guidance designed to enhance consumer awareness where appropriate.

Licenceholders by category

The final recommendation on the application which goes to the Board of the Commission for consideration will be copied to the applicant at least 14 days ahead of the hearing. The applicant may attend the hearing itself to make any representation.

The Board members sitting on the licensing committee will not have had any previous involvement with the application, so they will be able to form a fresh and objective view. If an applicant is not is satisfied with the decision of the Commission, an application for review can be made to the Financial Services Tribunal.

<table>
<thead>
<tr>
<th>Regulated Activity</th>
<th>As at 31 March</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class 1 - Deposit Taking</td>
<td>34</td>
</tr>
<tr>
<td>Class 2 - Investment Business</td>
<td>73</td>
</tr>
<tr>
<td>Class 3 - Services to Collective</td>
<td>74</td>
</tr>
<tr>
<td>Class 4 - Corporate Services</td>
<td>192</td>
</tr>
<tr>
<td>Class 5 - Trust Services</td>
<td>131</td>
</tr>
<tr>
<td>Class 6 - E-Money</td>
<td>0</td>
</tr>
<tr>
<td>Class 8 - Money Transmission Services</td>
<td>3</td>
</tr>
</tbody>
</table>

Applications are processed within a three month period if the requested information is provided in a timely manner. The period needed for vetting conducted via third parties still takes the most time. The period can be shortened if the persons involved are already undertaking regulated activity in the Isle of Man.

Of the 679 individuals vetted, 120 were in relation to individuals providing financial advice.

The Commission has in place an arrangement whereby persons who make a licence application, or licenceholders who receive an on-site visit from the Commission, are invited after the exercise to complete a feedback questionnaire on how they feel the Commission performed. The Commission received approximately a 50% response rate with these questionnaires, and has recently introduced an online response option for recipients of on-site visits to facilitate the process. The responses indicated a high level of satisfaction.
Supervisory approach

The Commission publishes its supervisory approach. This goes into detail about the nature and intensity of supervision which is carried out. These will vary according to the Commission’s perception of the risks attached to each business and wider economic and financial stability issues.

The supervisory process includes a combination of the following:

- receipt of prudential returns
- the use of both general and themed questionnaires to simplify the collection of particular information
- on-site visits, with follow-up action plans
- formal and informal discussions with management.

On-site AML/CFT oversight represents a constant theme within the supervisory process.

The following chart illustrates how the different stages of supervisory process interact:

![Supervisory Process Diagram]

The nature of supervisory work is that the Commission reviews both data sent to it as well as information gleaned from on-site visits to licenceholders’ premises. Its role is then to comment objectively with its findings. This will include suggestions for improvement. There may be shortcomings observed and remedial action required. All these are set down within timeframes for completion. Frequently there will be follow-up visits to validate the remediation work.

Licenceholders have in the past suggested that the Commission should also comment positively where good practice exists. However since the Commission’s visits take a snapshot view of only a sample of activities, it could be misleading to do this.

During the period the Commission continued with its series of occasional workshop briefings to give feedback to licenceholders on the findings of visits. These have been very positively received.

A new Lean supervisory visit process was introduced to streamline the visit and report process. This has reduced the average time taken to prepare for, conduct, and conclude an on-site visit from 13 to 11 man-days and accelerated the production of visit reports. This is hopefully for the benefit of all parties involved.

Risk and compliance

In September 2010 the Commission issued guidance on Corporate Governance for licenceholders. The previous guidance that had been issued to banks (which is also relevant to larger non-bank licenceholders) was updated.

Separate guidance was issued for smaller licenceholders recognising the structures within which they operate, and building up from an owner-manager model which is simpler to apply to a small business than the traditional “comply or explain” approach.

The Commission’s website now has a compliance support section to help licenceholders, particularly smaller licenceholders, comply with their regulatory requirements. This includes template registers for breaches, complaints and conflicts of interest.

The licenceholder database which supports the supervisory functions was updated to reflect changes in the law and supervisory practice.

The updated Supervisory Approach was published in April 2011. The principal changes since 2009 were to reflect greater emphasis on preventative work and the increased use of questionnaires.

Two types of questionnaire have been introduced. In 2010 the existing process of collection of data before conducting a visit was expanded by the fiduciary team with the use of a more detailed questionnaire, with follow-up visits to approximately half the firms (see page 22).

In April 2011 the use of questionnaires was extended when the Commission issued its first online themed questionnaire to 30 licenceholders. The first topic selected was the management of recruitment risk (an AML/CFT requirement). There will be follow-up meetings where there are particularly good or poor practices identified. Industry feedback will be provided.

The handling of complaints by licenceholders was reviewed during the year. New guidance on customer complaints and an FAQ document for potential whistleblowers were published in July 2010. The handling of complaints about non-bank licenceholders was centralised.

The Commission has a range of powers, subject to review, to achieve compliance where necessary. Normally institutions will respond promptly and effectively to recommendations for change.

However sometimes lapses of compliance may recur and even breaches may arise. In this case the Commission needs to have a suite of escalating action to ensure the situation is addressed. These are described in further detail on page 30.
The following table sets out the remedial and other actions taken during the period:

<table>
<thead>
<tr>
<th>Year Ended 31 March</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total breaches</td>
<td>410</td>
<td>521</td>
</tr>
<tr>
<td>Directions</td>
<td>48</td>
<td>88</td>
</tr>
<tr>
<td>Civil Penalties</td>
<td>41</td>
<td>32</td>
</tr>
<tr>
<td>Section 11 warning notices</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Licences suspended or revoked</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

**Banking**

The following table outlines the number of visits to, and meetings with, banking groups.

<table>
<thead>
<tr>
<th>Visits to and meetings with banks</th>
<th>Compliance</th>
<th>Period</th>
<th>Annual Business Meeting</th>
<th></th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Supervisory</td>
<td></td>
<td></td>
<td>Focus</td>
<td></td>
</tr>
<tr>
<td>Actual for Year ended 31 March 2011</td>
<td>0</td>
<td>12</td>
<td>34</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Planned Visits for Year Ended 31 March 2011</td>
<td>0</td>
<td>13</td>
<td>37</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actual for Year ended 31 March 2010</td>
<td>0</td>
<td>23</td>
<td>51</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The Commission’s supervisory work with banking groups has covered the following key areas:

**Liquidity/Treasury Management**

Visits were undertaken on banks incorporated in the Isle of Man where liquidity and treasury functions are managed locally or as part of an integrated offshore banking group. Reviews focused on:

- the adequacy of, and compliance with, liquidity/treasury policies
- liquidity contingency plans (including stress testing)
- governance arrangements
- management information systems and reporting
- counterparty arrangements, limits and concentrations
- dealing authorities and segregation
- products and pricing, including treasury services
- compliance/audit/risk oversight
- behavioural adjustments to deposits where those were in place.

Feedback to the banking sector from these themed visits is due to be issued during 2011.

**Credit risk**

Visits were undertaken on banks who conducted material lending business. Reviews particularly focused on how banks identify and manage problem and deteriorating loans. The work included reviewing the following areas:

- adequacy of, and compliance with, credit risk policies and procedures (focused on arrears, provisioning and debt recovery)
- governance arrangements
- management information systems and reporting (including loan grading systems, trigger mechanisms and limit monitoring)
- monitoring of collateral values
- interest only facilities/use of interest roll-up
- compliance/audit/risk oversight
- the structure of the credit function.

Feedback to the banking sector from these themed visits will be issued during 2011. Some changes to the information that the Commission receives from banks in the (quarterly) prudential returns may be made as a result of the visits.
Policy and practice: large exposures and liquidity

The banking model for a number of banks on the Island involves the raising of deposits and the lending of funds, or funds surplus to local lending requirements, to a central group treasury for management and wider deployment from the centre. This has in the past proved to be a prudent policy, leaving banks here with a largely money-market profile on the asset side of their balance sheets, albeit of a ‘connected’ nature.

However events during the recent market turbulence exposed how this policy can in extremis leave a bank vulnerable to a single group counterparty. The IMF’s previous FSAP report also indicated a need to review the Commission’s large intra-group exposures policy.

During the period the Commission took the following steps to address the situation:

- Issuing updated guidance on liquidity to banks (April 2010) covering changes to behavioural adjustments to deposits, requirements for stress testing to be undertaken and strengthening contingency arrangements. A review of the adequacy of banks’ liquidity policies (including contingency plans) was undertaken either as part of on-site themed work or through desk-top reviews. The Commission reverted with comments for a strengthening of policies where necessary.
- Discussions were held with parent regulators on how group liquidity is supervised, and how it can be allocated for branch and subsidiary operations. This continues into 2011 and will be a key part of our further work on intra-group exposures.
- There was a trend for some banks with particular home-country challenges to move a substantial portion of their assets into high-quality, independent liquid assets.
- A consultation document on large intra-group exposures was issued in January 2011 (closed March 2011) to banks. A limitation on intra-group exposures also indirectly creates a requirement for relevant banks to increase their holding of independent assets, and thus enhance their independently-held liquidity. The issue of this consultation document gave banks an early opportunity to understand the way in which the Commission’s policy is evolving. Comments on the paper were received by the end of the period and a final policy will shortly be announced (including after discussion with the other Crown Dependencies where some Isle of Man banks have group operations). Changes to rules and guidance are expected to be implemented from January 2012.
- the sale of Irish Nationwide (IOM) and Anglo Irish Bank (International) to Irish Permanent and Allied Irish Banks respectively
- the announcement by Close Brothers to dispose of its offshore operations, including Close Bank (Isle of Man)

Work on some of the above will continue during 2011.

Regulatory information and public information

During the year we have taken steps to make more information available on our website. This has included issuing “frequently asked questions” relating to banks, and a new quarterly statistical bulletin. These areas can be further developed as we improve our data capture of information provided by banks.

Looking ahead to 2011/2012 the following initiatives are planned:

Policy and practice

Work will continue on implementing changes to the regulatory regime in respect of large exposures and liquidity. In addition to the changes expected in respect of intra-group exposures, work is being undertaken on reviewing other types of large exposure that are allowed to exceed more than 25% of a bank’s capital.

The international proposals for liquidity (Basel III) will also continue to be monitored and we will be working alongside our counterparts in the Channel Islands in relation to any changes in policy that may ultimately be needed. This also extends to the Basel III proposals in relation to capital requirements for banks. In the interim period we expect to refresh our guidance on expectations of banks’ own assessments of their capital needs through the ICAAP methodology.

Themed Visits

Our core visit themes, in addition to completing any remaining credit and liquidity visits as described earlier, are:

-AML/CFT
- corporate governance arrangements within incorporated banks (guidance was issued in September 2010)
- complaints handling, focusing on those banks with larger retail customer bases
- how banks have implemented behavioural adjustments to deposits (for those banks where such adjustments were agreed in 2010).

Integration and restructuring

A significant amount of time has been taken up in dealing with the restructuring, integration and sale of banking groups. This work involves ensuring the relevant notification requirements are adhered to, liaising with banks, other regulatory authorities and legal firms, and ensuring customer communication is dealt with as smoothly as possible.

Examples dealt with during the year include:

- the integration and transfer of business between Bank of Scotland entities and Lloyds TSB Offshore
- the integration of the Santander Group operations in the Island
- the closure of Irish Permanent’s deposit business in the Island
- the sale of Irish Nationwide (IOM) and Anglo Irish Bank (International) to Irish Permanent and Allied Irish Banks respectively
- the announcement by Close Brothers to dispose of its offshore operations, including Close Bank (Isle of Man)

Work on some of the above will continue during 2011.
Fiduciary Services

This is an important area of activity and one which complements the wealth and asset management activities of many intermediaries. However the Commission is clear that it does not regard the promotion of aggressive tax planning and tax mitigation structures as a prudent business strategy for any licenceholder.

The following table outlines the number of visits to, and annual business meetings with, fiduciary companies and professional officers.

<table>
<thead>
<tr>
<th>Period</th>
<th>Annual Business Meeting</th>
<th>Supervisory</th>
<th>Focus</th>
<th>Professional Officers</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual for Year ended 31 March 2011</td>
<td>32</td>
<td>21</td>
<td>31</td>
<td>13</td>
<td>97</td>
</tr>
<tr>
<td>Planned Visits for Year Ended 31 March 2011</td>
<td>35</td>
<td>25</td>
<td>61</td>
<td>13</td>
<td>134</td>
</tr>
<tr>
<td>Actual for Year ended 31 March 2010</td>
<td>43</td>
<td>15</td>
<td>33</td>
<td>n/a</td>
<td>91</td>
</tr>
</tbody>
</table>

The visit plan for the period was reviewed because of the need to follow up on remedial action and longer-than-anticipated visits.

The visit programme consists of annual business meetings and supervisory visits for which the process remained unchanged and focus visits for which a new procedure was trialled.

The new process was implemented in June 2010 and involved the issuing of a themed questionnaire to all licenceholders scheduled for a focus visit.

This questionnaire asks the licenceholders for detailed information on areas such as the client base, their risk-based approach, ongoing monitoring, corporate governance and maintenance of registers. The questionnaire is also evidence-based as licenceholders are required to provide specific documentary evidence in support of regulatory compliance, as part of their response.

The responses to these questionnaires, including the supporting documentation, are used to update the Commission’s records and the internal risk assessment of each licenceholder. The responses assist the Commission in further understanding the licenceholder’s business.

Following a review of the response to the themed visit questionnaire, past examination history, risk rating and other relevant factors, licenceholders are selected for a visit. This is a one day on-site visit which is to focus on a review of the client files and to sample check against the data provided in response to the themed visit questionnaire. AML/CFT compliance is a priority. Approximately fifty percent of licenceholders who receive a themed visit questionnaire are selected for a visit. This is reflected in the figures above.

For those licenceholders who have completed a themed questionnaire but were not selected for a visit, any issues arising from the responses and documentation received are dealt with by correspondence and follow up meetings where required.

The intention behind this new procedure is to streamline the visit process and to devote the most effective and efficient use of the Commission’s resources to the important areas, whilst ensuring that regulatory oversight generally is maintained.

The fiduciary team also introduced a new programme of visits for professional officers and all professional officers received a visit within this visit year. Rule Book briefings were provided in December 2010 and January 2011 to assist these licenceholders in complying with Part 9 of the Rule Book which is specific to professional officers.

As part of its role to promote good corporate governance the Commission has enhanced its monitoring of public companies and closed-ended investment companies serviced by fiduciary licenceholders.

Public limited companies (Isle of Man incorporated and those incorporated elsewhere) are monitored through, inter alia, the Annual Compliance Returns, as are those with more than 50 shareholders, which are not public limited companies.

With regard to closed-ended investment companies requests for specific information were sent out to licenceholders after liaison with the ACSP.

The Commission made the submission of statistical information mandatory for all Class 4 licenceholders who provide administration services to closed-ended investment companies. The first return covered the quarter to December 2010.
The Commission provided detailed feedback on visit findings through biannual industry presentations in May 2010 (repeated July 2010 due to high level of demand) and January 2011 (repeated February 2011 also due to high level of demand) and regular liaison with the ACSP.

Following a request from industry, the Commission has issued Guidelines on Expected Practice for Trust Service Providers. This document was issued in October 2010 and can be accessed on our website. During the course of its supervisory visits to licenceholders the Commission identified themes and expected practice points, and therefore it issued the guidelines in relation to trust services to assist its licenceholders. They are general guidelines to provide information to licenceholders on the areas of trustee and trust administration services that the Commission may review during the course of a supervisory visit and the practices expected in those areas.

### Funds and Investment Services

#### Financial advisers

During the year a major theme of supervision of financial advisers related to the suitability of financial advice given to clients.

As part of this a separate vetting (and in some cases a re-vetting) of all financial advisers acting as “key persons” was undertaken and completed during the year.

Following amendments to the Rule Book which came into operation on 1 January 2011, the “Step by Step” guidance has been updated. All financial advisers were required to familiarise themselves with this document. This guidance is intended to provide assistance to relevant licenceholders in meeting the standards required by the Conduct of Business part of the Rule Books when providing protection, investment or pension advice to clients. The guidance highlights the documentation that needs to be collated and evidenced on files in order for licenceholders to demonstrate that they have acted within a compliant manner and with the clients’ best interests in mind.

The Commission also issued a guidance paper on Managed Accounts. The RDR being conducted in the UK on how retail investment products are distributed to clients potentially has important implications for the Island’s financial advisory sector. Although the Island does not automatically fall to be part of these arrangements, it is already evident that many advisers are planning to be RDR compliant.

In March 2011 an update was issued on the Commission’s current position on RDR. In essence this said that the Commission will be looking to reflect locally the proposed increase in professional standards, although no specific timeframe for implementation was set out at this stage. The question of whether, and if so how, the Commission will permit ‘grandfathering’ is also still under review.

Further work needs to be undertaken in respect of RDR and the Commission established a working party with the relevant professional and industry bodies. Any new rules or requirements resulting from this work will be the subject of wider consultation.

However one area which the Commission intends to address with effect from 1 January 2012, is that of mandatory commission disclosure. A requirement will be included in the next draft Rule Book and will be the subject of consultation during the Summer of 2011.

The following table outlines the number of visits to, and meetings with, investment businesses during the period:

<table>
<thead>
<tr>
<th>Period</th>
<th>Annual Business Meeting</th>
<th>Compliance</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actual for Year ended 31 March 2011</td>
<td>27</td>
<td>14 Supervisory 13 Focus</td>
<td>54</td>
</tr>
<tr>
<td>Planned Visits for Year Ended 31 March 2011</td>
<td>30</td>
<td>15 Supervisory 24 Focus</td>
<td>69</td>
</tr>
<tr>
<td>Actual for Year ended 31 March 2010</td>
<td>26</td>
<td>20 Supervisory 13 Focus</td>
<td>59</td>
</tr>
</tbody>
</table>

Note: The variation from planned investment business focus visits to actual can be attributed to a combination of factors. These include licence surrenders, firms not undertaking any relevant activity during the reporting period, application of the risk-based approach to visits, timing issues and rescheduling.
Over the last 18 months, the on-site visit programme to financial advisers has revealed a number of recurring themes. The following illustrates issues which sometimes arise:

- The suitability of financial advice which at times has fallen short of the expected standards.
- The need to document the consideration and risk assessment of investment products, in particular unregulated funds (or products that invest in underlying unregulated funds) and leveraged products and ensure that the particular risks posed by a product meet the risk profile of the client.
- The need to ensure that the risks of structured investment products are fully understood by financial advisers and any risks (including market risk, inflation risk and counterparty risk) are made sufficiently clear and disclosed to clients, together with the features of such products, such as capital guarantees and capital protection.
- The number of complaints made to the Commission has increased.
- Some advice given has been outwith licence permissions.
- Sometimes there has been a failure to demonstrate cost benefit analysis when switching products or favouring one product over another.

As part of the remediation action arising from visits, certain licenceholders have been required to appoint external independent compliance resources to undertake client file reviews and have had to bear the additional costs in bringing compliance expertise up to a level which can properly support the regulated activities. The Commission regards this as an essential cost of protecting the public.

The Commission is continuing to focus on suitability of advice in the coming year’s on-site visits together with pension transfers and AML/CFT.

### Fund Administrators and Managers

Visits to, and meetings with, fund managers and administrators are summarised in the following table.

<table>
<thead>
<tr>
<th>Period</th>
<th>Annual Business Meeting</th>
<th>Compliance</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Supervisory</td>
<td>Focus</td>
</tr>
<tr>
<td>Actual for year ended 31 March 2011</td>
<td>25</td>
<td>2</td>
<td>17</td>
</tr>
<tr>
<td>Planned Visits for year ended 31 March 2011</td>
<td>29</td>
<td>5</td>
<td>15</td>
</tr>
<tr>
<td>Actual for year ended 31 March 2010</td>
<td>29</td>
<td>15</td>
<td>8</td>
</tr>
</tbody>
</table>

A thematic review of the unit pricing/NAV process was undertaken on a number of fund managers and fund administrators. The review assessed the efficacy of procedures and controls in place surrounding the valuation and pricing process.

No significant issues were identified, other than in the case of suspended funds where historic valuations of underlying assets were being utilised for the purpose of fee accrual and payment when the actual valuations of the portfolio were wholly dislocated from such valuations. The Commission intends to examine the efficacy of this approach in detail.

Other visits continued to review such matters as compliance arrangements, corporate governance, risk management, clients’ monies and investments, conduct of business and AML/CFT.

From the Commission’s supervisory work it is apparent that a number of schemes are still in distress and dealings remain suspended. A variety of factors are at play but include difficulty in raising liquidity for redemptions, a fall in the value of investments due to their esoteric or alternative nature, and/or a difficulty in valuing illiquid assets.

Additionally, statistical analysis reveals certain sections of the Island’s fund industry contain a high degree of leverage with associated impact on fund performance and running costs.

The Commission has taken proactive steps to address the issues, in particular through insisting on adequate disclosure of relevant information to shareholders, pursuing the timeliness of audited accounts, and prompting directors to take a realistic view of current asset values when levying fees.

To assist in this process the Commission issued guidance to funds administrators on a number of topics. These included guidance on:

- valuation and fee charging
- limited partnerships and schemes
- managed accounts – outline and regulatory backdrop
- UK UCITS outsourcing to an Isle of Man functionary
- Trading Platforms and investor declarations for Specialist, Qualifying and Experienced Investor Funds
- a schematic diagram of Isle of Man domiciled fund products.

The Commission has on occasion needed to issue directions in respect of funds typically for failing to comply with regulatory requirements. The directions have been designed to ensure transparency, for example requiring the issuing of overdue accounts, though this has also extended to suspension of funds, precluding funds from accepting further subscriptions and releasing charged assets to investors.

The Commission does not take such pro-active intervention lightly, but only when it considers such actions are in shareholder interests.
During the next year visits will focus on, apart from regular items, Closed EISs, suspended funds and the approach of administrators to funds in liquidation.

More recently the Commission has seen assets under management stabilising together with some new Isle of Man and overseas funds being notified as well as approaches being made and approved with regard to Regulated funds.

**Depositors’ and Investors’ Compensation Schemes**

The Isle of Man has both Depositors’ and Investors’ Compensations Schemes. Further information and details of the coverage which they provide are set out on the Commission’s website. The schemes are not ‘standing’ arrangements, in the sense that they only come into operation when a relevant default has been triggered.

The schemes are separate from the Commission and are administered under specific regulations. The DCS, which has previously been activated, produces its own report and accounts. No claim has ever been made against the Investors’ Compensation Scheme, which covers investors only in authorised collective investment schemes.\(^3\)

It is important to note that neither scheme is pre-funded. Both schemes are funded by participants (ie the relevant licenceholders), and in the case of the DCS by Government, up to maximum levels set down in the relevant regulations. The Scheme Manager, which is the body responsible for managing the DCS, also has a power to borrow.

Broadly, the DCS compensates people who have money in current and deposit accounts in the Isle of Man with 100% of their qualifying deposit subject to a maximum £50,000 of net deposits per individual depositor or £20,000 for most other categories of depositor.

Because of the cap which the DCS legislation places on contributions (paid by the Government and participating banks) to the DCS, and the fact that borrowing is discretionary and subject to availability, it is possible that there may be insufficient funds available to pay the full level of compensation to depositors at a particular time. This especially applies if a large bank fails or there is more than one failure within a short period of time.

Banks and financial advisers should take account of the DCS’ limitations in any references they make to it. So should depositors when deciding where to place their money, and this is made clear in the consumer information section of the Commission’s website.

The DCS was previously activated (on 27 May 2009) in respect of the insolvency of KSFIOM. The DCS publishes its own Annual Report and Accounts which refer to the event in greater detail. The Commission, as Scheme Manager at the time of the KSFIOM failure, has devoted considerable resources to ensure the effective operation of the DCS. The Joint Liquidators of KSFIOM are currently estimating a total dividend to all KSFIOM creditors of between 91.4p and 97.7p in the £, although this will take a few more years to complete. Approximately three-quarters of all depositors have already received their money in full from compensation paid by the DCS.

In October 2010 Treasury introduced new Regulations (the “Depositors’ Compensation Scheme Regulations 2010”) which made certain changes to the previous DCS. The changes included:

- substituting the Treasury, or another person appointed by Treasury, as Scheme Manager in place of the Commission
- a limit of £100 million on contributions to the DCS from Treasury as well as from bank participants in any ten year period
- an increase to £500,000 maximum and £50,000 minimum of annual levies payable by participants
- the treatment of a client account as a single claimant, and the exclusion of all Commission and IPA licenceholders, from entitlement to compensation.

There was no change in compensation levels which remain as set out above.

As mentioned on page 15 a Select Committee of Tynwald was established in July 2009 to address matters concerning KSFIOM. One part of this Committee’s remit was to consider “the credibility of the Depositors’ Compensation Scheme”. The recommendations contained in the First (Interim) Report of this Committee dated June 2010 did not cover this part of its remit, nor did the Second (Interim) Report of the Committee dated December 2010.

The Government has convened a working group to consider the need for possible further amendment to the DCS framework, as well as wider options for dealing with a bank insolvency in the future. This work, in which the Commission participates, is expected to link in with steps being taken to strengthen banks’ arrangements internationally to withstand shocks to the financial system.

**Complaints about licenceholders**

The Commission itself does not have any formal powers to undertake dispute resolution or make awards, in relation to complaints about licenceholders. If a complaint is received the Commission will normally look into it to see whether any breaches of regulatory requirements have occurred. This can also give the licenceholder an opportunity to take a fresh look at the issue.

Often the Commission finds that the dispute is of a commercial nature, for example involving the level of fees charged. In other cases the relationship between client and service provider may have deteriorated over time, such that a parting of ways becomes inevitable.

The Isle of Man has a Financial Services Ombudsman Scheme. The Ombudsman Scheme is a free, independent dispute resolution service for customers with a complaint against some Isle of Man financial firms such as a bank, insurance company or financial adviser which the firm has been unable to resolve. The Ombudsman Scheme does not cover complaints regarding corporate or trust services.

The role and powers of the Scheme are set down by law and the Ombudsmen are appointed by the Isle of Man Office of Fair Trading.

The Isle of Man Courts operate a small claims procedure which is available for claims up to £10,000.

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\(^3\) Compensation payable is as follows: 100% of the first £30,000, 90% of the next £20,000 with a maximum compensation of £48,000.
International relations

Co-operation and understanding between regulators is essential. Effectiveness of these as key objectives has been highlighted by the Financial Stability Board in the new world regulatory order. It has special relevance for the Island which hosts a large number of institutions owned by parent groups located in other jurisdictions.

A number of steps have been taken further to extend its communication with home regulators. In many cases these relationships are underpinned by MOUs signed between the Commission and relevant authorities. While these are not formal legal agreements, they can assist mutual understanding by setting down how the various parties will interact and co-ordinate action.

Not all jurisdictions are willing to sign MOUs, for different reasons. Where this is the case it does not mean that there is an absence of co-operation – liaison and dialogue between the regulators will typically proceed equally as well.

On-site visit reports of the Commission are forwarded to home regulators for their information and inclusion in the consolidated supervision of the group.

The Commission sent 228 letters to other regulators for regulatory purposes. These included standard letters to home and host regulators in relation to high impact licenceholders, requests for information and replies to other regulators’ requests for assistance.

The Commission participated in ‘college’ meetings arranged by home supervisors, so that it can better understand the financial position of the group and any supervisory issues being addressed by the parent supervisor. As part of this annual exercise the Commission also wrote to the home supervisors of licensed banks seeking an update on any prudential concerns which they may have had.

To strengthen the dialogue further the Commission met with the home regulators of many of the banks to brief and co-ordinate on measures dealing with liquidity, large exposures and capital adequacy.

The Commission met quarterly with the IPA to share supervisory information, and conducted other ad hoc meetings as required. A number of the Commission’s licenceholders are linked to companies authorised by the IPA. Quarterly meetings were also held with the OFT.

The Island is a member of IOSCO. The Commission is a full signatory of the IOSCO MMOU. An account is given on page 30 of the assistance provided by the Commission in respect of requests made under the MMOU.

The Island is a member of the GIFCS and attended two meetings during the year.

There was a meeting of the Enlarged Contact Group of Collective Investment Fund Supervisors during the period.

The Commission was approached by the Commonwealth Secretariat in London to accommodate a member of staff from the Central Bank of The Bahamas, to come to the Island as a secondee for on the job training and work experience. The Commission was pleased to participate and believes such exchanges are mutually beneficial.
A strong enforcement function which ensures that AML/CFT activity is kept up-to-date, and which can take prompt steps to deal with unlicensed activity and pursue remedial action as required, is an essential part of an effective regulatory regime.

Prevention of money laundering and countering the financing of terrorism

The effectiveness of the Island’s AML/CFT regime is one of the most important determinants of its reputation as a responsible and well-regulated jurisdiction. It is therefore essential that the Island’s perceived compliance with relevant international standards is constantly sustained.

The Island takes its AML/CFT responsibilities very seriously. During the year 7 convictions for money laundering were successfully brought by the Attorney General under the Proceeds of Crime Act 2008. Further cases are under review.

Two convictions were previously secured in the High Court in 2009 which resulted in one individual’s imprisonment and one individual receiving a suspended sentence. Evidence of offences being committed led to
a further conviction in 2011 for both parties as well as a third individual, including convictions under the Theft Act 1981. The convictions are subject to appeal.

The threat of money laundering changes according to current circumstances and international developments. During the period the Commission was especially conscious of the following:

- **PEPs** Recent developments in the Middle East and elsewhere highlighted the continuing need for vigilance and robust systems and controls in dealing with actual or potential politically exposed persons and their associates. Apart from relevant sanctions notices, the Commission issued a specific notice addressing this threat in March 2011.
- **Identity fraud** There has been continuing activity by criminal gangs in stealing identity details – of both companies and individuals – and using these for fraudulent purposes.
- **Land fraud** The Commission became aware of schemes to attract investors into investing in land in the UK supposedly with prospects for early development, whereas in fact these prospects were minimal and thus realistic land values were much less than promoted.
- **Cyber attacks** The hacking of computer systems has become a very real subversive, and potentially terrorist, threat. Some high-profile cases during the year have brought this to the fore.

The Commission has focused on these themes, among others, in its supervisory and enforcement work.

Following the G20 group of countries’ previous decision to initiate, through the FSB, peer review processes and assess adherence to international standards, a continuing and particular focus was given to compliance with the 16 core and key Recommendations drawn from the FATF 40 + 9 Recommendations. The Island met that minimum test. Jurisdictions found as not being fully compliant or largely compliant with at least 6 of the 16 core and key Recommendations are to be identified for special review and assistance towards further improvement.

The implementation and monitoring of AML/CFT measures in the Island are not only the responsibility of the Commission. They also involve the law enforcement authorities, other regulators, and Government agencies.

The Chief Secretary chairs a cross-Government working group which meets regularly to review progress in meeting previous recommendations of the IMF as well as other changes in requirements as a result of evolving standards.

This co-ordination is run in parallel with the dialogue conducted with industry through JAMLAG. JAMLAG is a key group comprising industry representatives and most other AML/CFT stakeholders, established to advise and comment on proposed legislation and proposed AML/CFT changes. Following a meeting in March 2010 JAMLAG met on two occasions during the period. The subjects covered included:

- the consultation responses received on the draft new Proceeds of Crime (Money Laundering) Code 2010 - see next column,
- sector specific chapters for the Commission’s AML/CFT Handbook
- convergence of the FSC’s handbook with that of the other Crown Dependencies
- important feedback from a FATF plenary meeting
- the position of DNFBPs
- a renewed focus on the timeliness of STRs.

The new Code, the Proceeds of Crime (Money Laundering) Code 2010, came into operation on 1 September 2010. Although there were no fundamental changes from before, greater specificity and some important updates were required in a number of areas. The key areas addressed were:

- restrictions on the timing concession for customer due diligence
- restrictions on certain concessions where business relationships pose a higher risk
- broadening the list of matters which may pose a higher risk.

The Commission has issued an AML/CFT Handbook which is publicly available via its website. During the period a number of updates were issued, in May, July, September and November 2010. In part these related to the treatment of countries either identified as being of higher risk or countries identified by international bodies as having strategic AML/CFT deficiencies: it is important that relevant persons react to this changing scene to keep their procedures up-to-date.

The updates also embraced changes required by the introduction of the new Code referred to above.

A key part of an AML/CFT regime is effective co-operation and co-ordination of intelligence shared with other regulators and law enforcement authorities.

In March 2011 the Attorney General of the Isle of Man met with his counterparts in the other Crown Dependencies for a regular exchange of views on AML/CFT matters. The Commission and other regulators and law enforcement authorities attended. This was another example of a very useful ongoing series of dialogues on co-operation between the Crown Dependencies, in particular to co-ordinate and converge AML/CFT practices wherever possible and to draw on each others’ experiences.

Shortly before the beginning of the period the Commission organised a major seminar on AML/CFT and financial fraud for the industry. This reviewed and discussed a number of case studies, and updated licenceholders on a range of other enforcement matters including, corruption, disqualifications, and trade-based money laundering.

Shortly after the end of the period another seminar was held, reviewing more recent case examples, risk-based due diligence, sanctions, anti-fraud initiatives and AML/CFT feedback from supervisory visits.

Certain Commission staff have been specifically trained via FATF courses to conduct assessments of other jurisdictions’ compliance with the FATF Recommendations; further such training was held during the year. Their expertise was called upon during the year, including in training and providing technical assistance for other countries.
Assistance with investigations and insider dealing

The Island has in place important provisions to enable it to co-operate in cross-border enquiries and investigations. Criminal matters are dealt with by the Attorney General while regulatory matters are dealt with by the Commission within its remit.

The Commission has published a statement on its website describing the nature of co-operation provided and from whom assistance can be obtained in different circumstances. It is intended that this should expedite requests.

IOSCO’s MMOU has become the international standard of co-operation for securities regulators globally. The Island is a full signatory to the IOSCO Multilateral Memorandum of Understanding. In order to become a signatory an IOSCO member (which includes the Island) has to demonstrate that it has the necessary laws and information gateways to enable it fully to co-operate with bona-fide requests for assistance from other regulators.

During the period the Commission responded to six requests for information under the MMOU. Some of these were part of major international investigations. The UK made the largest number of requests.

The Commission is very aware that prompt assistance is needed and will respond to requests for assistance as speedily as possible, usually within one month. The MMOU has now been in use for a number of years, and over this time greater familiarity has been gained with how requests should be framed in order to meet the gateway provisions. This reduces delays.

IOSCO itself has an MMOU Monitoring Group which observes countries’ performance under the MMOU, through which the Commission can also verify that its performance is meeting international expectations.

The Commission made no request for information from another regulator under the MMOU.

Although the Island does not have a stock exchange, regrettably there may be occasions when alleged insider dealing transactions are routed through the Island. Under the Insider Dealing Act 1998 the Commission may appoint inspectors to investigate such cases. Such inspectors are typically appointed from within the Commission. During the year one request was made by an overseas regulatory authority for information to assist with its enquiries.

In certain circumstances where the Commission is exercising powers to obtain documents including for the purpose of providing assistance to another jurisdiction, a Justice of the Peace is required to sign an Order. In this connection the Commission holds a briefing session for Justices of the Peace to explain the procedures of the Commission in this area, on an as-needed basis.

Remedial action

Progression of escalating regulatory action

The Commission has a range of powers (which may be made subject to review) to enable it to secure change and necessary improvement in the way in which regulated activities are managed and conducted.

These powers are progressive. Typically most regulatory requirements can be agreed between all parties through routine exchanges reinforced by Directions where necessary. (Some requirements may already be in place from the outset through licence conditions.) However others cases may become more problematic. In extreme cases they require formal action, and possibly even Court action.

Action does not have to climb the scale of severity. A very serious issue may warrant more draconian action immediately.

The following table highlights the key stages of different actions, in an escalating context.

<table>
<thead>
<tr>
<th>Escalating supervisory and regulatory action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licence conditions</td>
</tr>
<tr>
<td>Requests through correspondence</td>
</tr>
</tbody>
</table>
Section 11 warnings refer to the power of the Commission under section 11 of the Financial Services Act 2008 to issue a warning notice about activities or circumstances which could affect a person's fitness or propriety. Such warnings are not publicised.

A Section 10 direction refers to the power of the Commission under the Financial Services Act 2008 to issue a direction declaring that a person is deemed not to be fit and proper to hold a relevant position in a licenceholder. Such directions are made public.

In both of the above cases reasons for the actions have to be clearly explained, and the actions may be made subject to formal review.

Remedial measures

In previous reports the Commission has explained its role in promoting good corporate behaviour and governance. By virtue of its remit over corporate and trust service providers, and in particular the client companies and trusts which they administer, this role can go outside of the immediate regulated sector.

On occasions the Commission will become aware that company officers are not carrying out the duties and responsibilities which they bear. The Commission considers any shortfalls in the context of the powers available to it, and if they are sufficiently serious it may consider remedial action. In some cases such action may comprise the use of regulatory powers. In other cases the Commission may feel it necessary to petition the Court under section 3 (1) (a) of the Company Officers (Disqualification) Act 2009.

The Commission also has the power to investigate a person it suspects of:

- being unfit to act as officer of a company, or
- acting in breach of a disqualification order or disqualification undertaking.

This includes the power to inspect and take possession of books, accounts and documents and to require information.

The Act draws together under one instrument all the grounds for disqualification of directors and other officers who may be unfit to be involved with the promotion, formation or management of a company.

Upon application persons may be disqualified by the Court. Persons may also enter into a “disqualification undertaking”, which is an agreement between the relevant person and the Commission whereby that person acknowledges their previous unfit conduct and agrees not to, amongst other responsibilities, be an officer of a company for a number of years. In this way the time and cost of going through the courts can be avoided.

During the period two persons were disqualified by undertaking for a total of 26 years. Further information is shown on the Commission’s website, along with details of 21 other persons whose previous disqualifications are still current.

Sanctions updates and public warnings

The Island’s Treasury regularly publishes notices and information on international financial sanctions applicable locally. During the year 37 financial sanctions updates were issued to licenceholders by the Commission informing them of these details.

There is the scope for investors to lose large amounts of money in scams perpetrated by persons attempting to undertake potentially fraudulent, mis-selling or other activities which could result in investor loss. Typically these schemes will be established and marketed in different jurisdictions to cloud transparency and hamper detection.

As one tool in helping to stamp out such nefarious activities the Commission previously set up a system of publishing public warnings on its website about bogus names, companies, individuals and scams. To assist other regulators the Commission maintains a list of 115 regulators and law enforcement authorities world-wide to whom it circulates warnings as soon as they are made. A total of 33 public warnings were made during the period. The Commission's warnings are also included on an international list of warnings promulgated by IOSCO and which is available to the public via the internet.

There is clear evidence from letters and other communication that this has become an effective mechanism of saving people from loss, protecting the Island’s reputation and raising awareness of consumers, businesses and regulators in other jurisdictions of such scams.

Other work

The Commission is aware that The Bribery Act 2010 comes into force in the UK on 1 July 2011. This is important new legislation creating offences of offering or receiving bribes, bribery of foreign public officials and of failure to prevent a bribe being paid on an organisation’s behalf.

The Act has broad application including to all UK citizens and it is understood that the Isle of Man Government is considering whether to enact similar legislation here. Meanwhile the Commission will be looking to see how licenceholders’ procedures address these risks.

A member of staff represented GIFCS at two MONEYVAL Plenary sessions in Strasbourg.
The role of the Commission’s Policy & Legal function is to ensure that its regulatory framework keeps up-to-date with evolving international standards and best practice, and to identify areas where legislation needs to be changed to enhance the Island’s competitive position and reflect business development.

The international regulatory response to the global financial crisis is having a profound effect on regulatory architecture, contingency planning and prudential requirements. As the Island is primarily a host jurisdiction of institutions which have their parentage and group centres of operations located in other countries, it has had to remain very alive to new evolving standards and their potential impact locally. The Commission’s Policy & Legal function has played a key role in this.

It has also had responsibility for monitoring and co-ordinating the Commission’s progress with the recommendations made by the IMF in its last FSAP report. The Board of the Commission receives a six-monthly report on how the agreed action plan is progressing, and this sets part of the agenda for ensuring that the supervisory regime remains in general compliance.

Added to this are now the revised IOSCO Objectives and Principles of Securities Regulation which will form part of the core standards against which our supervisory regime will continue to be assessed.
To ensure that legislation meets the changing standards often new legislation needs to be introduced and or amended and thereby kept up-to-date. Secondary legislation is drafted by the Policy & Legal Division and primary legislation is drafted by the Attorney General’s Chambers on instruction from the Division. Whatever type of legislation, the initial drawing up of and seeking approval for legislative change requires a co-ordinated effort among different interests, and this can be time consuming especially for primary legislation.

Process of preparing primary legislation

Consultation on the revised draft Authorised Collective Investment Schemes Regulations 2010 commenced on 1 March 2010. The Regulations were approved by Tynwald on 19 October 2010 and came into effect on 1 January 2011 for new authorised schemes. Existing authorised schemes have a transitional period to comply with the new Regulations expiring on 30 June 2011.

The secondary legislation (Regulated Activities Order, Financial Services (Exemptions) Regulations and the Financial Services Rule Book) made under the Financial Services Act 2008 was subject to a rolling review as planned and came into effect on 1 January 2011 following consultation from 30 July 2010 to 10 September 2010. The changes increased the penalty for very late submissions, thereby seeking to deter non-compliance. Consideration of introducing penalties for other failures to comply with regulatory requirements is now in progress.

The Commission continued working together with authorities in Guernsey and Jersey, the Professional Oversight Board and the ICAEW in relation to the EU 8th Directive on Statutory Audits. Under the Directive firms that audit companies which are listed on EU Member States’ regulated markets (“market traded companies”) must be subject to a system of independent oversight.

The international regulatory response to the global financial crisis is having a profound effect on regulatory architecture, contingency planning and prudential requirements.

To enable this oversight, firms that audit Manx market-traded companies have been assessed and where appropriate registered as Recognised Auditors. Discussion is on-going with EU authorities, UK audit-oversight bodies, as well as with Guernsey and Jersey, on the “EU equivalence” of the systems of the Crown Dependencies. All three Crown Dependencies enacted legislation with effect from April 2010 to maintain a register of such auditors, and to delegate the powers of oversight of these auditors to the UK’s Public Oversight Board, as well as the monitoring of the relevant audits to the ICAEW – therefore mirroring the UK’s system of oversight.
In addition, and separate to the EU matters referred to above, the Policy & Legal Division handles requests from overseas auditors seeking to audit Manx companies where those auditors do not meet the requirements of the Companies Act 1982. Under section 14E of the Companies Act 1982, the Commission has specific powers to authorise such auditors, subject to them meeting certain criteria, however it does so rarely and in narrow circumstances.

Work is actively proceeding, in conjunction with the Attorney General’s Chambers, to prepare for entrance to SEPA. This has required extensive liaison with the industry pending changes to relevant legislation and a planned application to the European Payments Council. This work has been conducted also in dialogue with Guernsey and Jersey.

The Financial Supervision Commission is a member of IOSCO. Policy staff took an active part in the IOSCO MMOU Screening Group meetings in Amsterdam and Madrid during the period.

The Policy & Legal Division handles Data Protection issues for the Commission, as well as the administration of any complaints made about the Commission (see page 15).

New Fees Orders (The Financial Services (Fees) Order 2011 and the Collective Investment Schemes (Fees) Order 2011) came into operation from 1 April 2011. These increased fees in line with inflation since the last increase, by 6.85% rounded up to the nearest £50.

In May 2010, a new Regulated Fund structure was launched and the schemes regulatory framework updated; this included revised Regulations for specialist, qualifying and experienced investor funds. This regulatory update took account of recommendations from the industry sponsored Funds Review Group.

In September 2010 guidance was issued to assist persons that provide services to limited partnerships in assessing whether the arrangements constitute a collective investment scheme.

From September 2010 the Commission became involved in the work of the Funds Development Group, an initiative to bring together representatives from the industry and regulator to progress key funds proposals.

In conjunction with this Group the Commission has issued a number of documents including:

- a Graduated Manager licensing process – this new process allows fund managers to establish under a two stage licensing process, which reduces certain administrative costs whilst funds are in the establishment phase
- a Trading Platforms modification – this modification simplifies the application process for specialist, qualifying and experienced investor funds which are listed on a UK Regulated Trading Platform
- guidance notes on the use of managed accounts and outsourcing from UK UCITS schemes
- a schematic decision tree setting out current Isle of Man fund types – this usefully summarises the different uses for different scheme types.
The Operations Division is responsible for the day-to-day administration and running of the Commission. Its activities fall under three main headings - finance, human resources and technology. It also provides a Secretariat function for the Board.

Finance and administration

The Commission’s Statement of Income & Expenditure for the year ended 31 March 2011 and the Report of the Auditors are set out in Appendix F. The Commission is part of the centralised Government accounting system. The Commission’s income and expenditure account is part of the Government’s general revenue account and as such all fees are received by Government. Expenditure is drawn against a budget approved by Tywnald. Accordingly, any surplus forms part of general revenue and is not retained by the Commission.

In line with Government the Commission is audited under the Audit Act 2006 which sets out the requirements for accounting and reporting under the Act.

A material reduction in the Commission’s income arises as a result of the transfer of Companies Registry to the Department of Economic Development. The Commission has also seen a decrease in its
licence fee income as a result of some licence surrenders and mergers of licenceholders. A substantial part of this reduction was offset through licence application fees and new licences being issued.

The Commission contained its expenditure and achieved savings which ensured that the Commission’s deficit was significantly reduced against its budgeted deficit.

Following separation of Companies Registry from the Commission the impact on the Commission’s resources was assessed.

The Chief Executive’s Committee, which meets weekly, reviews monthly management accounts which report on revenue and expenditure over the period. The management accounts compare actual year-to-date figures with budgeted figures and also present an updated forecast of the year-end position on a rolling basis. Management accounts are presented to the Board for quarterly discussion and review.

As part of the wider Government rebalancing programme the Commission was requested to undertake a detailed review of its costs and income to identify opportunities for savings and increased efficiencies. The Commission identified a number of areas and cost savings have been made. The Commission’s headcount reduced reflecting the transfer of Companies Registry staff to the Department of Economic Development. The Government reduced the Commission’s headcount by a further one.

As noted in last year’s report the Commission has invested in training a number of staff on the Lean methodology. During the year a wider efficiency and productivity project commenced with the purpose of undertaking a fundamental review of what the Commission is doing, with an objective to overhaul and re-think how it delivers its functions in the most efficient way.

The objectives of the project are to:

- identify key risks we are trying to mitigate and direct resources to these
- increase efficiency, improve quality of output and reduce internal bureaucracy
- reduce bureaucracy for customers (our licenceholders) and improve their experience in dealing with the Commission.

In short the way the exercise is achieved is by examining in detail how a particular service or function is carried out, by breaking it down into a series of individual tasks. Each task is then examined and critically reviewed to see whether it is necessary or could be done in a different and more streamlined way.

An internal project team has been established to take forward a programme of Lean work throughout the Commission. As noted in on page 19 a Lean review of the Commission’s visit process was undertaken.

The Commission produces a wide range of written material and communicates in writing via email, the website, letters, reports, consultation documents, legislation and press releases. The Commission introduced a style guide to set out a house style for its correspondence.

Human resources

The Commission has enjoyed a period of considerable staff stability, although towards the end of the period there was some increase in turnover. The Commission likes to ensure continuity of staff wherever possible, but inevitably some people will leave to broaden their career experience. Where this occurs it often means that the Commission is releasing people who take up compliance and related work in the regulated sector, which is helpful in spreading good practice.

The Commission hires staff mainly from the industry. Most of its supervisory resources comprise individuals with front-line commercial experience. This is a deliberate policy to encourage the creation of teams with persons who have a proven understanding of the businesses which they are visiting and on which they are making recommendations.

The Commission did not implement a pay award during the period. Average sickness per employee during the period fell to 2.3 days.

The Personnel Committee of the executive met on three occasions during the year. Key items discussed were:

- job descriptions
- corporate social responsibility
- review of learning and development
- review of the performance management process
- health and safety policy and risk assessment
- communication
- recruitment
- mentoring

In considering the area of corporate social responsibility the Commission assessed the action which it currently takes to address the social, ethical and environmental impacts of its day-to-day operations beyond what is required by law. The Commission developed further existing arrangements around three key areas:

- People: how it treats its employees and fosters good teamwork.
- Energy/environment: recognising its responsibility to the environment and aiming to operate in such a way that minimises energy consumption, carbon footprint and waste.
- Social and community: being proactive in supporting and respecting the community, and supporting worthwhile causes and local charities.

An assessment was undertaken of where the Commission currently stands and where enhancements could be made, and various initiatives were implemented.

The Commission is an enthusiastic participant in the IIP process. During the period and following further assessment, the Commission was formally recognised as meeting its standards at the most prestigious Gold level. The Commission is the first employer on the Island to reach this achievement.

An internal IIP Task Force Team meets regularly to review initiatives under the IIP framework. These often result in proposals being submitted to the Commission’s Personnel Committee for consideration and subsequent implementation. This forum has provided a good mechanism of obtaining feedback from staff on key people and business processes.
Work has focussed on the following areas:
- improvement areas arising from the staff satisfaction survey
- recognition and reward
- learning and development planning
- team building
- mentoring
- communication
- core values

The Commission participated in the Government’s Employee Skills event in November 2010.

Learning and development

The Commission places a high priority on the development and training of its staff. A very large proportion of the Commission’s work is technical in nature, and a special set of skills (and experience) is needed to give staff the tools for assessing how a business is being run and providing the right recommendations for action.

Training support is provided in a number of different ways.

A number of staff are currently undertaking professional qualifications and CPD as part of their technical development. These are generally qualifications relevant to the Commission’s work, and are selected in particular to build competency in (and thus an understanding of) the key areas which the Commission regulates. In addition accountancy is an essential skill for the Commission to encourage, to assist in much of the analytical work which it undertakes.

The Commission supported 12 staff in their studies towards professional qualifications. During the period five of these successfully completed their studies achieving the following qualifications:
- ICSA Certificate
- ICSA Professional x 2
- ACCA – CAT
- CIPD Graduate level

seven staff are progressing with the following qualifications:
- ILM – Team Leadership
- CIPD Graduate level
- CISI Diploma in Investment Compliance
- ICA Diploma in Anti Money Laundering
- ILM – Strategic Leadership
- ICSA Professional Programme
- ICSA Certificate in Offshore Finance & Administration

The following table summarises the qualifications and experience held by the Commission’s Managers and above including Commissioners.

<table>
<thead>
<tr>
<th>Qualifications</th>
<th>Staff</th>
<th>Commissioners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Masters Degree</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Undergraduate Degree</td>
<td>16</td>
<td>2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Professional Qualification</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>ICSA</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>STEP</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Legal</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Accountancy</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>ACIB</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>FPC</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>No. of years of business, professional &amp; financial experience</td>
<td>754</td>
<td>240</td>
</tr>
</tbody>
</table>

Technical development is also assisted by attendance at selected internal and external events. Regulation of financial services, especially in the aftermath of the financial crisis, is undergoing many changes and it is essential that Commission staff keep fully up-to-date on current developments.
Staff attended a number of management and technical development programmes. Attendance included the FSA Arrow Risk Based Regulation Course, Middle and Senior Management Development Programmes and various programmes run by the Financial Stability Institute in Basel. Subjects with the latter included liquidity risk, crisis management, risk management and risk-focused supervision.

Particular subjects covered by internal training during the period were:
- Auditor Oversight
- Client Money Nominees
- Payment Services
- Changes to the Rule Book
- Drafting Directions
- Corporate Governance for non-bank licenceholders
- AML/CFT
- Duties of a Money Laundering Reporting Officer
- Evidence Gathering and Court skills
- Business continuity planning

To ensure that the Commission's staff have full knowledge on the Island's AML/CFT requirements, supervision staff are required to undertake an online e-test to review their level of knowledge and identify specific training needs.

Following the intensive management soft skills programme delivered since 2005, during the year the Commission undertook a change of focus in respect of staff development in order to provide the opportunity to put the skills acquired from the programme into practice. Additionally, there was a move to focus development on the more technical aspects of regulation.

An average of 7.4 training days per employee were provided during the period. The average actual training spend per employee was £600.

Team building is a core value of the Commission. This year Commission staff participated in a specific team building event which combined practical exercises with management theory. Individual assessments took place to identify staff behavioural types: energising, driving, analysing and organising.

Some of the Commission's staff received first aid refresher training. A defibrillator has been purchased on which staff also received training.

Information technology

The Commission places a high priority on the use of technology. Not only is this designed to improve efficiency and productivity, but it enhances the Commission's ability to undertake incisive supervision. Online access has also improved the user experience for licenceholders in terms of access to regulatory requirements and submission of prudential data.

The Commission agreed an MOU with the Government's Information Systems Division. This sets out new arrangements under which the Commission will liaise with the Division to ensure that the services provided meet the Commission's business needs.

Following agreement of the new arrangements the Commission moved quickly to progress initiatives that had previously been deferred. The Commission's hardware was upgraded as part of the normal programme of replacement, together with its desktop software.

A review of the Commission's website has been undertaken and changes agreed to enhance the user experience with the site and to make key information more accessible from the home page. Further development of the website will take place in the coming year.

A core system supporting the Commission's front line supervision of licenceholders is its internet regulatory data management system. The Commission first introduced an online reporting system in 2003. At that time the industry standard on security for such a system was complex requiring authentication at a number of different levels.

During the period the Commission commenced the process of making changes to the existing system to reflect current technologies and security standards. This will remove some of the complexity and allow the system to be expanded more easily to receive other statutory returns submitted electronically. The system is also being extended to receive submission of statutory returns for funds. Exception reporting and management reports are being enhanced. A number of changes were also made to the static database following changes to the Rule Book.

The Commission introduced the use of electronic feedback forms to be completed by licenceholders following an on-site visit. This is also being used to receive data for themed-based questionnaires.

A new report was produced under the Basel requirements to consolidate data submitted by the banks. Changes to the online financial reporting system were made to:
- better facilitate the aggregation of data submitted by banks for reporting to the Bank for International Settlements
- allow institutions to resubmit data where this may have been submitted incorrectly.

In conjunction with ISD, Commission staff have been developing their skills to design and implement SharePoint throughout the Commission, and the Commission has migrated its existing intranet site onto this platform. Key features include:
- document management
- use of templates where appropriate
- management of projects throughout the Commission
- an intranet site
- collaboration internally and with other areas of Government.

The Commission operates an internal IT Committee to manage and co-ordinate IT development across the functional areas. Some of the items considered by the IT Committee were:
- hardware and Windows 7 upgrade
- supervision database
- collective Investment Schemes database
- MOU with ISD
- Online reporting system.

The IT team within the Commission handled 342 internal user calls for support and assistance. In addition 397 support calls were handled for external online system users.

The Commission's business continuity plan and IT risk register was reviewed on a quarterly basis. Testing at the Commission's off-site continuity facility took place every six months.

Changes necessary to separate Companies Registry systems from those of the Commission were undertaken.
The Financial Services Act 2008 sets out the Commission’s regulatory objectives which are as follows:

- securing an appropriate degree of protection for the customers of persons carrying on a regulated activity
- the reduction of financial crime, and
- supporting the Island’s economy and its development as an international financial centre

These regulatory objectives are supported by the following which the Commission must have regard to when discharging its functions:

- the need for the regulatory, supervisory and registration regimes to be effective, responsive to commercial developments and proportionate to the benefits which are expected to result from the imposition of any regulatory burden
- the need to use its resources in the most efficient and economic way
- the desirability of implementing and applying recognised international standards
- the desirability of co-operating with governments, regulators and others outside the Island
- the need to safeguard the reputation of the Island
- the responsibilities of those who manage the affairs of permitted persons
- the international character of financial services and markets and the desirability of maintaining the competitive position of the Island
- the desirability of facilitating the development of the financial services industry.

The Commission’s functions are set out in the Financial Services Act 2008 as follows:

- the regulation and supervision of persons undertaking regulated activities
- the maintenance and development of the regulatory regime for regulated activities
- the oversight of directors and persons responsible for the management, administration or affairs of commercial entities
- participation in consultative bodies, working groups and other arrangements
- the functions conferred on it under the Financial Services Act 2008
- the regulation and supervision of collective investment schemes within the meaning of the Collective Investment Schemes Act 2008
- the functions conferred on it under:
  - the Building Societies Act 1986
  - the Collective Investment Schemes Act 2008
  - the Industrial and Building Societies Act 1892
  - the Companies Acts 1931-2006
  - the Company Officers (Disqualification) Act 2009
  - the Companies (Transfer of Domicile) Act 1998
  - the Credit Unions Act 1993
  - the Income Tax Act 1970
  - the Incorporated Cell Companies Act 2010
  - the Insurance Act 1986
  - the Insider Dealing Act 1998
  - the International Business Act 1994
  - the Limited Liability Companies Act 1996
  - the Online Gambling Regulation Act 2001
  - the Terrorism (Finance) Act 2009
- the functions conferred on it under any other statutory provision.
Membership of the Financial Supervision Commission

Rosemary Penn MBE (Chairman)
Appointed in March 1993. Became Deputy Chairman in June 2001, Chairman in 2004. She qualified as a Barrister at Law in 1963. She was appointed as a magistrate in England in 1967 and also lectured in law until she returned to the Isle of Man in 1981. She was appointed to the magistracy in the Isle of Man in 1985 and served as Vice Chairman and Chairman and retired in 2002. She has worked for the Government as Chairman of several Tribunals including Rent and Rating, Agricultural Wages, Police Complaints and Licensing Appeals.

John Cashen OBE (Deputy Chairman)

John Aspden
Appointed as Chief Executive of the Commission in August 1998. Commenced his career for 15 years with the Bank of England including three years on secondment to the Council for the Securities Industry. Then became adviser to the Commissioner of Banking in Hong Kong. Subsequently moved to become Deputy General Manager at International Bank of Asia Limited, and then Managing Director of Matheson InvestNet Limited, both also in Hong Kong.

Tim Cullen
Appointed June 2001. Spent 21 years with the World Bank, where he served inter alia as Chief Spokesman of the Bank and, latterly, as Senior Advisor for External and United Nations Affairs. He is Executive Director of the Small Countries Financial Management Centre and an Associate Fellow of the Said Business School at the University of Oxford, where he directs the Oxford Programme on Negotiation. He is a trustee of the Institute of Business Ethics and heads a small international consulting firm that focuses on issues of governance, integrity and negotiation. He also teaches negotiation at Oxford University and throughout the world.

Geoфф Karran

Alan Smith
Appointed July 2007. Initial career with Lloyds Bank Trust Division and then spent seven years as Manager of Bank of Bermuda’s Cayman operations. Moved to the Isle of Man in 1987 and was appointed Managing Director of Bank of Bermuda in 1994. Appointed to the Global Board of the Bank’s Fund Services Division in 2001 as Global Head of Marketing and Strategy and subsequently of HSBC’s Alternative Fund Services Division up to his retirement in 2005. He has over 40 years’ experience in Trust Administration, Corporate Services, Banking, Custody and Fund Administration.

Bryan Stott
Appointed in June 2001. Initially his career focussed mainly on the Island’s property business. In 1973 he was appointed to the Board of the Isle of Man Bank Limited and became Chairman in 1980. Has 28 years’ banking experience with the Isle of Man Bank and subsequently NatWest Offshore Limited. Retired as Chairman of NatWest Offshore Limited in 2000. Mr Stott also has extensive experience in the investment and insurance field.
Organisation Chart
as at date of publication of this report

Board of Commissioners
Rosemary Penn (Chairman)  John Aspden  John Cashen  Tim Cullen

Chief Executive

ENFORCEMENT & AUTHORISATIONS
Paul Heckles
Director - Enforcement and Authorisations

Enforcement
Deputy Director
Paul Mylchreest
Managers
Kathryn Cain  Neil Rawlinson
Assistant Manager
Ashley Hanlon
Enforcement Officer/Secretary to the CEO
Carolyn Davis

Authorisations
Deputy Director
Dave Hodgson
Managers
Trish Cain  Brenda Dougherty

Human Resources

OPERATIONS
Anne Dorling
Director - Operations

IT

Operational Management

Manager
Donna Shimmin
Manager
Suzie Biddulph

Systems Operations Officer
Sarah Davidson
Secretary
Janet Moore
Receptionists
Sue Clague  Sue Freeman  Elaine Morretta

OPERATIONS
Anne Dorling
Director - Operations

IT

Operational Management

Manager
Donna Shimmin
Manager
Suzie Biddulph

Systems Operations Officer
Sarah Davidson
Secretary
Janet Moore
Receptionists
Sue Clague  Sue Freeman  Elaine Morretta

OPERATIONS
Anne Dorling
Director - Operations

IT

Operational Management

Manager
Donna Shimmin
Manager
Suzie Biddulph

Systems Operations Officer
Sarah Davidson
Secretary
Janet Moore
Receptionists
Sue Clague  Sue Freeman  Elaine Morretta

OPERATIONS
Anne Dorling
Director - Operations

IT

Operational Management

Manager
Donna Shimmin
Manager
Suzie Biddulph

Systems Operations Officer
Sarah Davidson
Secretary
Janet Moore
Receptionists
Sue Clague  Sue Freeman  Elaine Morretta
POLICY & LEGAL
Roxanne Oldham
Director - Policy & Legal

Deputy Directors
Shirley Corlett
Claire Whitelegg

Policy Adviser
Susan Woolard

Managers
Lynda Cain
Jean Dick
Sue Ferrario
Pat Scutchings
Kieran Tomlinson

Assistant Manager
Daniel Johnson

Supervision Officers
Joyce Jackson
Andrew Kniveton
Laura O’Neel

Fiduciary Services
Deputy Director
Bernice Oates
Managers
Lynda Cain
Jean Dick
Pat Scutchings
Kieran Tomlinson

Banking
Deputy Director
Andrew Kermode
Managers
David Lucas
Elaine McCormack

Supervision Officers
Ruth Baxendale

Funds and Investment Services
Deputy Director
Seán Flanagan

Collective Investment Schemes
Deputy Director
Hazel Gawne
Managers
Nigel Boyde
Jayne Corlett
Bobby Keig

Investment Business
Manager
Victoria Liddle

SUPERVISION
Michael Weldon
Director - Supervision

Risk and Compliance
Deputy Director
Paul de Weerd

Management Information Officer
Carolyn Williams

Deputy Director
Hazel Gawne
Managers
Nigel Boyde
Jayne Corlett
Mark Long

Manager (Analyst)
Nicola Quinn

Secretary to the Board
Anne Dorling

John Aspden

Deputy Director
Seán Flanagan

Collective Investment Schemes
Managers
Nigel Boyde
Jayne Corlett
Bobby Keig

Investment Business
Manager
Victoria Liddle

Supervision Officers
Lynda Ashworth
Emma Cuddy
Nicola Igoea

Banking
Deputy Director
Andrew Kermode
Managers
David Lucas
Elaine McCormack

Supervision
Officers
Ruth Baxendale

Compliance Officer
Graham Connor

Bryan Stott
Geoff Karran
Alan Smith
The purpose of this Appendix is to describe how the Commission operates through a structured approach to its operations.

Statutory Board
The Commission is an independent Statutory Board established under the Financial Supervision Commission Order 1983. As a Statutory Board the Commission operates under the Statutory Boards Act 1987, as amended.

The Commission’s Regulatory Objectives are:

- securing an appropriate degree of protection for the customers of persons carrying on a regulated activity
- the reduction of financial crime, and
- supporting the Island’s economy and its development as an international finance sector.

The Commission’s regulatory and supervisory role extends to the banking, investment, funds and fiduciary sectors.

Members of the Commission
Appointments to the Board of Commissioners are made by Treasury and are subject to the approval of Tynwald.

Commissioners are appointed for a five year term. Government issues a public invitation for persons to apply to be appointed as Members of Statutory Boards including the Commission. The remuneration paid to Members of Statutory Boards is set down by Order.

The Board of Commissioners currently comprises a Chairman, a Deputy Chairman, the Chief Executive and a further four Non-Executive Commissioners. The quorum of the Board is a minimum of three persons. Further background details of current Members of the Board are set out in Appendix B.

The Board has established Sub-Committees on Remuneration, Risk and Internal Control, and Complaints.

Conflicts of interest
The Board of Commissioners benefits from having members who have broad, up-to-date commercial and compliance experience. Inevitably this means that from time-to-time conflicts of interest may arise in dealing with particular issues. A Code of Conduct has been drawn up to cover these situations. The Code provides for the prior disclosure of interests and sets down how they should be handled. Commissioners are required to absent themselves from decisions where they may be conflicted. Staff also have to disclose their conflicts of interests. The code is published on the Commission’s website together with a list of current directorships.

Meetings of the Board
Routine meetings of the Board are held monthly, generally on the last Thursday of a calendar month. In addition a quorum of the Board meets monthly as necessary to hear licence applications. The Board additionally meets on an ad hoc basis as required.

During the period the Board met for:
12 routine monthly meetings
11 licensing meetings (quorum)
A number of other ad hoc meetings including with industry and other regulators.
Delegated authorities

The Board has delegated certain powers to the Chief Executive. These include:

- changes in licence conditions attached to a licence
- extensions to licences to include new schemes etc.
- surrender of lapsed licences
- restructure of organisations/sale or merger of licence holders
- approving recognition of schemes under Section 13 of the Financial Supervision Act.

The Chief Executive in turn delegates certain matters within the Executive.

The Executive

The Executive management team is structured as follows:

- The Chief Executive, also a Commissioner
- Directors
- Deputy Directors
- Managers

There are five Divisions within the Commission comprising Authorisations, Enforcement, Operations, Policy and Supervision. An organisation chart is set out in Appendix C.

Accountability and scrutiny

A Memorandum of Understanding between the Commission and Treasury sets out the arrangements which have been established to ensure that the Commission is accountable to Treasury for its actions and clarifies the circumstances in which sensitive information might flow. The division of responsibilities is based on four guiding principles:

- Clear accountability: each authority must be accountable or its actions, so each must have unambiguous and well-defined responsibilities.
- Transparency: Tynwald, the financial services industry and the public must know who is responsible for what.
- Avoidance of duplication: each authority must have a clearly defined role, to avoid second guessing, inefficiency and the unnecessary duplication of effort. This will help ensure proper accountability.
- Regular information exchange: this helps each authority to discharge its responsibilities as efficiently and effectively as possible.

The MOU is available from the Commission’s website.

The Commission is subject to scrutiny in the following areas:

- Tynwald: appointment of Commissioners, Service Delivery Plan, new legislation
- Government and Treasury: strategic objectives, legislative policy and proposals, budgeting and funding, establishment headcount
- Industry: consultation on regulatory and supervisory proposals
- Home regulators of licensed institutions.

In addition the Commission’s regulatory and supervisory approach is subject to ongoing review by standard-setting organisations including the International Monetary Fund and the FATF. The Island’s designated territory status (which effectively permits the distribution of Isle of Man authorised funds within the UK) is also subject to ongoing review by HM Treasury in the UK.

Appeals against decisions of the Commission

The key decisions of the Commission, including in relation to licensing, are subject to review by a committee established by the Council of Ministers. Tynwald has approved the Financial Services Review Regulations 2001 governing this committee and a panel of persons has been nominated by the Council of Ministers from which it may select individuals to hear a particular case.

Finance

The Commission operates within a budget agreed with the Treasury, and within a headcount restriction set down centrally within Government. The Commission’s revenue and expenditure is audited annually by the Government’s external auditors, and the Commission is subject to review by the Government’s internal audit department. Further details of the Commission’s financial position are set out in Appendix F.
Summary of Licences and Authorisations

Licenceholders

As at 31 March 2011, a total of 290 institutions were licensed by the Financial Supervision Commission under the Financial Services Act 2008. The Classes of business which these institutions were licensed to conduct were as follows:

<table>
<thead>
<tr>
<th>Class Description</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Deposit Taking (Class 1)</td>
<td>34</td>
</tr>
<tr>
<td>(ii) Investment Business (Class 2)</td>
<td>73</td>
</tr>
<tr>
<td>(iii) Services to Collective Investment Schemes (Class 3)</td>
<td>74</td>
</tr>
<tr>
<td>(iv) Corporate Services (Class 4)</td>
<td>192</td>
</tr>
<tr>
<td>(v) Trust Services (Class 5)</td>
<td>131</td>
</tr>
<tr>
<td>(vi) E-Money (Class 6)</td>
<td>0</td>
</tr>
<tr>
<td>(vii) Money Transmission Services (Class 8)</td>
<td>3</td>
</tr>
</tbody>
</table>

Some licenceholders are permitted to conduct more than one Class of business under the Act; hence the total of the above (507) exceeds the number of licenceholders.

Collective Investment Schemes

Collective investment schemes are managed and administered on the Island, either under the Collective Investment Schemes Act 2008 (“the CIS Act”) or other legislation.

As at 31 March 2011 the following schemes were authorised, notified to or recognised by the Commission:

<table>
<thead>
<tr>
<th>Class Description</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Authorised Schemes under Schedule 1 of the CIS Act</td>
<td>7</td>
</tr>
<tr>
<td>(ii) Full International Schemes under Schedule 2 of the CIS Act</td>
<td>13</td>
</tr>
<tr>
<td>(iii) Regulated Funds under Schedule 2 of the CIS Act</td>
<td>2</td>
</tr>
<tr>
<td>(iv) Other International Schemes under regulations made under Schedule 2 of the CIS Act or continuing regulations under previous legislation:</td>
<td></td>
</tr>
<tr>
<td>• Professional Investor Funds</td>
<td>3</td>
</tr>
<tr>
<td>• Specialist Funds</td>
<td>22</td>
</tr>
<tr>
<td>• Qualifying Investor Funds</td>
<td>13</td>
</tr>
<tr>
<td>➢ Qualifying type</td>
<td>9</td>
</tr>
<tr>
<td>➢ Legacy type</td>
<td>20</td>
</tr>
<tr>
<td>➢ Closed</td>
<td>20</td>
</tr>
<tr>
<td>(v) Exempt Schemes under Schedule 3 of the CIS Act and Exempt Type Schemes</td>
<td>193</td>
</tr>
<tr>
<td>(vi) Recognised Schemes from a designated territory under Schedule 4 paragraph 1 of the CIS Act</td>
<td>27</td>
</tr>
<tr>
<td>(vii) Individually Recognised Schemes under Schedule 4 paragraph 2 of the CIS Act</td>
<td>7</td>
</tr>
<tr>
<td>(viii) Overseas Schemes administered or managed in the Island</td>
<td>108</td>
</tr>
<tr>
<td>(ix) Schemes for which management or administration services are provided to the manager or administrator, under an “inward” outsourcing agreement</td>
<td>24</td>
</tr>
</tbody>
</table>
Statement of responsibilities in respect of the Chief Executive’s report and the accounts

The Chief Executive is responsible for preparing the Chief Executive’s Report and the Accounts in accordance with applicable law and regulations.

The Audit Act 2006 requires the Isle of Man Financial Supervision Commission (“the Commission”) to prepare accounts for each financial year, which meet the requirements of the Accounts and Audit Regulations 2007 to 2008 made under the Audit Act 2006. In addition, the Commission has elected to prepare the accounts in accordance with UK Accounting Standards.

The accounts are required by law to give a true and fair view of the state of affairs of the Commission and of the profit or loss of the Commission for that period.

In preparing these accounts, the Commission is required to:
- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether they have been prepared in accordance with UK Accounting Standards, and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Commission will continue in operation.

The Commission is responsible for keeping proper accounting records that are sufficient to show and explain the Commission’s transactions and disclose with reasonable accuracy at any time the financial position of the Commission and to enable them to ensure that the accounts comply with the Accounts and Audit Regulations 2007 to 2008 made under the Audit Act 2006. The Commission has general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Commission and to prevent and detect fraud and other irregularities.
We have audited the accounts of the Isle of Man Financial Supervision Commission for the year ended 31 March 2011 which comprise the Income and Expenditure Account and the related notes. The financial reporting framework that has been applied in their preparation is the Audit Act 2006 and UK Accounting Standards.

This report is made solely to the Company's members, as a body, in accordance with Section 4 of the Audit Act 2006. Our audit work has been undertaken so that we might state to the Commission 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 Commission for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Commission and Auditor

As explained more fully in the Commission’s Responsibilities Statement set out on page 1, the Commission is responsible for the preparation of financial statements that give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with the Accounts and Audit Regulations 2007 to 2008 made under the Audit Act 2006, and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s (APB’s) Ethical Standards for Auditors.

We review whether the Statement of Internal Control prepared by the Commission reflects compliance with the Accounts and Audit Regulations 2007 to 2008 made under the Audit Act 2006. We report if the statement is misleading or inconsistent with other information we are aware of from our audit of the accounts. We are not required to consider, nor have we considered, whether the Statement on Internal Controls covers all risks and controls.

Scope of the audit of the accounts

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Commission’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Commission; and the overall presentation of the accounts.

Opinion on the accounts

In our opinion the accounts:

• give a true and fair view of the Commission’s income and expenditure for the year ended 31 March 2011
• have been properly prepared in accordance with UK Accounting Standards, and
• have been properly prepared in accordance with the provisions of the Accounts and Audit Regulations 2007 to 2008 made under the Audit Act 2006.

KPMG Audit LLC
Chartered Accountants
## Appendix F

### Income and Expenditure Account

#### for the year ending 31 March 2011

<table>
<thead>
<tr>
<th>Income</th>
<th>Note</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Licence &amp; Scheme Fees</td>
<td></td>
<td>£1,657,345</td>
<td>1,766,777</td>
</tr>
<tr>
<td>Companies Registry</td>
<td></td>
<td>£ -</td>
<td>47,000</td>
</tr>
<tr>
<td>Non-Resident Company</td>
<td></td>
<td>-</td>
<td>9,790,986</td>
</tr>
<tr>
<td>Companies Registration Fees</td>
<td></td>
<td>-</td>
<td>297,865</td>
</tr>
<tr>
<td>Other income</td>
<td></td>
<td>5,100</td>
<td>134,290</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td>1(b)</td>
<td>1,662,445</td>
<td>12,036,918</td>
</tr>
</tbody>
</table>

| Expenditure                                  |      |        |       |
| Salaries                                    | 4    | 2,463,188 | 3,035,280 |
| Commissioners’ Remuneration                 |      | 96,942  | 96,942 |
| Premises                                    |      | 341,999 | 527,411 |
| Training                                    |      | 25,621  | 78,522 |
| Travel                                      |      | 46,117  | 32,367 |
| Professional Fees                           |      | 120,937 | 146,880 |
| Operating Expenses                          |      | 52,599  | 128,223 |
| Information Technology                      |      | 218,657 | 549,997 |
| Other                                       |      | -       | 23    |
| **Total Expenditure**                       | 1(c), 3 | (3,366,060) | (4,595,645) |
| **(Deficit)/Surplus for the year**          |      | (1,703,615) | 7,441,273 |

The notes on pages 50 to 51 form part of these accounts.

The income and expenditure account was approved by the Financial Supervision Commission on 26 May 2011 and signed on its behalf by Mrs R V Penn (Chairman) and Mr J R Aspden (Chief Executive).
Notes to the accounts for the year ended 31 March 2011

1 Accounting policies

a) Basis of accounting

The Isle of Man Financial Supervision Commission is constituted under the Financial Supervision Commission Order 1983 as a Statutory Board of Tynwald. The income and expenditure account is part of the general revenue account of the Isle of Man Government. Accordingly, any deficit or surplus for the year forms part of general revenue and is not retained by the Commission.

The accounts are prepared in accordance with the Accounts and Audit Regulations 2007 to 2008 and the Audit Directions 2008, made under the Audit Act 2006. They are also prepared in accordance with UK Accounting Standards, as modified by the Audit Directions 2008, and in accordance with the Isle of Man Statement of Recommended Practice 2007 on accounting for entities subject to the Audit Act 2006 (“the SORP”), to the extent applicable to the Commission.

b) Income

Income is accounted for on an accruals basis.

c) Expenditure

Expenditure is accounted for on an accruals basis. Amounts properly incurred during the year but not yet paid are included within expenditure.

The Commission has elected to include within expenditure, rather than capitalising, the cost of fixed assets not being made from the Consolidated Loans Fund of the Isle of Man Government. The Commission, as a Statutory Board, does not hold assets in its own name. Any assets purchased are of immaterial value with limited useful lives therefore a policy of non-capitalisation is adopted.

d) Pensions

The Commission’s employees are members of the Financial Supervision Commission Superannuation Scheme 1984 which is analogous to the Principal Civil Service Scheme. For employees who commenced employment before 1 April 2008 this is funded from central Treasury and Isle of Man Government reserves. For employees employed after this date the Commission is required to make a contribution to the Scheme of 20% of pensionable salary.

e) Balance sheet

The Commission is a statutory board of the Isle of Man Government and does not hold any assets or liabilities in its own name. Accordingly, an independent Balance Sheet does not form part of the Accounts. A statement of current assets and liabilities attributable to the normal operations of the Commission is included in the notes to the Accounts.

2 Licence and scheme fees income

Licence and scheme fee income comprises licence fee income due in relation to Deposit Taking, Investment Business, Services to Collective Investment Schemes, Corporate Services, Trust Services, E-money and Money Transmission Services and fee income due in relation to Collective Investment Schemes.

3 Auditors’ remuneration

Auditors’ remuneration is paid by the Isle of Man Government and is therefore not included within the expenditure of the Commission.

4 Salaries

Remuneration of members, officers and employees of the Commission, earning more than £50,000 per annum, are payable within the following bands:

<table>
<thead>
<tr>
<th>Salary Band</th>
<th>2011 Number</th>
<th>2010 Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>£50,000 - £74,999</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>£75,000 - £99,999</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>£100,000 - £124,999</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>£125,000 - £149,999</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>£150,000 - £174,999</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>£175,000 - £199,999</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>£200,000 - £224,999</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>£225,000 - £250,000</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

Included within salaries are pension contributions of £17,200 (2010: £17,200).

5 Debtors

The following have been adjusted for within the income and expenditure account:

<table>
<thead>
<tr>
<th>Description</th>
<th>2011 £</th>
<th>2010 £</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtors</td>
<td>-</td>
<td>760,235</td>
</tr>
<tr>
<td>Provision for doubtful debts</td>
<td>-</td>
<td>(171,067)</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>589,168</td>
</tr>
</tbody>
</table>
6 Accruals

The following accruals have been included within expenditure:

<table>
<thead>
<tr>
<th></th>
<th>2011 £</th>
<th>2010 £</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued expenditure</td>
<td></td>
<td>24,733</td>
</tr>
</tbody>
</table>

7 Operating lease commitments

The Commission has the following rental lease commitments expiring:

<table>
<thead>
<tr>
<th></th>
<th>2011 £</th>
<th>2010 £</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within 12 months</td>
<td>246,652</td>
<td>265,675</td>
</tr>
<tr>
<td>Between 1 and 5 years</td>
<td>986,608</td>
<td>968,817</td>
</tr>
<tr>
<td>After 5 years</td>
<td>1,510,332</td>
<td>1,706,865</td>
</tr>
<tr>
<td>Total</td>
<td>2,743,592</td>
<td>2,941,357</td>
</tr>
</tbody>
</table>

Due to restructuring of departments by the Isle of Man Government, Companies Registry is reported under Department of Economic Development from 1 April 2010. The commitments for the current and prior year reflect this arrangement.

8 Segmental reporting

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

9 Related party disclosures

There were no related party transactions requiring disclosure in the accounts.

10 Commitments and contingencies

The Commission had no commitments or contingencies at the year end (2010: none).

11 Companies Registry income

Due to restructuring of departments by the Isle of Man Government, Companies Registry is reported under Department of Economic Development from 1 April 2010. As a consequence, Companies Registry fees, and related fees and expenditure no longer forms part of the Commission’s Income and Expenditure account. This has been reflected in the Income and Expenditure account for the current year.
Legislation coming into force between 1 April 2010 and 31 March 2011

Secondary legislation

SD No 07/10 effective 5/4/10 Register of Recognised Auditors Regulations 2010. These Regulations require the Commission to maintain a register of auditors that have been approved as Recognised Auditors; they also specify the content of the register and the criteria for being included on the register.

SD No 08/10 effective 5/4/10 Public Oversight of Recognised Auditors Regulations 2010. These Regulations prescribe that oversight of Recognised Auditors on the Isle of Man’s register must be carried out by the UK’s Professional Oversight Board of the UK’s Financial Reporting Council and the monitoring of Recognised Auditors by the Institute of Chartered Accountants in England and Wales.

SD No 09/10 effective 5/4/10 Accounting (Recognised Auditors) Regulations 2010. These Regulations specify that a market traded company may only be audited by a Recognised Auditor.

SD No 161/10 effective 1/5/10 Collective Investment Schemes (Regulated Fund) Regulations 2010. These Regulations create a new type of full international scheme structure.

SD No 162/10 effective 1/5/10 Collective Investment Schemes (Specialist Fund) Regulations 2010. These Regulations update the previous regime for specialist funds.

SD No 163/10 effective 1/5/10 Collective Investment Schemes (Qualifying Fund) Regulations 2010. These Regulations update the previous regime for qualifying funds.

SD No 164/10 effective 1/5/10 Collective Investment Schemes (Experienced Investor Fund) Regulations 2010. These Regulations update the previous regime for experienced investor funds.

SD No 165/10 effective 1/5/10 Collective Investment Schemes (Registers) Regulations 2010. These Regulations set out the content of the public registers to be maintained by the Commission for authorised schemes, regulated funds, international schemes, specialist funds, qualifying funds, professional investor funds, experienced investor funds and recognised schemes.

SD No 166/10 effective 1/5/10 Collective Investment Schemes (Promotion of Schemes other than Authorised and Recognised Schemes) (Exemption) Regulations 2010. These Regulations update the arrangements for promotion of schemes which are not authorised or recognised schemes to persons on the Island.

SD No 167/10 effective 1/5/10 Collective Investment Schemes (Recognised Schemes from Designated Countries and Territories) (Notification) Regulations 2010. These Regulations update the notification arrangements for recognised schemes.

SD No 168/10 effective 1/5/10 Collective Investment Schemes (Qualifying Schemes) (Facilities in the Island) Regulations 2010. These Regulations update the requirements for facilities in the Island in relation to recognised schemes.

SD No 169/10 effective 1/5/10 Collective Investment Schemes (Legacy Schemes) Regulations 2010. These Regulations amend existing regulations for full international schemes and professional investor funds to prevent new schemes of certain types from being established.

SD No 170/10 effective 1/5/10 Limited Partnerships (Collective Investment Schemes) (Exemption) Regulations 2010. These Regulations exempt certain funds from the requirement for a limited partnership to have less than 20 partners.

SD No 171/10 effective 1/5/10 Limited Partnerships (Collective Investment Schemes) Regulations 2010. These Regulations exempt certain funds from certain limited partnership requirements.

SD No 172/10 effective 1/5/10 Collective Investment Schemes (Prospectus) (Exemptions) Regulations 2010. These Regulations exempt collective investment schemes from certain provisions because they are subject to equivalent provisions under the Collective Investment Scheme Act 2008.

SD No 173/10 effective 1/5/10 Collective Investment Schemes (Returns of Allotment and Redemption) (Exemption) Order 2010. This Order exempts certain funds from the requirement to submit returns of allotment and redemption to the Companies Registry.
SD No 174/10 effective 1/5/10 Companies Act 1931 to 2004 (Treasury Share) Regulations 2010. These Regulations allow certain companies established under the Companies Act 1931 to utilise treasury shares.

SD No 781/10 effective 1/11/10 Financial Services Act (Gateways) (Amendment) Order 2010. This Order has the effect of establishing a specific gateway with Isle of Man Customs and Excise.

SD No 682/10 effective 1/1/11 Authorised Collective Investment Schemes Regulations 2010. These Regulations reflect the changes that have been made to the UK authorised scheme regime which are necessary to ensure that the Island’s authorised schemes’ framework remains equivalent. This means that the regime will continue to benefit from UK designated territory status.

SD No 881/10 effective 1/1/11 Financial Services (Amendment) Rule Book 2010. This Rule Book makes amendment to the Financial Services Rule Book 2009 to clarify certain rules and add additional rules for conduct of business and for monies held by e-money issuers. It also incorporates a new Part 9 for individuals licensed to carry on the activities of director, trustee, protector and enforcer.

SD No 882/10 effective 1/1/11 Regulated Activities (Amendment) Order 2010. This Order makes amendments to the Regulated Activities Order 2009. The main amendments alter the definition of Class 8(2) regulated activity to become the provision and execution of payment services, either directly or as agent, and relevant definitions are inserted into the definitions contained in Schedule 2 to the Order.

SD No 883/10 effective 1/1/11 Financial Services (Exemptions) (Amendment) Regulations 2010. These Regulations make amendments to the Financial Services (Exemptions) Regulations 2009. The main changes are to bring in transitional arrangements to payment institutions and extend exemptions to payment services which became a regulated activity from 1 January 2011. In addition, certain exempt persons are required to be directly and wholly-owned by holders of a financial services licence.

SD No 915/10 effective 1/1/11 Financial Services (Civil Penalties) Regulations 2010. These Regulations specify the penalties payable by licenceholders if returns are not submitted or provided to the Commission within certain specified periods.
Consultative Documents  
issued between 1 April 2010 and 31 March 2011

<table>
<thead>
<tr>
<th>Title of consultation</th>
<th>Date consultation published</th>
<th>Date consultation closed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Review of Authorised Collective Investment Schemes Regulations</td>
<td>1 March 2010</td>
<td>7 May 2010</td>
</tr>
<tr>
<td>Revisions to civil penalties for late returns</td>
<td>30 July 2010</td>
<td>10 September 2010</td>
</tr>
</tbody>
</table>

The Commission’s website www.fsc.gov.im contains useful information including an outline of the regulatory requirements covering all areas of its responsibility.

The Rule Book provides legislation and guidance for licenceholders together with downloadable PDFs of the various legislation and regulations.

Further publications relating to Fiduciaries, Funds, Insurance and Pensions, Tax, and Business Relocation are available from the Isle of Man Government, Isle of Man Finance, St George’s Court, Upper Church Street, Douglas, Isle of Man, or can be downloaded from the Division’s website www.isleofmanfinance.gov.im.

The Isle of Man Government Insurance and Pensions Authority also provides copies of legislation on its website www.gov.im/ipa, including:

- The Insurance Act 2008 and attendant regulations and guidance.
- The Retirement Benefits Schemes Act 2000 and attendant regulations.

Telephone calls made to or from the Commission may be recorded or monitored.
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACCA</td>
<td>The Association of Chartered Certified Accountants</td>
</tr>
<tr>
<td>ACIB</td>
<td>The Association of Chartered Institute of Bankers</td>
</tr>
<tr>
<td>ACSP</td>
<td>Association of Corporate Service Providers</td>
</tr>
<tr>
<td>AIMFD</td>
<td>Alternative Investment Fund Managers</td>
</tr>
<tr>
<td>AML/CFT</td>
<td>Anti-Money Laundering and Countering the Financing of Terrorism</td>
</tr>
<tr>
<td>CDS</td>
<td>Credit Default Swap</td>
</tr>
<tr>
<td>CEICs</td>
<td>Closed Ended Investment Companies</td>
</tr>
<tr>
<td>CHAPS</td>
<td>Clearing House Automatic Payment System</td>
</tr>
<tr>
<td>CIS</td>
<td>Chartered Institute of Personnel &amp; Development</td>
</tr>
<tr>
<td>CISI</td>
<td>Chartered Institute for Securities &amp; Investment</td>
</tr>
<tr>
<td>Commission</td>
<td>The Financial Supervision Commission</td>
</tr>
<tr>
<td>CODA</td>
<td>Company Officers Disqualification Act 2009</td>
</tr>
<tr>
<td>CPD</td>
<td>Continuing professional development</td>
</tr>
<tr>
<td>CSP</td>
<td>Corporate Service Provider</td>
</tr>
<tr>
<td>DCS</td>
<td>Depositors’ Compensation Scheme</td>
</tr>
<tr>
<td>DNFBPs</td>
<td>Designated Non-Financial Businesses and Professions</td>
</tr>
<tr>
<td>EIF</td>
<td>Experienced Investor Fund</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FAQ</td>
<td>Frequently Asked Questions</td>
</tr>
<tr>
<td>FATF</td>
<td>Financial Action Task Force</td>
</tr>
<tr>
<td>FSA</td>
<td>UK Financial Services Authority</td>
</tr>
<tr>
<td>FSA08</td>
<td>Financial Services Act 2008</td>
</tr>
<tr>
<td>FSAP</td>
<td>Financial Sector Assessment Programme</td>
</tr>
<tr>
<td>FSB</td>
<td>Financial Stability Board</td>
</tr>
<tr>
<td>FTSE</td>
<td>Financial Times Stock Exchange</td>
</tr>
<tr>
<td>G20</td>
<td>The Group of Twenty Finance Ministers and Central Bank Governors</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GIFCS</td>
<td>Group of International Finance Centre Supervisors</td>
</tr>
<tr>
<td>GSC</td>
<td>Gambling Supervision Commission</td>
</tr>
<tr>
<td>ICA</td>
<td>International Compliance Association</td>
</tr>
<tr>
<td>ICAAP</td>
<td>Internal Capital Adequacy Assessment Process</td>
</tr>
<tr>
<td>ICAEW</td>
<td>The Institute of Chartered Accountants in England and Wales</td>
</tr>
<tr>
<td>ICSA</td>
<td>Institute of Chartered Secretaries and Administrators</td>
</tr>
<tr>
<td>IIP</td>
<td>Investors in People</td>
</tr>
<tr>
<td>ILM</td>
<td>Institute of Leadership and Management</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>IOSCO</td>
<td>International Organisation of Securities Commissions</td>
</tr>
<tr>
<td>IPA</td>
<td>Insurance and Pensions Authority</td>
</tr>
<tr>
<td>ISD</td>
<td>Government’s Information Systems Division</td>
</tr>
<tr>
<td>Island</td>
<td>Isle of Man</td>
</tr>
<tr>
<td>IT</td>
<td>Information Technology</td>
</tr>
<tr>
<td>JAAMLG</td>
<td>Joint Anti-Money Laundering Advisory Group</td>
</tr>
<tr>
<td>KSF(IOM)</td>
<td>Kaupthing Singer &amp; Friedlander (Isle of Man) Limited</td>
</tr>
<tr>
<td>LEGCO</td>
<td>Isle of Man Legislative Council</td>
</tr>
<tr>
<td>MMOU</td>
<td>Multilateral Memorandum of Understanding</td>
</tr>
<tr>
<td>MONEYVAL</td>
<td>Committee of Experts on the Evaluation of Anti-Money Laundering Measures</td>
</tr>
<tr>
<td>MOU</td>
<td>Memorandum of Understanding</td>
</tr>
<tr>
<td>NAV</td>
<td>Net Asset Value</td>
</tr>
<tr>
<td>OFT</td>
<td>Office of Fair Trading</td>
</tr>
<tr>
<td>OGBS</td>
<td>Offshore Group of Banking Supervisors</td>
</tr>
<tr>
<td>PDF</td>
<td>Portable document format</td>
</tr>
<tr>
<td>PEP</td>
<td>Politically Exposed Persons</td>
</tr>
<tr>
<td>RDR</td>
<td>Retail Distribution Review</td>
</tr>
<tr>
<td>RICC</td>
<td>Risk &amp; Internal Control Committee</td>
</tr>
<tr>
<td>RPI</td>
<td>Retail Price Index</td>
</tr>
<tr>
<td>SEPA</td>
<td>Single Euro Payments Area</td>
</tr>
<tr>
<td>STEP</td>
<td>The Society of Trust &amp; Estate Practitioners</td>
</tr>
<tr>
<td>STRs</td>
<td>Suspicious Transaction Report</td>
</tr>
<tr>
<td>UCITS</td>
<td>Undertakings for Collective Investments in Transferable Securities</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>UN</td>
<td>United Nations</td>
</tr>
<tr>
<td>USA</td>
<td>United States of America</td>
</tr>
</tbody>
</table>