Regulatory Objectives

The Commission’s Regulatory Objectives are:

• to secure an appropriate degree of protection for the customers of persons carrying on a regulated activity

• to reduce financial crime

• to support the Island’s economy and its development as an international finance sector.

The photographs included in our Annual Report were previously entered into a photographic competition and subsequently published in the New Moods of Mann book in 2008. The Commission would like to thank Moods of Mann Limited and the named photographers for their assistance in sourcing these photographs.
The Commissioners

Rosemary Penn (Chairman) MBE

John Aspden (Chief Executive)

John Cashen (Deputy Chairman) OBE

Tim Cullen

Bryan Stott

Geoff Karran

Alan Smith
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I am delighted to present the Annual Report of the Financial Supervision Commission for the year 2008/09.

The year has been a period of exceptional turbulence that has tested all aspects of financial regulation, as well as the soundness of the finance sector, to the full. For many years fears about asset quality, and the impact which these can have on solvency, typically dominated defensive strategies especially at times of impending recessions. Certainly such fears crystallised this time round with the result that a number of core banks had to be recapitalised or otherwise supported by their parent Governments. However it was the acute lack of wholesale liquidity and subsequent loss of confidence which caused the ferocity of the downturn for banks, with institutions starved of funding in a way in which financial models had not anticipated.

The extent of the problem also caught authorities in many ways unprepared. Systemic oversight and the established framework for relieving shortages of liquidity were quickly found to be inadequate. There was insufficient capital and liquidity for the conditions which prevailed. As a result some official responses came close to knee-jerk, perhaps not surprisingly since these were conditions not seen in recent history.

This has now left us all in a situation which remains heavily distorted pending recovery. A number of the largest banks are Government supported in their home countries. Public perception has turned back the clock to the time when depositors had an automatic expectation, almost perceived as a right, to be fully protected at all times. That is not something which regulation on its own is designed to achieve.

We have yet to hear how Governments are planning their exit strategy from this position. International norms for deposit protection schemes have increased but at the moment there remains a significant gap between their coverage and depositors’ expectations.

One of the first and most authoritative responses to the global banking crisis was the review by Lord Turner, Chairman of the FSA. This highlights many of the issues now being considered internationally on actions required to create a stable and effective banking system. It is highly instructive for this Commission and we look forward to participating in the discussions which will follow.

However notwithstanding the considerable emphasis placed by regulators on supervisory co-operation, it has been acutely disappointing to see in times of high stress the tendency for supervisors often to look inwards and prioritise action mainly for internal protection within their own jurisdictions.

For the Island, where we have many external dependencies, this causes a challenge because we will have to consider additional protection - especially in the banking system - where before we could have reasonably expected more co-operation from external stakeholders.

However we approach the debate, and indeed further international scrutiny, from a position of relative strength. Based on current information banks locally are not investors of any significance in subprime loans or ‘toxic’ assets. We have also adopted a cautious licensing policy towards banks which has served us well.

The exception to this was of course the collapse of KSFiom. This arose wholly because of a loss of confidence in the ultimate parent bank as well as the closure of KSFiom’s London sister bank on whom it was, as are many banks with this type of group structure, heavily reliant.

Through the UK Treasury Select Committee process the Commission has published evidence on what occurred from its perspective, and additional commentary is included later in this Report. The collapse was a highly regrettable event but one which became unavoidable when the circumstances of September/October actually occurred. After a period in which proposals for a Scheme of Arrangement were put forward by Government but later not agreed by creditors, the Depositors’ Compensation Scheme was activated on 27 May 2009.

Despite all this it would not be balanced of me in these remarks to paint too negative a picture. Businesses are finding the going tough and while investor confidence remains low this will inevitably affect volumes. However
many people feel that the shake-up also brings new opportunities. A number of licenceholders in the fiduciaries sector, for example, have reported a continuing high level of activity even if they remain cautious about the coming months. Treasury has also been positive about the resilience of the local economy.

The G20 group of countries has once again turned the spotlight on smaller financial centres like our own, particularly where they offer competitive tax regimes for international persons and businesses. This is substantially driven by a wish to neutralise the imbalance of falling tax receipts and rising Government expenditure in their own countries. The Island is used to the ongoing scrutiny which this generates and the Commission is confident that its responsible attitude towards effective regulation will help to keep it as a model to follow. It was especially pleasing that the Island’s responsible and co-operative record on taxation issues resulted in the Island’s inclusion on the G20 ‘white list’ of jurisdictions recognised as having acted in accord with international expectations in respect of transparency and co-operation.

In the Report you will see a brief account of our preparations for the assessment by the IMF of our regulatory and supervisory regime, conducted in September. The Commission welcomed the FSAP approach to the exercise because this put the assessment on the same, comprehensive and wider basis as that conducted for member countries of the IMF.

A great deal of preparation went into the exercise bringing together regulators, law enforcement authorities, Government and industry across the Island. Although the assessment was conducted in September with full co-operation from the Commission, the Commission is still awaiting the Report’s completion by the IMF and its subsequent publication. However from the draft text already seen I am pleased to note that the Island is again viewed as a well-regulated jurisdiction adhering to international standards of regulatory behaviour. At a time of heightened scrutiny and global instability, this is a positive platform from which to approach the next year.

In the last Annual Report I referred to an impending full programme of legislation, much of which came to fruition during the period. This would not have been possible without the support of Government as well as the industry in responding to consultations, and we do appreciate this. One of the main pieces of primary legislation was the Financial Services Act 2008, and I would highlight this as a major achievement of all those who worked on it. Again, a fuller account lies within this Report.

In July 2008 the Commission celebrated its 25th Anniversary – an important event for the Commission. A history of the Commission and some of its principal milestones was included in last year’s Report and it was a tribute to everyone working at the Commission today, or who has done so in the past, that we have a professional organisation which has overseen the sector for so long.

In conclusion I would like to thank my Board colleagues for their considerable support to the executive during what has been a most demanding year. A number of professional and industry practitioners have given freely of their time to assist, especially with new legislation, in making sure that collectively we can achieve our regulatory objectives in an effective and workable way. I am most grateful for this.

Finally, the Commission is an organisation of people not of profit or fixed assets. Without their dedication and professionalism we would not be able to operate as a credible regulator. I am very grateful for my colleagues’ support.

John R Aspden
Chief Executive and Commissioner
Over the last year, and with increasing intensity since September, the global financial system has suffered a crisis. At the core of the crisis was a sudden breakdown of confidence in major banks in several countries. For the first half of 2008 there was a steady accumulation of marked-to-market losses on the trading books of banks and investment banks. These losses were driven by the increasing evidence of underlying credit problems, and both market and funding illiquidity. In addition, it became apparent that the problems in the housing markets were not limited to subprime borrowers. House prices in the US, UK and other countries fell due to declining expectations of future property prices. These rising concerns turned into a massive collapse of confidence.

In July 2008 the US government had to extend funding guarantees to Fannie Mae and Freddie Mac to ensure their viability and in September the US Treasury had to put them into conservatorship. Also in September, Bradford & Bingley’s share price dropped dramatically and it was part nationalised, with the Spanish bank Santander purchasing all of its savings business. Lehman Brothers filed for bankruptcy and ended the belief that major banks and investment banks were ‘too big to fail’, at least insofar as more wholesale entities were concerned. Very shortly after this, Halifax Bank of Scotland’s share price suffered wild fluctuations. HBOS became part of Lloyds Banking Group through a takeover by Lloyds TSB which came into effect in January 2009 after both sets of shareholders approved the deal.

Stock markets around the world suffered their worst 12 months on record in 2008 with £9.7tn wiped off world share values. The economic crisis caused some countries to close their markets temporarily. In the week beginning 6 October, the Indonesian stock market halted trading after a 10% one day drop and all trading on the Icelandic stock exchange was frozen for two days by the government. In the same week the Dow Jones Industrial Average closed lower five out of five sessions, and fell over 18%. It dropped nearly 35% during 2008. In London, the FTSE 100 index lost 31.3% over the year, its worst annual decline since it was created.

The severity of the crisis meant that government intervention was needed in the largest banking markets across the world. The UK package, in common with many others, combined recapitalisation, funding guarantees and an extension of central bank liquidity. These interventions have stabilised the situation; preventing a collapse of the banking system, protecting retail depositors, producing a limited recovery of inter-bank lending, and avoiding the failure of systemically important commercial banks. However, the wider financial system is still under significant strain as the ability of banks to provide sufficient credit to the real economy is impaired.

Deleveraging of banks, other financial institutions and households is exerting deflationary pressure on the real economy. During the past year much of the industrialised world entered into recession. In December 2008, the National Bureau of Economic Research declared that the United States had been in recession since December 2007. This recession then spread rapidly to Europe.

The financial crisis had serious consequences for the Icelandic economy; the national currency fell sharply in value, the market capitalisation of the Icelandic stock exchange dropped by more than 90%, and all major Icelandic banks have been nationalised. The Icelandic Financial Supervisory Authority took control of Landsbanki, Glitnir and Kaupthing banks in October 2008.

In January 2009 figures from the Office for National Statistics confirmed that the UK had entered a recession. Gross domestic product fell by 1.5% in the last three
months of 2008 after a 0.6% drop in the previous quarter. All elements of the economy shrank from the previous three months, with the exception of agriculture. The figures showed that manufacturing made the largest contribution to the slowdown.

As the economy deteriorated the pound depreciated against most major currencies. The Euro soared to its highest ever rate against the pound in December achieving parity, or a one-to-one exchange rate, for the first time in history. The US dollar recovered strongly against the pound in the second half of 2008, rising from a low of almost $2/£1 to a high of $1.38/£1 in January 2009.

The UK Government implemented measures designed to help revive the economy. On 1 December 2008 the VAT rate was cut from 17.5% to 15% in an effort to boost consumer spending. This is the lowest level allowed under EU law and it is set to stay at this level for 13 months before returning to 17.5% in 2010.

The Bank of England has reduced interest rates six times since October 2008. Over the year interest rates were cut from 5.25% to 0.5% in an attempt to counteract the effects of the global crisis. The current rate is the lowest since the central bank was founded, in 1694. Additionally, the Bank of England announced in February that it would boost the money supply, by creating £75bn and using it to buy government bonds (gilts) and corporate debt over the next three months.

Although the impact of the events has been more subdued in the Middle East and Far East, countries in both areas have experienced economic slow down. One exception to this is China, which still remains fairly liquid. However, in February 2009 industrial production growth slowed, as the downturn reduced demand for exports, and foreign investment fell for the fifth month in a row.

Isle of Man economy

In recent times the Isle of Man has enjoyed an enviable combination of high growth, stable prices and full employment but the recent global financial crises and consequent economic downturn has inevitably curtailed further expansion. The Isle of Man is in its twenty-sixth consecutive year of economic growth. The period since the mid-90s has seen a particularly impressive performance with real growth averaging almost 8% p.a. over the last decade. Although the rate of growth has slowed recently the economy is estimated to be expanding at around 2.5% p.a. in real terms for 2009/10. Per capita income is now 18% higher than that of the UK and 24% higher than the EU15 average. This differential is expected to widen as negative growth in the Eurozone is anticipated in the short term.

Although the key sectors in generating this performance over the last two decades have been financial, professional and scientific services, growth has been across the board. One of this 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 such as film production, professional services, e-business, the space industry, and shipping and aircraft registration.

Banking generates almost one-fifth of the Island’s gross domestic product. When combined with the rest of the finance industry (life and captive insurance, fund management and administration, and various related financial services) it accounts for some 36% of total national income.

The strong economic performance has produced a strong public finance balance sheet. The Isle of Man Government
has continued to receive AAA credit ratings from both Moodys and Standard & Poor’s. This has no doubt been influenced by the Island’s fiscal strength via its established and self-imposed legislative requirement that Government must budget for a surplus in respect of its annual revenue spending.

Even with the fallout from the global downturn and the November 2008 decision of the UK Government to cut temporarily the standard rate of value added tax from 17.5% to 15% (an action transmitted to the Island via the Customs and Excise Agreement with the UK), the Isle of Man Government Treasury has managed to budget for a small surplus in 2009/10.

The Island’s unemployment rate has breached 2% of the economically active population for the first time since 1997. With the economic slowdown resulting in layoffs and general belt tightening, unemployment will likely continue on its upward path from its current rate of 2.2% (approaching 1,000 people). Most of the job losses to date have been in the construction, hospitality and retail sectors. There is some comfort to be had in that there is a seasonal element in these losses, whilst the retail sector has also been critically impacted by the demise of various UK retail chains. There has yet to be any significant net job loss in the primary, export-earning sectors of the economy.

Despite low unemployment, employment costs have generally increased at a modest and manageable rate. Figures from the 2008 Earnings Survey show that average earnings had risen 3.2% over the previous 12 months. There is little doubt that wage settlements will continue to be modest looking forward, particularly with annual consumer price inflation currently running at below 1%.

Since the world financial system went into meltdown in the last quarter of 2008 global demand for commodities has plummeted which has led to energy prices falling. To stave off the effects of a prolonged recession the Bank of England cut its rates from 4.5% in October to 0.5% by March. This has had a profound impact on the Island’s inflation rate. The RPI in April 2009 stood at 0.7%.

As elsewhere, the Island’s property market has slowed over the last 12 months. But the relative economic stability on the Island, and continued net immigration (itself a reflection of ongoing economic expansion), has served to prevent house prices going into reverse. The average sale value of a residential property in 2008 was nearly £285,000, over 5% higher than the previous year. However sales volumes are falling, a factor of greater consumer caution and tougher credit availability and borrowing conditions, so a stagnant property market is anticipated over the short-term.

The global crisis has focussed worldwide attention on all things financial. There is enhanced scrutiny in all matters of financial regulation and taxation. The Isle of Man Government has always positioned itself to engage in international deliberations and initiatives on such matters and has reaffirmed its continuing participation into the future. The quality of its regulation in particular has been recognised in a succession of reports produced by international bodies, and most recently its record on taxation issues has resulted in the Island’s inclusion on the G20 ‘white list’ of jurisdictions recognised as having acted in accord with international expectations in respect of transparency and co-operation. With an economy based on the export of goods and services Government will be seeking to gain benefit from its firm upholding of agreed international standards through the maintaining and extension of its access to overseas markets, and in this way help to secure the Island’s economic future.
Market statistics

Bank deposits

Deposits (net of local inter-bank placings) with Isle of Man banking licenceholders, including those held with overseas branches of Isle of Man incorporated banks totalled £66.9bn as at 31 March 2009, consisting of £43.3bn sterling deposits and £23.6bn non-sterling deposits.

Of the £66.9bn, £10.9bn 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% although during the transition to Basel II no bank has been allowed to operate under a ratio of 10%.

Of the 21 locally incorporated banks seven had risk asset ratios between 10% and 15%, six had risk asset ratios between 15% and 20% and eight had risk asset ratios above 20%. All figures are at the end of March 2009.

The above figures exclude Kaupthing Singer & Friedlander (Isle of Man) Limited, whose licence was in suspension as at 31 March 2009. The Financial Services Act 2008 has removed the need for custodians of Authorised Collective Investment Schemes to hold a deposit taking licence. As a result three custodians no longer hold deposit taking licences.

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

<table>
<thead>
<tr>
<th>Total at 31 March 2009</th>
<th>Subsidiaries</th>
<th>Branches</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>19</td>
<td>8</td>
</tr>
<tr>
<td>Ireland</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Spain</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>South Africa</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Switzerland</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>France</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Cayman Islands</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>USA</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Sub total</td>
<td>36</td>
<td>19</td>
</tr>
<tr>
<td>Isle of Man</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>38</td>
<td>19</td>
</tr>
</tbody>
</table>

Assets and liabilities of licensed banks (£billion)

<table>
<thead>
<tr>
<th>Assets</th>
<th>At 31 March 2009</th>
<th>At 31 March 2008</th>
<th>Liabilities</th>
<th>At 31 March 2009</th>
<th>At 31 March 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money market assets, due from banks</td>
<td>58.9</td>
<td>59.0</td>
<td>Deposits due to banks and building societies</td>
<td>10.8</td>
<td>11.2</td>
</tr>
<tr>
<td>and building societies</td>
<td></td>
<td></td>
<td>Deposits due to customers</td>
<td>56.1</td>
<td>54.4</td>
</tr>
<tr>
<td>Loans, advances and assets leased</td>
<td>11.3</td>
<td>10.7</td>
<td>Other deposits (held as security and interest payable) including deposits due to public sector bodies</td>
<td>0.7</td>
<td>1.8</td>
</tr>
<tr>
<td>Investments</td>
<td>0.1</td>
<td>0.2</td>
<td>Other liabilities</td>
<td>1.3</td>
<td>1.0</td>
</tr>
<tr>
<td>Other assets</td>
<td>1.2</td>
<td>1.0</td>
<td>Capital and reserves</td>
<td>2.6</td>
<td>2.5</td>
</tr>
<tr>
<td>Total assets</td>
<td>71.5</td>
<td>70.9</td>
<td>Total liabilities</td>
<td>71.5</td>
<td>70.9</td>
</tr>
</tbody>
</table>

At 31 March 2009, 46% of loans, advances and assets leased were classified as being secured on residential property (31 March 2008: 44%).
Geographical source of non-bank deposits

<table>
<thead>
<tr>
<th>Country</th>
<th>31 March 2009</th>
<th>31 March 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Isle of Man</td>
<td>31%</td>
<td>28%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>29%</td>
<td>23%</td>
</tr>
<tr>
<td>European Union (excluding UK)</td>
<td>9%</td>
<td>17%</td>
</tr>
<tr>
<td>Europe (non EU)</td>
<td>11%</td>
<td>13%</td>
</tr>
<tr>
<td>Middle and Far East</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>North America</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>Other</td>
<td>10%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Collective Investment Schemes

During the year to 31 March 2009, there has been a decrease in the net asset value of funds under management of 38.1% ($20.5bn), to $33.3bn. The total number of funds has increased from 464 to 484.

The reduction in the total net asset value has been contributed to by decreases across the majority of the scheme types. This arose in particular because of current market conditions affecting the value of the assets invested and a strengthening of the US dollar exchange rate affecting those fund net asset values which do not have US dollars as the base currency.

Sectoral source of deposits (including inter-bank deposits) 31 March 2009

- Other deposits .............1%
- Group depositors...........14%
- Other deposit takers ......5%
- Retail deposits ..........36%
- Corporate/trust/ fiduciary deposits .........44%

Sectoral fund breakdown by value as at 31 March 2009

<table>
<thead>
<tr>
<th>Category of Collective Investment Scheme</th>
<th>No. of Schemes</th>
<th>Total net asset value funds under management/administration $m billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authorised Schemes</td>
<td>7</td>
<td>972</td>
</tr>
<tr>
<td>Full International Schemes</td>
<td>21</td>
<td>3,517</td>
</tr>
<tr>
<td>Professional Investor Funds</td>
<td>7</td>
<td>71</td>
</tr>
<tr>
<td>Specialist Funds</td>
<td>13</td>
<td>806</td>
</tr>
<tr>
<td>Qualifying Funds</td>
<td>2</td>
<td>260</td>
</tr>
<tr>
<td>Experienced Investor Funds</td>
<td>62</td>
<td>3,933</td>
</tr>
<tr>
<td>Qualifying Type Experienced Investor Funds</td>
<td>Nil</td>
<td>Nil</td>
</tr>
<tr>
<td>Legacy Type Experienced Investor Funds</td>
<td>9</td>
<td>686</td>
</tr>
<tr>
<td>Closed Experienced Investor Funds</td>
<td>19</td>
<td>195</td>
</tr>
<tr>
<td>Exempt Schemes</td>
<td>127</td>
<td>4,835</td>
</tr>
<tr>
<td><strong>Sub total</strong></td>
<td><strong>267</strong></td>
<td><strong>15,275</strong></td>
</tr>
<tr>
<td>Overseas Funds</td>
<td>157</td>
<td>10,819</td>
</tr>
<tr>
<td>Closed-ended investment companies</td>
<td>60</td>
<td>6,952</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>484</strong></td>
<td><strong>33,046</strong></td>
</tr>
</tbody>
</table>
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.

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.

In July 2008 the Commission celebrated its 25th Anniversary. Last year’s report included a special chapter outlining the Commission’s history and some of the important events which have occurred in its lifetime so far. This was a very important milestone for the Commission and a reception was held to mark the event.

Organisation of the Commission

During the period there were no changes to the Board. The organisation of the Commission itself also remained broadly the same: there had been some changes previously and these were allowed to take full effect.

The full Board meets monthly. In addition a quorum of the Board meets monthly to consider licensing matters. The following meetings were held during the period:

Meetings of the Financial Supervision Commission 16
Licence Application meetings 12

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

A range of policy, case, and operational matters were discussed by the Board during its monthly meetings and included the following items:

- IMF Review
- Depositors’ Compensation Scheme
- Anti-money laundering guidance
- Financial Services Act and various issues relating to implementation
- Collective Investment Schemes Act
- Liquidity and intragroup exposures
- Annual licence fees
- Financial market turbulence
- Section 26 disqualification action
- Specific licenceholder issues
- Review of risks: banking institutions
- Review of supervisory approach
- FSC Business Plan; periodic reports from divisions
- Isle of Man banking sector
- Risk factors affecting the Commission
- Foot Review
- Annual supervisory visit plan

The Financial Services Act 2008 brought in revised statutory objectives for the Commission. These did not so much confer new responsibilities upon the Commission, as establish certain of the Commission’s work onto a sound legislative footing.

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 finance sector.

These regulatory objectives are supported by the following 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.

The Commission has adopted the above in place of its previous Mission Statement.

A Memorandum of Understanding was signed between Treasury and the Commission, setting out the respective responsibilities of each authority and how communication and liaison should be conducted. The MOU is published on the Commission’s website, and further information is contained in Appendix D.

Corporate governance and risk management

The Risk and Internal Control Committee was chaired by Mr Tim Cullen, with Mrs Rosemary Penn and Mr Alan Smith acting as further members. The work of the non-executive Committee encompassed the following areas:

- 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 2008
- consideration of the Commission’s Statement of Internal Control for the year ended 31 March 2008
- risk factors affecting the Commission in the current economic crisis

As a Statutory Board the Commission is also required to report annually on its compliance with the Government’s Code of Conduct, in the form of a Statement of Internal Control signed by the Chief Executive and submitted to the Chief Financial Officer. In preparation for this each Division completes a corporate governance self-assessment questionnaire which is discussed with the Committee. The Statement for the year to 31 March 2009 was submitted to the Chief Financial Officer on 30 April 2009 in line with Government procedures.

International assessment

The Island’s regulatory and supervisory arrangements were previously reviewed by the IMF in 2002/03. At the time the IMF indicated that the next such review would be undertaken in approximately five years.

In September 2008 the IMF visited the Island to undertake a Financial Sector Assessment Programme update of the Island’s regulatory, financial stability and AML/CFT arrangements. This assessment, which replaced the previous OFC programme and follows the same format as that conducted for IMF member countries, was a very thorough review conducted by an IMF team over a two and a half week period. For the first time the assessment included a stress-testing of the financial system against various interest rate and asset price scenarios.

Apart from the FSC the IMF assessment involved the IPA, Government, law enforcement and other regulatory bodies. The preparation for and response to the assessment was a collective exercise.

The full assessment report has not yet been finalised. The intention is that the report will be published. While a detailed analysis of the report must await its formal completion, the text received so far is complimentary about the Island’s regulatory system and the measures which have been adopted. It reaffirms the Island’s position as a fully co-operative and well-regulated financial centre. As with any report there will be recommendations to consider for further improvement, but these are not expected in any way to detract from the positive conclusion.

External relations

The Commission regards its main stakeholders as follows:

- Tynwald
- Licenceholders and indirectly their clients
- Government
- Other regulatory and law enforcement authorities.

Relations with all its stakeholders are of key importance to the Commission, and the subject is included as a standing item on all agendas for Board meetings.

Outside of day-to-day supervision the key areas of communication with stakeholders were as follows:

- consultation on proposals for regulatory change, mainly in supervision and AML/CFT
- seminars, workshops and briefings for the industry
- Board meetings with industry and the professions
- regular meetings with Treasury
• regular communication with other home/host regulators, including locally the IPA
• briefings for Members of Tynwald
• participation in consultative fora
• co-operation in responding to requests for assistance through established channels
• liaison with the media
• the Commission’s website.

Activities under all of these headings are reported on throughout this Report.

The feedback received by the Commission from its inspection feedback questionnaire, completed by licenceholders after each on-site supervisory visit, continues to indicate that most licenceholders feel the supervisory process can be constructive and helpful.

Complaints against the Commission

Five formal complaints were made against the Commission during the year.

Of these, three related to the collapse of KSFIOM or dealings with a licenceholder regarding KSFIOM. Another complaint was outstanding across the end of the period, but was responded to within April.
The Commission prepares a medium term corporate plan which is integrated within the wider plan of Government. The Government plan for 2009/10 was published earlier during the period.

**Business Plan 2008/09**
The aim of the Commission is to provide effective regulation which promotes the Island as a competitive and secure location from which to conduct financial business.

This Report gives an account of what the Commission has achieved during the year 1 April 2008 – 31 March 2009.

**Business Plan 2009/10**
The Commission’s Business Plan for 2009/10 has been prepared under its new Regulatory Objectives and the following deliverables have been identified under each specific objective:

**Objective: Secure an appropriate degree of protection for customers of persons carrying on a regulated activity**
- review and update supervisory approach
- enhance consumer awareness on companies and licenceholders
- review depositors’ compensation arrangements
- review and enhance contingency arrangements for licenceholder failures
- develop themed supervisory programmes on:
  - clients’ money
  - adoption of the new Rule Book
  - credit quality
  - bank liquidity
- review not “fit & proper” register and human rights
- upgrade e-money regulatory requirements
- introduce auditor oversight regime for EU business
- strategic review of supervisory policy for banks and deposit-taking institutions.

**Objective: Support the Island’s economy and its development as an international financial centre**
- review IMF recommendations
- undertake a strategic review of licensing for banks and deposit-taking institutions
- review Authorised Collective Investment Schemes
- review Full International Collective Investment Schemes
- develop a Handbook for Collective Investment Schemes
- update Rule Book and related secondary legislation
- update and review MOUs
- consider suitability of SEPA entry
- replace secondary legislation under old Schemes regime with new legislation under Collective Investment Schemes Act 2008
- implement the Company Officers (Disqualification) Bill 2008
- implement the Companies (Amendment) Bill 2008.

**Objective: Reduce financial crime**
- conduct on-site AML/CFT themed visits to licenceholders
- licence and regulate money service businesses
- consider and implement as appropriate recommendations from IMF inspection
- redraft AML/CFT Handbook
- redraft Part 9 of the Financial Services Rule Book.

In discharging its functions, the Commission is required to use its resources in the most efficient and economic way and has included a specific objective within its business plan and identified the following deliverables for 2009/10:
Objective: Maximise efficiency and use of resources

- review the feasibility of introducing a time management system
- review the allocation of resources in line with business plan priorities
- upgrade FSC website
- implement recommendations from a review of IT strategy
- upgrade desktop hardware
- complete implementation of 2006 companies’ database
- integrate public view systems
- replace existing document management system: Companies Registry
- introduce a document management system throughout the Commission
- migrate 1931 companies’ database to a new platform
- review off-site storage arrangements

- review and upgrade the licenceholders’ database
- introduce on-line reporting for Collective Investment Schemes
- enhance data collection, analysis and publication
- conduct a review of the complaints’ policy (complaints against licenceholders and the FSC)
- review licence fees.
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.

Any person wishing to conduct a regulated activity on the Island needs to be licensed. Once a person is granted a licence they are then subject to ongoing supervision. This chapter of the Report explains both the licensing and supervisory process.

Authorisations

The Authorisations function of the Commission is conducted separately, but where appropriate liaising with Supervision.

The Commission’s licensing policy was updated in July to reflect the new regulatory structure. There were no major changes in policy, however in many cases the description and type of licences were changed to reflect new classifications. The policy was also extended to cover money transmission services.

The licensing policy is intended to guide would-be applicants on the considerations which the Commission will have in mind when determining applications. There are a number of qualitative aspects to any application, including the fitness and propriety of the persons owning and running the business, the viability of the business plan, and the systems and controls which will govern the business. The published licensing policy explains how these criteria are interpreted and applied.

The Commission holds licensing hearings monthly. The Authorisations team prepares a recommendation based on the application made, and will have worked as closely as possible with applicants to ensure that all the key points are addressed. The paper which Authorisations submits to the Board is sent to applicants 14 days in advance of the meeting. Applicants may attend the hearing if they wish, and they have a right of review if they disagree with the decision.

The Commission is often asked how long it takes to process an application. The time will vary. Straightforward applications involving persons who have previously and recently been vetted can be processed more quickly, whereas others may take longer especially where full details have not been submitted at the outset. The vetting process is also not wholly under the Commission’s control especially when responses from external agencies are awaited. Overall, applications take an average of three months from start to finish but some will be completed more quickly in particular cases.
The following table shows the number of licence applications dealt with during the period:

<table>
<thead>
<tr>
<th>Class of licence in brackets</th>
<th>Received</th>
<th>Determined</th>
<th>Issued</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposit taking (1)</td>
<td>11</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Investment business (2)</td>
<td>54</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Services to Collective</td>
<td>66</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Investment Schemes (3)</td>
<td>14</td>
<td>11</td>
<td>9</td>
</tr>
<tr>
<td>Corporate services (4)</td>
<td>6</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>Money transmission services (6)</td>
<td>8</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Management and administration services (7)</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Totals</td>
<td>41</td>
<td>34</td>
<td>30</td>
</tr>
</tbody>
</table>

In handling the above applications and other requests the Commission undertook the vetting of 750 individuals during the period. A total of 377 of these represented new vetting requests and 373 were vettings of persons previously vetted.

The Financial Services Act 2008 (Rule 8.18 in the Rule Book) introduced a new requirement for all licenceholders to appoint a Deputy MLRO. The definition of a Key Staff person was also extended. Both of these changes increased the scope for additional vetting applications.

**Supervision**

The Commission’s Regulatory Objectives (set out on page 48) require it to “secure an appropriate degree of protection for the customers of persons carrying on a regulated activity”.

In seeking to meet this objective the Commission applies regulatory and prudential requirements to its licenceholders to minimise the risk of failure. These standards are designated to mitigate the risks inherent in any regulated business. However they are not, and cannot be expected to provide, a fail-safe system for protecting all customers in all circumstances or ultimately to prevent an institution from becoming insolvent.

Customers and users of financial services companies are expected to exercise a level of diligence when deciding what to do with their money. Some Governments have felt the need to intervene and offer blanket protection to depositors; and to underpin confidence while they consider a longer-term upgrading to their deposit-protection arrangements. While there are limits to what it can afford in these circumstances, the Island continues to provide a location from where innovative and bespoke products can be offered from within a well-regulated environment.

The year was an important period for Supervision. With global financial markets in considerable turmoil and the financial soundness of many major international names being called into question, it was a time when the supervisory approach needed to be especially responsive.

Industry and supervisors alike are used to addressing the effects of economic downturns and even recessions. However, this year conditions became especially damaging and presented challenges not seen for decades. The acute shortage of liquidity, a dramatic fall in asset values and a collapse in market confidence caused a crisis in global markets.

The Isle of Man could not be immune. A number of banks with presences on the Island received capital injections at the parent level, and this helped to sustain confidence locally. Some banking groups represented in the Island were merged with or taken over by other banks.

**Iceland**

A major casualty of the crisis was the collapse of the Kaupthing Bank hf group based in Iceland. This bank owned the Kaupthing Singer & Friedlander banking group in London which ceased trading when its Kaupthing parent defaulted.

The Isle of Man banking business, Kaupthing Singer & Friedlander (Isle of Man) Ltd, had a significant portion of its assets placed with the London bank for centralised management. When the London bank went into administration it meant that the bank locally became unable to meet its liabilities. A liquidator provisional was appointed by the High Court on 9 October 2008 and the bank’s licence was suspended by the Commission.

The matter then moved under the aegis of the High Court. Rather than allow the bank in the Isle of Man to go into full liquidation, a Scheme of Arrangement was proposed which it was felt could offer an improved recovery including for a wider category of affected persons. Accordingly the Scheme Manager of the DCS did not believe that it was appropriate to declare an event of default under the DCS regulations while this opportunity was being explored.

At a creditors’ meeting held after the end of the period on 19 May 2009, it was decided not to proceed with a Scheme of Arrangement. The Bank was placed into liquidation on 27 May and the DCS was activated on the same day.

Because of the deteriorating economic position in Iceland in the first quarter of 2008, the Commission had requested the local bank to eliminate its Icelandic exposure. Its exposure to the London bank arose subsequently from a decision by the bank’s management, and agreed by the Commission, to redirect balances previously placed in
Reykjavik to the sister bank in London. For the sake of clarity, at no stage did the UK regulator request that balances from the Isle of Man should be placed in London as some have alleged.

The Commission obtained confirmation from the UK regulator that the UK bank’s exposure to Iceland was limited and that sufficient liquidity would be maintained to ensure that balances from the Isle of Man could be repaid. In the absence of information to the contrary, events appeared subsequently to demonstrate that this position may not have been maintained.

A guarantee by the Icelandic parent Kaupthing Bank hf, covering any shortfall of assets in the Isle of Man, was in place. The guarantee was not a regulatory requirement and did not therefore have to be approved by the Commission. Later the guarantor bank was itself placed into administration. The Isle of Man Government commenced steps to secure recovery under the guarantee, and the issue still remains unresolved.

The Commission was very concerned about the position of depositors with the bank in the Isle of Man. Working with Government, the Commission held discussions including with HM Treasury and the FSA about recovery of the funds placed in the UK. The main concern of the Isle of Man, as set out in its evidence to the UK Treasury Select Committee, was that timely and reciprocal communication over the imminent collapse of the UK bank was not forthcoming which deprived the Isle of Man authorities of valuable time to consider possible solutions for retail depositors before the cessation of business occurred: working out a possible transfer of business or other remedy in advance is a critical part of an early resolution to this type of event.

Nor were the reasons why the UK bank was placed into administration fully disclosed at the time, and it has not been explained whether the UK bank was adhering to the prudential limits set for it. In the meantime specific legislation was also quickly passed in the UK which exceptionally prioritised aspects of the administration potentially to the disadvantage of the Isle of Man.

The problems affecting the Kaupthing Singer & Friedlander group were part of a much wider global shock to the financial system, although Iceland’s difficulties were especially acute which made it an early casualty. The G20 group of countries, the key regulatory standard-setting bodies and the major home regulators are now all collaborating in a major review on how to make sure this extent of shock does not recur. New measures addressing systemic stability, capital strength, cross-border co-operation and consolidated supervision, are likely to emerge among other initiatives. The Isle of Man looks forward to playing a full part in developing such a framework.

For those who wish to understand more about the circumstances surrounding this matter a useful reference point is the evidence the Isle of Man Government submitted to the UK Treasury Select Committee on the Banking Crisis. This is available to view at www.gov.im/lib/docs/cso/treasurycommitteeiomwrittenevidencej.pdf

Risk and compliance

A new unit within Supervision was established, working separately to ensure that the Division as a whole was meeting its licenceholder review and visit programme. Led by a Senior Manager the unit has proved an important support for the Head of Division (and the different regulated activity teams) in his overall control of the supervisory agenda. It also strengthened the Commission’s ability to check that follow-up action is being checked and that breaches of rules and regulations are properly dealt with.

The unit took responsibility for dealing with the practical issues arising from the new Financial Services Act 2008. This brought with it a new Rule Book, and the need to reissue existing licences to take account of new licence classifications.

In the meantime the Division’s Procedures Manual is being rewritten to reflect the new legislation and other changes in practices.

In March a Discussion Document, the 2009 Review of the Supervisory Approach, was issued addressing a number of the important areas which need to be considered in the light of the global turmoil. The following table, taken from the document, sets out the Principal Risks to the Commission’s Core Objectives of Supervision, with examples of the regulatory tools to be employed for the mitigation of these risks.
<table>
<thead>
<tr>
<th>Risk to Core Objectives of Supervision</th>
<th>Description of Risk</th>
<th>Examples of regulatory tools for the mitigation of risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial failure</td>
<td>The risk to consumer protection and market confidence objectives arising out of insolvency or illiquidity of a licenceholder. For high impact licenceholders, this could also include financial losses that, while short of causing failure, can still adversely affect market confidence because of the scale of these licenceholders in relation to the market. Recessions make financial failure more likely.</td>
<td>Financial resources rules</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Review of financial returns</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Monitoring of large exposures, related party lending and upstream lending</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Audit</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Exchange of information with home regulators</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Action for breach*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Prompt remedial action</td>
</tr>
<tr>
<td>Misconduct/ mismanagement and inappropriate conduct of business practices</td>
<td>The risk to consumer protection arising from the mis-selling or mishandling of regulated products by licenceholders; or inappropriate behaviour by licenceholders or mismanagement of their operations. Recessions and low interest rates produce low returns from traditional savings and investment products and increase the attractiveness of products which offer higher returns. These can pose a risk to capital which might not be fully disclosed or might be poorly understood by the consumer.</td>
<td>Conduct of Business Rules</td>
</tr>
<tr>
<td></td>
<td></td>
<td>On-site visits</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Complaints handling</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Whistle blowing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Action for breach*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Prompt remedial action</td>
</tr>
<tr>
<td>Fraud or dishonesty</td>
<td>The risk to the financial crime and market confidence objectives arising out of external parties defrauding licenceholders or their customers, or the incidence of fraud or dishonesty within licenceholders. Existing frauds tend to come to light during recessions. Instances of crimes of dishonesty tend to rise.</td>
<td>Vetting of key persons</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Recruitment controls</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Risk management and internal control rules</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Action for breach*</td>
</tr>
<tr>
<td>Money laundering and CFT</td>
<td>The risk to the financial crime and market confidence objectives of money laundering or terrorist financing conducted through the facilities of licenceholders. Understaffed or financially stressed licenceholders find it more difficult to spot problem applicants or to turn away borderline applicants.</td>
<td>AML code</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Visits</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Action for breach*</td>
</tr>
</tbody>
</table>

* Action for breach includes a range of remedial measures, including directions, suspension or revocation of licences, appointment of a manager, “not fit and proper” findings and disqualification of a company officer.
As the following tables indicate, the Division executed a large number of visits during the year. The overall increase of forty-one in the number of visits was accounted for by Annual Business Meetings. During 2007/2008 the Fiduciary Services team undertook a risk-based programme of on-site focus visits but, for this year, more use was made of Annual Business Meetings and this is reflected in the overall statistics. An aggregate of 271 visits had been planned compared to the 247 achieved. However the visit plan was rescheduled on a risk-based approach to minimise the impact of this slight shortfall which arose for resource reasons.

Not surprisingly, because of the other pressures on Supervision Division during the year, including the financial crisis, the changes taking place in the Collective Investment Schemes arena and the IMF assessment visit, the number of average man days devoted to on-site visits decreased by 147 to 1,472. For supervisory and on-site visits, the average man days per visit decreased from 12 to 10. This was partially due to increases in efficiency and changes to some of the report format.

The Commission had requested two additional staff for Supervision Division for the year commencing 1 April 2009 but this did not receive approval centrally within Government. The Commission will monitor market conditions and intends to seek further to reallocate some headcount from other areas of the Commission if this becomes necessary.

### Total number of visits undertaken over the last three years, and the average number days required for each interaction.

<table>
<thead>
<tr>
<th>Type of visit</th>
<th>Number of visits undertaken</th>
<th>Average man days per visit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual business meetings</td>
<td>116</td>
<td>55</td>
</tr>
<tr>
<td>Focus visits</td>
<td>70</td>
<td>101</td>
</tr>
<tr>
<td>Supervisory and on-site risk assessments</td>
<td>61</td>
<td>50</td>
</tr>
<tr>
<td>Total</td>
<td>247</td>
<td>206</td>
</tr>
</tbody>
</table>

### Total visits conducted during the year.

<table>
<thead>
<tr>
<th>Type of visit</th>
<th>Banking</th>
<th>FIS</th>
<th>Fiduciary</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual business meetings</td>
<td>40</td>
<td>46</td>
<td>30</td>
<td>116</td>
</tr>
<tr>
<td>Focus visits</td>
<td>12</td>
<td>8</td>
<td>50</td>
<td>70</td>
</tr>
<tr>
<td>Supervisory visits</td>
<td>1</td>
<td>34</td>
<td>26</td>
<td>61</td>
</tr>
<tr>
<td>Total</td>
<td>53</td>
<td>88</td>
<td>106</td>
<td>247</td>
</tr>
</tbody>
</table>

### Licences surrendered during the year.

<table>
<thead>
<tr>
<th>Type</th>
<th>Licences surrendered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class 1 - Deposit takers</td>
<td>2</td>
</tr>
<tr>
<td>Class 2 - Investment business</td>
<td>5</td>
</tr>
<tr>
<td>Class 3 - Services to CIS</td>
<td>4</td>
</tr>
<tr>
<td>Class 4/5 - Services to companies and trusts</td>
<td>11</td>
</tr>
</tbody>
</table>
**Home / Host supervision**

During market conditions such as those that prevailed during the last year, communication between regulators is critical. The Commission values greatly the constructive dialogue that it has with the home and host regulators with whom it deals. One of the issues arising out of the recent upheaval is the lack of guidance given to communication between host regulators. It was lack of full communication in this area which increased the severity of the KSFIOM problems for the Isle of Man. It is important that better communication between host regulators flows from the international review of the banking crisis which is now taking place.

**Civil penalties**

Civil penalties levied during the year totalled £7,600 arising from 44 events. The figures are based on breaches occurring in the year 1/4/08 to 31/3/09 rather than invoices raised during the period.

<table>
<thead>
<tr>
<th>Number of penalties levied</th>
<th>£100 penalties</th>
<th>£200 penalties</th>
<th>£1,000 penalties</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks and building societies</td>
<td>7</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Fiduciaries</td>
<td>10</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Funds and investment businesses</td>
<td>20</td>
<td>4</td>
<td>-</td>
</tr>
</tbody>
</table>

The overall number of breaches and errors recorded against licenceholders showed a marginal increase over last year but as the table below shows, there were significant variances between the various regulated sectors.

**Breaches and errors recorded against licenceholders**

<table>
<thead>
<tr>
<th>Supervision team</th>
<th>2008/9</th>
<th>2007/8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking</td>
<td>15</td>
<td>30</td>
</tr>
<tr>
<td>CIS</td>
<td>46</td>
<td>31</td>
</tr>
<tr>
<td>Fiduciary Services</td>
<td>92</td>
<td>110</td>
</tr>
<tr>
<td>Investment Business</td>
<td>45</td>
<td>23</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>198</strong></td>
<td><strong>194</strong></td>
</tr>
</tbody>
</table>

**Banking**

While the banking sector has been most exposed to the global crisis, it is noticeable that banks in the Island have generally not invested in sub-prime assets or in leveraged or derivative positions. This has contained some of the effects of the global fallout.

However a number of local banks have maintained significant exposures to their parent banks when deposits have been lent upwards for central management by group treasuries. In some cases these parent banks have encountered major problems and required capital infusions.

This up-streaming model has generally stood the test of past recessions well and kept market and credit risk locally to a minimum. The event involving KSFIOM has been an exception.

The Commission has placed an increasing focus on the individual liquidity positions of locally incorporated banks, and has discussed with banks (through several position papers) enhanced requirements for independent liquidity and the disclosure of intra-group exposures. It must be stressed, however, that the Commission sets high entry standards for banking groups seeking to establish a presence in the Isle of Man. It believes that it is appropriate that customers banking with the Isle of Man office of a particular banking group will have a significant exposure to the banking group of which the Isle of Man office is a part. This is irrespective of whether the Isle of Man presence is in the form of a branch or a subsidiary. The Commission believes that these steps are fully in line with the developing international response to dealing with liquidity imbalances.

The primary focus of on-site visits to banks during the past year was on risk management and corporate governance. Another theme was the complaint handling process adopted by banks: feedback from these visits has been provided to the industry and the Isle of Man Office of Fair Trading.

**Desk-based supervision**

**Prudential returns - increased monitoring of deposit flows.** With the liquidity crisis and severe market conditions, the Commission introduced additional reporting requirements for banks during the year.

**Review of policies.** As part of their risk management and corporate governance processes, the Board of Directors of Isle of Man banks have to confirm annually to the Commission that they have reviewed their policies in the areas of credit (lending), liquidity, interest rate, foreign exchange and operational risk. Where changes are made, the revised policy statement has to be shared with the Commission, and reviews are performed against the legislative requirements and published guidance.

**Basel II**

**Supervisory review and evaluation of banks’ ICAAPs.** Banks incorporated in the Isle of Man are now required to prepare an ICAAP and submit this to the Commission. This is refreshed at least annually. The Commission must undertake a supervisory review and evaluation of the ICAAP and agree a minimum capital ratio with the bank. This process will continue to develop and improve as both banks and the Commission refine their practices.
Review of prudential returns. The prudential returns submitted by banks on a quarterly basis were updated during the year to reflect the new requirements introduced by Basel II.

Looking forward – visit plans for this year
This year’s visit plan to banks will cover the areas of:

AML/CFT. Detailed focus visits will be undertaken to most banks during the year to assess their compliance with the legislative framework following the changes to the regime that were introduced in August 2008.

Credit assessments. Bespoke reviews will be undertaken focusing on credit quality including documented policy and procedures, compliance with policy and procedures, arrears and impairment management, and adequacy of security. These visits will be mainly focused on relevant Isle of Man incorporated banks as they are required to hold capital locally to absorb credit losses.

Quarterly information on arrears and bad debts is provided to the Commission from all banks.

Compliance with the new Rule Book. Such compliance will be assessed through the above visits, annual business meetings and ongoing desk-based supervisory work.

Fiduciary services

Companies, Trusts & Partnerships under administration by licenceholders

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<thead>
<tr>
<th></th>
<th>Companies and Partnerships</th>
<th>Trusts</th>
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</thead>
<tbody>
<tr>
<td>IOM Companies</td>
<td>21,274**</td>
<td>23,782*</td>
</tr>
<tr>
<td>Other Companies</td>
<td>18,765</td>
<td>19,240</td>
</tr>
<tr>
<td>Partnerships</td>
<td>940</td>
<td>1,014</td>
</tr>
<tr>
<td>Total</td>
<td>40,979</td>
<td>44,036</td>
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*449 are 2006 Act Companies
**1507 are 2006 Act Companies

While the slowdown in economic activity has impacted on some areas of fiduciary activity (for example, see page 41 in relation to new company incorporations), the sector overall has shown resilience. Indeed, some licenceholders have taken the opportunity to increase their presence through acquisition and expansion.

In some areas, where structures are used by clients for tax mitigation purposes, increasing attention is to be expected from foreign Governments keen to limit tax leakage in the face of large revenue and expenditure imbalances. The Commission is clear that it does not regard the promotion of aggressive tax planning and tax mitigation structures for clients as a prudent business strategy for any licenceholder.

On-site supervision, where Commission staff visit licenceholders’ offices and examine client files to see how business is being conducted, remains the cornerstone of the Commission’s supervisory work in this area. Client due diligence procedures and the segregation of clients’ monies are two core areas of focus, along with the financial soundness of the business.

In August the Commission published feedback to the industry on issues identified during supervisory visits. In issuing the document the Commission aimed to promote best practice in the conduct of business and assist licenceholders to maintain appropriate standards in the prevention of money laundering and countering the financing of terrorism.

More recently the Commission has had to tackle instances where financial requirements are not being met. It paid increasing attention to where audited financial statements are not produced in a timely manner and to instances of delayed returns. Frequently these lapses of compliance can be indicators of a poorly run business.

A licenceholder’s failure to submit the relevant financial returns to the Commission in a timely manner led to action being taken by the Commission during the course of the year to revoke a licence. An application was lodged by the licenceholder with the Financial Services Review Committee seeking a review of the decision of the Commission to issue the Revocation Notice. The Review Committee made a unanimous decision to dismiss the appeal and the licence was duly revoked.

Because of cases where remedial attention has had to be given, Supervision Division has set aside specific resources to see through action plans to completion.

In the forthcoming year emphasis will continue to be given to on-site supervision and compliance with the requirements of the Rule Book, including that relating to AML/CFT. The Commission has worked closely with licenceholders to ensure a smooth transition to the requirements of the Rule Book and will continue to do so. Particular attention will be paid to the procedures and controls that are in place to ensure compliance with the financial resources and reporting requirements and evidence of the quarterly calculations performed.
It is also planned to provide further feedback and disseminate best practice to the industry in relation to the provision of trust services from issues identified during the course of supervisory visits.

Funds & investment services

The current global financial crisis has clearly adversely affected the volume of funds managed from or administered in the Island where the recent focus has been to develop an institutional market embracing hedge and alternative strategy funds. Developments in the markets, including in markets in which these funds are invested, have created problems of valuation and liquidity. In some cases the funds have been suspended.

On 1 August 2008 the Collective Investment Schemes Act 2008 came into effect. This stage of the consolidation of regulatory legislations aim was to increase transparency in respect of the various scheme types that can be established on the Island and overseas schemes which are managed, administered or promoted on the Island, and to spell out the responsibilities of their functionaries. It is also designed to allow flexibility in order that changes required for the continued development of the Island’s Fund Industry can be facilitated to allow the development of new scheme types as necessary.

Regulatory changes occurred to the EIFs, with no further EIFs established since 1 November 2007. By 30 April 2009 the remaining EIFs converted to another scheme type or to a ‘continuing type EIF’ (ie Qualifying Type EIFs, Legacy EIFs or Closed EIFs). The FIS team has been heavily involved in the EIF transition process and, whilst elections as to transition selection had been previously made by funds, the Commission has been required to facilitate changes in notification, permit extension to deadlines and accommodate variations under the relevant Orders using the power provided under Section 24(7) of the Collective Investment Schemes Act. Examples of variations granted included allowing promoters in respect of Qualifying Type EIFs and Qualifying Funds to utilise regulated financial advisors and allowing additional time to transition successfully.

The FIS team undertook a number of visits during the reporting period, the number and level of findings varied from licenceholder to licenceholder, though a common theme was the Commission identifying weaknesses in the quality of corporate governance. Where significant deficiencies or breaches were identified these resulted in further work and follow-up for the team, with consequent resource impact and, where necessary, firms being placed on a programme of remediation.

The “acceptable jurisdictions” regime that enables certain functionaries of Specialist Funds and Qualifying Funds to be based off Island has been utilised. This has been applied to:

- Specialist Funds: where regulated administrators in the UK, Guernsey, Jersey and Singapore are permitted.
- Qualifying Funds: where custodians regulated in the UK, Guernsey, Jersey and Singapore are permitted.

Actionable events in respect of Collective Investment Schemes 2008/09 totalled 351. An actionable event occurs when the FIS team is required to undertake regulatory activity in relation to the formation of new schemes, material changes to existing schemes or the cessation of a scheme. Examples of events that are captured under this topic include scheme conversions, changes of functionary, amendments to constitution or the need to modify regulatory requirements.

### Actionable Fund Events

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<thead>
<tr>
<th>New</th>
<th>Amendments</th>
<th>Ceased</th>
<th>Total</th>
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<tr>
<td>57</td>
<td>203</td>
<td>91</td>
<td>351</td>
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</table>

In respect of Authorised Schemes during the period under review the Commission was assessed by the United Kingdom Financial Services Authority with regard to the efficacy of the Island’s Authorised Scheme Legislation to test that it continued to meet the UK equivalence test. The Commission is pleased to advise that following a detailed review a positive report was received. This further demonstrates that the Island continues to meet high levels of accepted regulatory standards.

There were three meetings of the CIS Forum during the period. The Forum is a gathering which enables industry and the Commission to meet and discuss funds matters, including possible legislative changes.

Unfortunately the Commission was unable to participate in the annual meeting of the ECG on the Supervision of Collective Investment Funds in 2008 because of work constraints.

The ECG holds annual meetings, chaired and organised by the host regulatory authority. These annual meetings include discussions on current regulatory topics, international regulatory co-operation and recent developments in regulation in the member countries. This year the Commission is hosting the meeting of the Group on the Island.

Membership includes regulatory authorities from some of the European Union Member States, the Crown Dependencies, Brazil, Canada, Hong Kong, Japan, Mexico, Norway, Switzerland, South Africa and the United States of America.

### Depositors’ and Investors’ Compensation Schemes

The Depositors’ and Investors’ Compensation Schemes are separate from the Commission, although the Commission currently acts as Scheme Manager in the case of the DCS.
The DCS produces its own report and accounts. No claim has ever been made against the Investors’ Compensation Scheme. Further information about the current level of protection available is shown on the Commission’s website.

It is important to note that neither scheme is pre-funded. Both schemes are funded by participants (ie the relevant licenceholders). In the case of the DCS the Scheme Manager may request funding from Government up to a maximum level set down in the relevant regulations. The Scheme Manager also has a power to borrow.

During the year certain changes were made by Government to the Regulations governing the DCS. These are included within the list of new legislation set out in Appendix G. A key change is that the DCS now compensates people who have money in current and deposit accounts in the Isle of Man with up to £50,000 of net deposits per individual depositor or £20,000 for most other categories of depositor. Further details are available on the Commission’s website.

On 9 October 2008 Kaupthing Singer & Friedlander (Isle of Man) Ltd went into provisional liquidation. Proposals for a Scheme of Arrangement were then put forward by Government, but were later not agreed by creditors. The Depositors’ Compensation Scheme was activated after the end of the period, on 27 May 2009. The DCS publishes its own Annual Report and Accounts which also refers to this event.

The Government has indicated that the DCS will be further reviewed later in the current year.

Complaints about licenceholders

The Commission does not have a role to arbitrate or make awards in commercial disputes between licenceholders and their clients and customers. However licenceholders are required to maintain a register of complaints and information about them. This may be reviewed by the Commission as part of its on-site visit work.

If someone writes to the Commission with a complaint
about a licenceholder the Commission will typically ask the complainant for consent to copy the relevant material to the licenceholder for comment. This additional focus on the matter can lead to the matter being concluded, one way or the other.

While the Commission’s role does not extend to formal intervention, the Commission will actively consider whether or not a complaint suggests that any regulatory requirements have been breached. The Commission would follow up if there were any concerns in this area.

The Isle of Man has a Financial Services Ombudsman Scheme. Full details may be obtained from the Office of Fair Trading as part of the Isle of Man Government.

International relations

A central part of any effective regulatory regime is a supervisor’s willingness to co-operate and assist other regulators. For a jurisdiction like the Island where so much of its business comes from overseas, positive relations are essential at all times.

Underpinning much of this co-operation are the MOUs signed between the Island and relevant jurisdictions. The Commission is also a full signatory to the IOSCO MMOU. A recent survey of the use of the MMOU revealed that the Island responded in less than one month to all requests for information, and in many cases in less than two weeks.

In response to the market turbulence and the difficulties affecting a number of jurisdictions, the Commission intensified its contact with a number of parent/home regulators of institutions which are represented on the Island. Senior staff from some of these regulators visited the Island.

The Commission attended the International Conference of Banking Supervisors in Brussels and the annual meeting of IOSCO. The Chief Executive and senior staff also spoke at a number of international gatherings.
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

There is strong political support in the Island for compliance with the principles of the FATF Recommendations. The Commission’s Regulatory Objectives specifically include the reduction in financial crime.

During the period a number of enhancements to the Island’s AML/CFT regime were made. Previously the regime relied significantly on the Criminal Justice (Money Laundering) Code 2007 and accompanying FSC issued guidance notes. This achieved a high state of effectiveness and had been favourably assessed by the IMF and FATF. However a critical aspect of many of the FATF Recommendations is their statutory enforceability, and it was perceived as essential to put this beyond doubt for the future.

In the case of the Commission’s licenceholders a number of the important statutory provisions for AML/CFT were included in a newly drafted Part 9 of the Financial Services Rule Book 2008. This came into effect on 1 August 2008. However, while this enjoined the Commission’s own constituency of licenceholders it did not directly embrace all other relevant persons to whom the FATF’s Recommendations apply. Thus a collective decision was taken further to amend the Criminal Justice (Money Laundering) Code 2007 so that all matters requiring statutory observance beyond the Commission’s remit could be included in a single piece of secondary legislation.

In this connection the Commission participated extensively in the work co-ordinated by the Department of Home...
Affairs and which led up to the Criminal Justice (Money Laundering) Code 2008.

In the meantime the previous AML/CFT guidance of the Commission was rewritten and issued as a new Handbook. The Handbook incorporates important new detail on a risk-based approach to AML/CFT compliance. It has now also been updated to make appropriate references to the Criminal Justice (Money Laundering) Code 2008.

In April 2009 the Commission further amended its Handbook by the insertion of a new Appendix G. This Appendix provides details of statements issued by relevant international bodies such as the FATF which identifies jurisdictions that are to be treated as insufficiently applying the FATF Recommendations. Under paragraph 8(2)(a) of the Criminal Justice (Money Laundering) Code 2008 any business arrangement with entities resident in such jurisdictions should be deemed as posing a higher risk and be subject to enhanced customer due diligence.

Amendments were also issued in May 2009 adding other new Appendices containing copies of further relevant AML/CFT legislation. The legislation added was the Criminal Justice (Money Laundering) (Amendment) Code 2009, the European Communities (Wire Transfers Regulation) (Application) Order 2007, the European Communities (Wire Transfers Regulation) (Application) (Amendment) Order 2007 and the EC Wire Transfers Regulation (Enforcement) Regulations 2007.

All of the Commission’s AML/CFT material including relevant legislation is available through its website.

The Commission places a high priority on providing updates and training to its licenceholders. During the period the Commission held two financial fraud seminars, also embracing AML/CFT issues. These seminars included external and off-Island speakers which provided topical case studies on advance fee frauds, ‘boiler room’ scams, and AML/CFT typologies. The Financial Crime Unit and Customs & Excise also participated. The Financial Crime Unit is housed in the same building as the Commission, thus facilitating communication where this is needed.

A further AML/CFT seminar was held specifically for Money Laundering Reporting Officers.

The Commission has its own Money Laundering Reporting Officer who makes suspicious transaction reports to the Financial Crime Unit.

The Commission continued to provide assistance to the Chief Secretary’s Office regarding the implementation of FATF Special Recommendation VII on wire transfers. The UK successfully applied for the Island to take advantage of a special EU Derogation whereby wire transfers between the UK and the Isle of Man could be treated as “domestic” transfers. These are then exempt from the requirements in the FATF Special Recommendation to require originator details to be included with the wire transfer and, as a consequence, avoid prohibitive cost increases. The EU granted the derogation on 8 December 2008 and published its decision in issue L352/34 of the Official Journal of the European Union.

Assistance was also provided concerning the Island’s position regarding the EU equivalent territory list.

An important means of co-ordinating AML/CFT development on the Island, as well as consulting and receiving comment on proposed new measures, is JAMLAG which is co-chaired by the Chief Executives of the Department of Home Affairs (the Government Department responsible for AML/CFT legislation), the IPA and the Commission. JAMLAG met on four occasions during the year.

The Island co-operates closely with the other Crown Dependencies on AML/CFT co-ordination. Meetings are held with the authorities in Guernsey and Jersey to discuss matters of common interest, and one such meeting occurred during the year.

The Head of Enforcement assisted in a GIABA assessment conducted in Africa during the period. A member of the Enforcement team also attended a FATF trainers programme in Washington. The Commission now has two staff who have been specifically trained to assist in assessments of FATF compliance conducted in other countries.

The Island received a visit from FINCEN during the year. FINCEN is one of the US Department of Treasury’s lead agencies in the fight against money laundering. Its mission is to enhance US national security, deter and detect criminal activity, and safeguard financial systems from abuse by promoting transparency in the US and international financial systems.

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. Because of the importance which the Commission attaches to its responsibilities in this area, it has published a statement on its website describing the nature of co-operation provided and from whom assistance can be obtained in different circumstances.

The Island is a signatory to the IOSCO MMOU. 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 to co-operate with bona-fide requests for assistance from other regulators. This MMOU has become the international standard of co-operation for securities regulators globally.

During the period the Commission responded to 15
requests for information under the MMOU from five different countries. Some of these were part of major international investigations. The Commission is very aware that prompt assistance is needed and will respond as speedily as possible, within one month or sooner. The Commission did not make any requests itself for information from other regulators under the MMOU.

Although the Island does not have a stock exchange, sometimes alleged insider dealing transactions are routed through financial institutions and companies based in the Island. Previously in these cases Treasury would receive a request from an investigating authority in another jurisdiction for certain information to assist in their enquiries. If appropriate Treasury would appoint inspectors locally to investigate the matter and obtain the requested information for passing to the overseas regulator. Treasury typically appointed officers from the Commission under Schedule 3, paragraph 1(1) of the Insider Dealing Act 1998 to carry out this work. During the period Treasury appointed Commission employees as inspectors on one occasion, and the requested information was provided to the overseas regulator.

When the Financial Services Act 2008 came into effect on 1 August 2008 the responsibility for undertaking these investigations passed directly to the Commission, with the appropriate appointment of inspectors now being delegated to the Chief Executive. 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 held a briefing session for Justices of the Peace to explain the procedures of the Commission in this area.

Remedial action

The Commission has a clear need to promote good corporate behaviour and governance as part of its responsibilities. This it does in particular through its supervision of corporate service providers who administer many companies for clients.

Companies Registry is also part of the Commission and this facilitates Isle of Man companies’ observance of their statutory responsibilities with public filing (and remedial action where this does not occur).

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 26 of the Companies Act 1992 for the disqualification of a person from acting as a company officer in the future.

During the period five persons were disqualified for a total amount of 41 years. Further information is shown on the Commission’s website, along with details of 14 other persons whose previous disqualifications are still current.

On page 38 there is reference to the Company Officers (Disqualification) Bill 2008. This will introduce certain new provisions in the disqualification process, including the format of a disqualification undertaking.

Public warnings

Very often the Commission finds that persons attempting to undertake potentially fraudulent, mis-selling or other activities which could result in investor or counterparty loss, will seek to establish and market their schemes in different jurisdictions. This can 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 118 regulators and law enforcement authorities world-wide to whom it “pushes” warnings as soon as they are made. A total of 36 public warnings were made during the period. There is clear evidence 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

In section 2 there is reference to the visit of the IMF. A major part of the assessment conducted by the IMF related to AML/CFT matters. The final AML/CFT report has not yet been received. Before the IMF commenced the visit Enforcement Division was heavily involved in co-ordinating the Island’s response to a detailed AML/CFT questionnaire, which enabled the IMF to conduct initial desk-based review work before they arrived.

The Head of Enforcement represented the Offshore Group of Banking Supervisors at two Moneyval Plenary sessions in Strasbourg. He also spoke at an enforcement awareness session on the Island.
Following detailed consultation an important piece of primary legislation, the Financial Services Act 2008, came into operation on 1 August 2008 after receiving Royal Assent in June. The main purpose of this Act was to consolidate and bring up-to-date much of the Commission’s existing legislation covering banking, fiduciaries, and investment business. Collective Investment Schemes were covered separately in the Collective Investment Schemes Act 2008 which came into operation at the same time.

There were a number of enactments of secondary legislation under these two Acts, all of which are listed in Appendix G. These included the Regulated Activities Order 2008, Financial Services (Exemption) Regulations 2008, and the Financial Services Rule Book 2008. All came into effect from 1 August 2008, however existing licenceholders were given until 1 January 2009 to comply with Parts 1 to 8 of the Rule Book. Part 9 (relating to AML CFT) applied to all licenceholders, new and existing, from 1 August 2008. Proposals for increasing licenceholder fees were also made, and these were raised in line with inflation. Some new fund categories were added, and all the new fees came into effect immediately after the end of the period of this Report on 1 April 2009.

The Commission was very aware that implementation of the new legislation required careful co-ordination. An Implementation Group was set up with industry participants to assist in the process. Briefings on the new requirements were given to professional bodies and two training sessions on the calculation of financial resources were held to assist licenceholders in understanding the new requirements. The briefings included new requirements for licensing and how existing licenceholders would transition to the new arrangements.

It is intended that the financial services legislation will be kept under an annual rolling review to ensure that it remains up-to-date.

In the latter half of 2008 consultation took place on the Financial Services (Appointment of a Manager) Order 2008.
which came into effect on 22 January 2009. This Order specifies the circumstances in which the Commission may apply to the High Court for the appointment of a manager to manage the affairs of a person, so far as they relate to the carrying on of a regulated activity. As an example, the circumstances include where the Commission is satisfied that there is sufficient evidence to show that the affairs of the relevant person have been inadequately managed for any reason.

The Licensing Policy was updated in July 2008 to reflect the new regulatory legislative structure, as referred to in the section on Authorisations on page 22.

Money transmission services were included for the first time as regulated activities in 2008. Licences for this activity are now required under the Financial Services Act 2008 and such businesses will be subject to on-site review. Currently the only part of the Rule Book that applies to these licenceholders is Part 9 (concerning AML CFT). However over the coming period consideration will be given as to what further Rules should apply. In particular, businesses more extensively involved in payments services are likely to require additional supervision, for example when retaining customer balances. A visit to the FSA in the UK was undertaken in January 2009 in order to understand their regime for such licenceholders.

The Isle of Man has been granted designated territory status by HM Treasury in the UK, which means that Isle of Man Authorised Schemes may be marketed to the public in the UK. In order to retain this status the Island's regulatory arrangements are subject to regular review by the UK authorities. In this connection initial work has commenced on a full review of the Authorised Schemes Regime. In addition, there has been a more limited review of the allowable investment and borrowing powers under the Authorised Schemes regime. As a result of this regulations are being progressed, in conjunction with the UK FSA, which will allow schemes to elect to follow a wider investment strategy in line with the current equivalent UK regulations. It is anticipated that these regulations will come into effect in 2009.

Work also commenced leading up to the production of updated Full International Schemes legislation – which will be moving forward in 2009.

Discussions were held with the FMA in relation to the regime applying to promoters in the EIF Order. The Commission made proposals in July 2008 for transitioning schemes, suggesting the possibility of permitting a choice to use regulated financial advisers in place of regulated promoters. This was subsequently agreed.

Consultation was completed on the Companies (Amendment) Bill 2008, including meetings with a number of stakeholders. The amendments in the Bill reflect evolving international standards (for example, ensuring compliance with the principles of IOSCO), and address industry comments on significant issues. The Bill completed its passage through Tynwald in March 2009 and now awaits Royal Assent which is expected shortly.

An Order in Council was made formally to extend the UK Panel on Takeovers and Mergers' supervision of the City Code on Takeovers and Mergers to Isle of Man companies. The City Code previously extended to the Isle of Man, but this needed to be placed on a statutory basis in order for the UK to comply with the EU Directive on Takeovers and Mergers. An MOU has also been agreed between the Panel and the Commission.

There has been considerable co-operation between the authorities in Jersey and Guernsey, as well as with the UK Professional Oversight Board and the ICAEW, in relation to the EU 8th Directive on Statutory Audits of Annual Accounts and Consolidated Accounts. Under the Directive auditors that audit firms which are listed on EU Member States' regulated markets must be subject to a system of independent oversight. Therefore, in order for Manx auditors to continue to audit Manx companies that are so listed, an “equivalent” system needs to be put in place.

Liaison took place during 2008, and continued into 2009, with the various parties as well as with the auditors and European Commission staff in order to introduce such an equivalent system in the Isle of Man. The Division attended the EU International Auditing Conference in December 2008. It is envisaged that the Commission will maintain a register of relevant auditors, and will delegate the powers of oversight of these auditors to the UK’s Professional Oversight Board, and the monitoring of their relevant audits to the ICAEW – therefore mirroring the UK’s system of oversight. The powers to make the necessary secondary legislation are contained in the Companies (Amendment) Bill referred to above.

The Company Officers (Disqualification) Bill 2008 completed its passage through the branches of Tynwald in March 2009 and has now received Royal Assent and came into operation on 18 June 2009. Work has taken place in preparation for the secondary legislation and other requirements under the Company Officers (Disqualification) Bill, which include a register of disqualified persons and the format of a disqualification undertaking.

During the early part of the period and following previous consultation the Commission received and considered industry comments made on proposals for amending the DCS. Policy prepared a report for Treasury. Following subsequent international developments in the extension of compensation arrangements generally and coinciding with the KSFIOM issue, new urgent DCS Regulations were approved by Tynwald on 9 October. Treasury subsequently amended the 9 October Regulations on 23 October and 17 March 2009.

Section 2 of the Report refers to the IMF’s visit to the Isle of Man, under its Financial Sector Assessment Programme arrangements. The exercise required a significant amount of advance preparation within the Commission, in particular
providing the IMF with regulatory, supervisory and financial stability information. These preparations were substantially co-ordinated by Policy (and Enforcement in the case of AML CFT matters).

In the past Policy has taken on the role of monitoring and reporting to the Board on the appropriate implementation of recommendations arising from assessments, and this will continue once the recent IMF report is finalised.

Policy Division has participated in discussions on a possible move by the Island to apply for membership of SEPA. A member of Policy Division staff attended a meeting with the European Payments Council in Brussels in December 2008, together with staff of the Jersey and Guernsey regulators. Consultation with the banks, and liaison with the other Crown Dependencies is ongoing, and this project will continue well into 2009.

IOSCO, of which the Commission is a member, is now well into its programme of ensuring that all members have signed or are committed to its MMOU by 2010. The Commission is a member of one of the vetting teams which considers members’ applications to be included under the MMOU arrangements and participates in meetings of the Screening Group. It attended three such meetings during the period.

Policy continued its role in dealing with Data Protection issues for the Commission and responded to two data subject access requests during the year. A member of Policy Division also acts as the Commission’s complaints officer (to ensure that any complaints against the Commission are handled in accordance with established procedures) and this is described further on page 17.
Companies Registry consists of seven distinct registries, each with their own legislation, fees and statutory filing obligations. In this connection it incorporates or registers:

- industrial societies under the Industrial & Building Societies Acts 1892 to 1979
- limited partnerships under the Partnership Act 1909
- business names under the Registration of Business Names Acts 1918 & 1954
- companies in terms of the Companies Acts 1931 to 2004
- foreign companies in terms of Part XI of the Companies Acts 1931
- LLCs in terms of the Limited Liability Companies Act 1996
- companies under the Companies Act 2006.

Companies Registry’s functions also require it to:

- examine and store information delivered under the above Acts
- make this information available to the public
- ensure that filing requirements are met and take remedial action where necessary
- dissolve or deregister defunct businesses.

The following table (in which figures are stand-alone and do not therefore necessarily cross-cast) includes details of companies added to and removed from the relevant registers over the last six years. At the bottom of the table is additional information about Business Names, Limited Partnerships and companies registered under the Limited Liability Company Act 1996 (LLC).

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<td>27,577</td>
<td>30,380</td>
<td>30,870</td>
<td>30,847</td>
<td>32,726</td>
<td>33,351</td>
</tr>
<tr>
<td>Dissolutions</td>
<td>2,794</td>
<td>2,290</td>
<td>2,003</td>
<td>2,105</td>
<td>2,401</td>
<td>2,056</td>
</tr>
<tr>
<td>Struck off</td>
<td>1,551</td>
<td>0</td>
<td>1,013</td>
<td>2,027</td>
<td>0</td>
<td>2,788</td>
</tr>
<tr>
<td>Charges – 1931 Act</td>
<td>2,290</td>
<td>3,269</td>
<td>3,270</td>
<td>2,751</td>
<td>2,350</td>
<td>2,181</td>
</tr>
<tr>
<td>Incorporations</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006 Act</td>
<td>1,425</td>
<td>1,852</td>
<td>254</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total 2006 Act</td>
<td>3,415</td>
<td>2,098</td>
<td>254</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Charges - 2006 Act</td>
<td>1,096</td>
<td>782</td>
<td>23</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Names</td>
<td>575</td>
<td>876</td>
<td>689</td>
<td>673</td>
<td>722</td>
<td>738</td>
</tr>
<tr>
<td>Limited Partnerships</td>
<td>41</td>
<td>120</td>
<td>43</td>
<td>31</td>
<td>24</td>
<td>22</td>
</tr>
<tr>
<td>LLC</td>
<td>16</td>
<td>58</td>
<td>39</td>
<td>51</td>
<td>51</td>
<td>72</td>
</tr>
</tbody>
</table>

The number of companies incorporated under the Companies Acts 1931-2004 fell this year. The fall is larger than expected but should be seen as a consequence of the general turmoil in financial markets around the world.

Incorporations under the Companies Act 2006 showed much less of a decline, thus increasing their share of incorporations overall. Over 130 of the 180 Registered Agents have now incorporated a 2006 Act company.

In terms of flexibility the 2006 Act does not distinguish between a public
and a private company, therefore any type of company under the Act can potentially offer its securities to the public. The prospectus/offering document requirements in the Companies Act 2006 are less prescriptive and much simpler (but not less stringent) than the traditional prospectus requirements contained in the Isle of Man Companies Acts 1931-2004.

In addition, a 2006 Act company may declare and pay dividends, and purchase, redeem or otherwise acquire its own shares subject only to meeting a statutory solvency test. Furthermore, a 2006 Act company is not subject to any financial assistance prohibitions; accounting requirements are less prescriptive than for traditional companies and there are relatively simple merger and consolidation procedures.

Filing requirements are also less onerous, but only because of the pivotal role of the corporate agent which is a regulated entity.

The number of documents received from all companies for filing declined slightly during the period, but they still remained at a high level.

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Number of Documents received</td>
<td>88,612</td>
<td>95,755</td>
<td>88,562</td>
<td>91,077</td>
<td>103,573</td>
</tr>
<tr>
<td>% Change</td>
<td>-7</td>
<td>8</td>
<td>-3</td>
<td>-12</td>
<td>-3</td>
</tr>
</tbody>
</table>

Companies Registry has more contact with the public than any other area of the Commission. It is therefore important that its service is prompt and efficient. To ensure a high level of service Companies Registry has set and published demanding targets for the processing of documents and for carrying out its other functions. Performance against the targets is actively managed.

During the period Companies Registry consistently achieved a high level of compliance with the targets. Where, on a few occasions, it slipped behind it quickly recovered.

The other area which contributes significantly to performance is training. The Companies Registry has a proactive approach to on-the-job training. The knowledge required to work in the Companies Registry moved beyond simple filing years ago and as with the recent introduction of the 2006 Companies Act there are always new tasks to be learnt. In training and developing the staff in the Companies Registry its philosophy is to give each member of staff the opportunity to acquire the knowledge they need to perform tasks within the Registry that may be necessary to satisfy its statutory obligations. This includes a detailed knowledge of the relevant provisions within the legislation and the systems, both manual and electronic, that support it.

This flexibility assists in providing continuity of service and is an important part of contingency planning.

The Companies Registry has always taken prompt action to remove defunct companies incorporated under the 1931 Companies Act. During the year 1,551 were struck from the register. This is a smaller number than in recent years as the majority of companies now apply to be dissolved using the administrative provisions within the legislation to dissolve a solvent company when it is no longer required, rather than it going into freefall.

This year the Companies Registry also looked at the status of foreign companies registered under Part XI of the 1931 Companies Act. Since 6 April 2007 there has been a statutory obligation on foreign registered companies to file an annual declaration confirming that they still had a place of business in the Island. This provision was introduced to enable the Companies Registry proactively to determine if a foreign company was still active. Previously Companies Registry depended on such companies notifying it if they no longer had a place of business. Unfortunately, however, many failed to do this.

In order to ensure companies and their agents were aware of the new provision on 22 June 2007 the Companies Registry wrote to every company registered under Part XI (1,500) notifying them of the change. As a result of these letters several hundred companies confirmed they no longer had a place of business in the Isle of Man and ceased their registration and over a thousand have now filed an annual declaration confirming that they continue to have a place of business on the Isle of Man. A further 98 neither filed an annual declaration nor sought more time to put their affairs in order so their registrations were cancelled.

The Companies Registry also reviewed the status of companies registered under the Limited Liability Company Act 1996 and 229 registrations were cancelled as they were no longer active. Finally, the register of limited partnerships was reviewed and 45 Limited Partnerships were removed as they were no longer active.

Companies Registry is very dependent on information technology. It was one of the first Registries to go on-line when it commissioned the Public View Internet system in August 2004. This system has proved to be very successful and the majority of searches on the documents held by the Companies Registry are now done on-line.

During the year a set of IT priorities for future developments in the Companies Registry have been identified. One of the biggest challenges for the Commission in considering the introduction of on-line services, for example the incorporation of companies on-line and the subsequent submission of documents, is that unlike other Government Departments the documents received by the Companies Registry are public documents. This means that it has to have in place a legally robust means to receive the
documents and to store them and to confirm the identity of the person submitting a document in a legally acceptable format, potentially for the life of the company.

One of the oldest and most used information systems in Government has been the Companies Registry database which is hosted on the Government’s mainframe. Originally commissioned in 1987 it has been continually extended and enhanced to deal with all of the legislative and procedural changes that have been introduced over the last 20 years. It is a key corporate resource within Government as most Departments and Statutory Boards use it on a daily basis.

Early last year the Commission was notified the mainframe was being retired in favour of a more modern and resilient platform to host the companies’ and other Government databases. This move should make it easier to support and develop as we move forward. In December 2008, after eight months work, the companies’ database was migrated to a SQL database.

At the same time we have continued working on the new systems supporting the 2006 Act Company. One of the most eagerly anticipated features of the 2006 Act system will be the introduction of a shuttle annual return, hopefully towards the end of 2009. This will be completed and sent out by the Companies Registry at least one month before the companies return date falls due.

On 6 April 2008 Companies Registry fees increased by an average of 7%. This was broadly in line with the increase in inflation since the previous increase in August 2005. Copies of the relevant Orders are available on the Commission’s website. A reduced annual return fee was introduced for qualifying members’ clubs from 1 November 2008. These now pay £75 instead of £320. Company Registry fees are due to be reviewed later on this year.

Companies Registry is very dependent on technology. Companies’ records are kept on a database and all filed documents are scanned and retained electronically. Public searches of individual companies’ files are conducted through internet-based systems. System stability and reliability are therefore critical in order for the public to have access to companies’ records.

The Commission has made arrangements for access to off-site business recovery facilities as part of its business continuity planning, which will provide ongoing access to systems which support the Registry. During the period staff from Companies Registry carried out a testing of these facilities as part of a routine program of determining their effectiveness.

Although technology is used for maintaining companies’ records, documents are still filed in hard copy form. Over the years this has created a logistical challenge for the Commission, with over 60,000 old files currently being held in storage. The Commission has been destroying some of the oldest and least used company files (with Court consent where appropriate) and as reported on page 45 has recently reviewed its document retention policy generally.

To assist company officers and administrators in the discharge of relevant responsibilities, the Commission publishes a series of Practice Notes. During the period a number of Practice Notes were issued and these are listed in Appendix G. These new Practice Notes were mostly revisions of previous Practice Notes to take account of the revised company fees.

The Commission is keen to ensure that its Practice Notes are useful and comprehensive. If there are any further areas which corporate service providers, company officers or other users of Companies Registry feel should be covered, the Commission would be pleased to know.
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 2009 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.

During the year income has reduced by £346,226 compared with 2008. This was largely due to a reduction in receipts in Companies Registry reflecting a downturn in companies’ related activity. Despite a number of areas where savings were made, the Commission exceeded its overall expenditure budget by 0.6%. This related to increased expenditure in professional fees as explained in the detailed accounts in Appendix F.

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.

The Government’s central accounting system, AXAPTA, supports administration of the Commission’s finances.

The Commission leases outside storage space to retain company files held by Companies Registry and other files of the Commission. During the period the Commission undertook a full review of its off-site storage facilities, and revised its retention policy for different types of records. This will lead to a more co-ordinated approach within the Commission on the length of time different records are kept. In some cases, for example in the case of Board minutes, documents will be retained permanently. In other cases they may be destroyed after 1-15 years.

The Commission has a social and recreational committee. Its role is to arrange events in which staff, and in some cases their families, come together in an informal setting with the ultimate objective of sustaining a team spirit within the office and among colleagues.

One of the ways in which the Commission supports the local community is through the raising of funds for charity. During the year the Commission’s staff participated in a number of fundraising initiatives for staff-nominated charities, both within and outside the Commission, and this raised a total of £3,000. The money was distributed to Hospice, Manx Diabetic Group, RNLI and MannCat Sanctuary.

Human resources

The total headcount of the Commission at the end of the period (including unfilled vacancies) was 68.5 full-time employees, including contract employees. The Commission’s headcount is controlled centrally by Government.
During the period staff turnover fell to the very low level of 3.5%. While the Commission prides itself as a good employer offering an unrivalled exposure to the finance sector, clearly difficult economic conditions have affected people's interest in moving to new positions. Movement generally within the finance sector has been much reduced.

Under the Financial Supervision Commission Order 1983 the Commission has the power to set the terms and conditions of service for its own staff. This has been important, in order to allow the Commission to attract and retain people with suitable experience. The Commission hires staff primarily from the private sector. In support of this the Commission has previously implemented a structured and transparent system for assessing performance on an annual basis against previously set objectives and under core competencies. Reward is provided through a combination of responsible increases in salary and, in certain cases, one-off non-pensionable merit payments.

The Commission was previously recognised by the IIP as meeting the IIP standards. During the period it was the subject of a further assessment under the new IIP Profile, where it was found to be significantly exceeding the standards in a number of areas. The fact that it demonstrated excellent practice in some areas reflects in particular the serious effort which the Commission devotes to good staff management and communication.

Within the Commission's executive, a Personnel Committee meets on average once a quarter. This is to consider personnel policies and the impact of any changes to employment law, and to develop new initiatives where appropriate. Some of the key issues addressed during the period were as follows:

- a review of the annual performance process
- equal opportunities and diversity
- a review of performance of managers against management competencies
- retention planning
- superannuation scheme
- a policy on tackling staff fraud and dishonesty
- management of personnel during a pandemic flu outbreak.

The Commission's pension scheme is analogous to the principal Government pension scheme. The Government commenced a review of its pension arrangements which impact on the pension arrangements of Commission staff.

As in previous years the Commission participated in the Isle of Man Careers Convention. The Commission is keen to attract suitable young persons to join early in their careers, and offers a comprehensive development package in support of this.

The Commission conducted an annual review of its Health & Safety risk register.

Learning and development

Learning and development has now become a core factor for any career-minded person in the finance sector. The finance sector can be complex and innovative and within the Commission it is critical that supervisors and examiners have the requisite skills set to carry out their functions effectively.

It is with this in mind that the Commission continues to place a high priority on its support for formal training and professional development, as well as on less formal opportunities for broadening understanding across all areas of regulated activity combined with on-the-job experience.

The average number of days spent per employee on training during the period was 8.8 days against a target of 10 days. The annual average cost of training per employee was £940.

The Commission supports staff in their study towards professional qualifications relevant to the Commission’s core activities. Three members of staff completed their professional qualifications study during 2008/09. The Commission is currently supporting 11 staff studying for a professional qualification in the following areas:

- CIPD Graduate level
- ACCA professional programme
- ACCA – CAT level
- ICSA Certificate
- ICSA Diploma
- ICSA Professional Programme
- Diploma in Investment Business Compliance

The following table summarises the qualifications and experience now 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>3</td>
<td>1</td>
</tr>
<tr>
<td>Undergraduate Degree</td>
<td>18</td>
<td>2</td>
</tr>
<tr>
<td>Professional Qualification:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ICSA</td>
<td>4</td>
<td>-</td>
</tr>
<tr>
<td>STEP</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Legal LLB etc</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Accountancy</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>ACIB</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
<td>-</td>
</tr>
<tr>
<td>No. of years of business, professional &amp; financial services experience</td>
<td>754</td>
<td>228</td>
</tr>
</tbody>
</table>
The Commission conducted a programme of internal training sessions which included the following topics:

- data protection requirements
- new funds structures
- implementation of the Financial Services Act 2008
- business continuity planning
- financial resources
- AML/CFT visits to licenceholders (complemented by internal testing of Commission staff on AML/CFT policy).

A more specific programme based on individuals’ development needs was also conducted, with the subjects including advanced leadership, effective business and report writing, and problem solving.

Information technology

The Commission has a high dependency on information technology, in particular in Companies Registry as well as in its supervision of licenceholders.

The Commission at present relies significantly on the Government’s Information Systems Division for the maintenance of its systems. This has not proved satisfactory mainly because progress for the Commission is constrained by the need for Government to accommodate a very large constituency of diverse users in its programme of work. A one-size-fits-all approach does not fit well with the Commission’s more bespoke requirements needed to accommodate the interests of its industry users. As a result, the leading position which the Commission pioneered for itself when Companies Registry first went live on-line has in recent years been eroded.

As a result the Commission prepared a new IT strategy drawing also on external advice. This recommends a more independent approach for the Commission’s systems, designed to give it greater flexibility in developing its back office and on-line systems further. It will also provide for greater control and security for the Commission in handling licenceholder data. The Commission’s strategic plan for IT is being reviewed by Treasury.

In the meantime the Commission’s website was upgraded to provide a fully searchable rule book. This was an important enhancement to accompany the new regulations which came into operation with the Financial Services Act 2008 (see page 37). A new on-line public register of licenceholders was also introduced.

The Commission’s website is used to access the on-line search facility for company documents. During the year 83,790 company documents were purchased. The most popular documents include change in directors/secretary and company annual returns. The chart below sets out the geographical usage of the system.

The on-line reporting system used by certain categories of licenceholders to submit prudential information to the Commission received its first major upgrade since it was introduced in 2003. This included changes to the logging in and signing off process, upgrading encryption security to current industry standards and changes to move the system onto a modern environment. Consideration was given to biometric authentication but this was insufficiently supported by the industry to proceed further.

For the back office the agenda includes:

- a full on-line company incorporation and filing system
- on-line company reports for purchase by customers
- migration of the existing public view system to utilise the public view internet system
- expansion of the Supervision database and on-line reporting system to maximise efficiency in the submission of data and in desk-based review work.

A new information security policy was introduced to consolidate the management and security of data held by the Commission.

Quarterly reviews of the Commission’s systems risk register were conducted. This identifies operational and system risks, across the Commission. It assesses the risk, the impact of any failure, identifies risk reduction measures, training of management and staff and testing activity. Six-monthly testing of the Commission’s Business Continuity Plan at its off-site facility was also carried out.
Financial Supervision Commission and its Functions

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 finance sector

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
- the operation of registries 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 Financial Supervision Act 1988
- functions conferred on the Commission under:
  - the Companies Acts 1931-2006
  - the Industrial and Building Societies Act 1892
  - the Partnership Act 1909
  - the Registration of Business Names Act 1918
  - the Registration of Business Names Act 1954
  - the Income Tax Act 1970
  - the Building Societies Act 1986
  - the Insurance Act 1986
  - the Financial Supervision Act 1988
  - the Credit Unions Act 1993
  - the International Business Act 1994
  - the Limited Liability Companies Act 1996
  - the Companies (Transfer of Domicile) Act 1998
  - the Insider Dealing Act 1998
  - the Companies (Transfer of Functions) Act 2000
  - the Online Gambling Regulation Act 2001
  - the Companies, etc (Amendment) Act 2003
  - the Protected Cell Companies Act 2004.
Membership of the Financial Supervision Commission

The Financial Services Act 2008, states that “the Commission shall consist of not less than seven qualified persons appointed by the Treasury, subject to the approval of Tynwald”. The Treasury have appointed the following persons to be members of the Commission:

**Rosemary Penn MBE (Chairman)**
Appointed in March 1993. Became Deputy Chairman in June 2001, Chairman in 2004. She was appointed as a magistrate in England in 1967 and continued until she left to return 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.

**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 held a senior position at International Bank of Asia Limited and was 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 an Associate Fellow of the Said Business School at the University of Oxford, where he directs the Oxford Programme on Negotiation. He also heads an international consulting firm in Oxford that focuses on issues of governance, integrity and the environment. In 2007 he was appointed a trustee of the Institute of Business Ethics.

**Geoff 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 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 36 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

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

Chief Executive  John Aspden

OPERATIONS
Head of Operations  Anne Dorling

Human Resources
Manager  Trish Cain  Brenda Dougherty
Secretary  Janet Moore
Administrative Officer  Sarah Davidson
Receptionist  Sue Carter  Tanya Thompson

Information Technology
Manager  Donna Shimmin

Operational Management
Manager  Suze Biddulph
Accounts Assistant  Frances Lindsay

Enforcement & Authorisations
Head of Enforcement and Authorisations  Paul Heckles

Enforcement
Manager  Kathryn Cain  Paul Mylchreest
Senior Enforcement Officer  Colin Johnson

Authorisations
Manager  Dave Hodgson
Manager  Maralyn Brown  Clive Oldale
Manager  Carolyn Davis
Enforcement Officer & Secretary to the CEO
Manager  Ashley Hanlon

Companies Registry
Senior Manager  John Wilkinson

Assistant Administrator
Mike Astill  Lex Clarke  Nick Cowell  Mark Edwards  Helen Stuart

Assistant Administrator
Jan McEwen  Joanne McGlynn  Margaret Nowell  Bob Napier  Steven Wade  Leanne Dillon

Assistant Secretary
Stephen Meehan  Charlotte Sanon
Secretary  Susan Cross  Becky Driver
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. In addition Companies Registry forms part of the Commission, and the Commission has delegated powers under the Companies Acts.

**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:
16 routine monthly meetings
12 licensing meetings (quorum)
A significant number of other ad hoc meetings.

**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 licenceholders
- 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
- Heads of Division
- Senior Managers
- Managers

There are six Divisions within the Commission comprising Authorisations, Enforcement, Operations, Policy, Supervision and Companies Registry. 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 for 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, Corporate 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 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.
Licenceholders

As at 31 March 2009, a total of 302 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:

(i) Deposit Taking (Class 1) 38
(ii) Investment Business (Class 2) 79
(iii) Services to Collective Investment Schemes (Class 3) 59
(iv) Corporate Services (Class 4) 203
(v) Trust Services (Class 5) 132
(vi) Money Service Businesses (Class 6) 0

Some licenceholders are permitted to conduct more than one Class of business under the Act; hence the total of the above (511) exceeds the number of licenceholders.

In addition five licences issued under legislation superseded by the Financial Services Act 2008 remained in force under transitional provisions, as listed below. The transitional provisions will lapse on 1 August 2009, by which date the licenceholders must either obtain a licence under the Financial Services Act 2008, or cease regulated activities.

(i) Banking licences issued under the Banking Act 1998 1
(ii) Corporate Service Provider licences issued under the Corporate Service Providers Act 2000 1
(iii) Trust Service Provider licences issued under the Corporate Service Providers Act 2000 0
(iv) Investment Business licences issued under the Investment Business Act 1991 3

Collective Investment Schemes

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

As at 31 March 2009 the following schemes were authorised, notified or recognised by the Commission:

(i) Authorised Schemes under Schedule 1 of the CIS Act 7
(ii) Full International Schemes under Schedule 2 of the CIS Act 21
(iii) Other International Schemes under regulations made under Schedule 2 of the CIS Act or continuing regulations under previous legislation:
   o Professional Investor Funds 7
   o Specialist Funds 13
   o Qualifying Investor Funds 2
   o Experienced Investor Funds 62
     ➢ Qualifying type 0
     ➢ Legacy type 9
     ➢ Closed 19
(iv) Exempt Schemes under Schedule 3 of the CIS Act and Exempt Type Schemes 127
(v) Recognised Schemes from a designated territory under Schedule 4 paragraph 1 of the CIS Act 25
(vi) Individually Recognised Schemes under Schedule 4 paragraph 2 of the CIS Act 9
(vii) Overseas Schemes administered or managed in the Island 157
(viii) Schemes for which management or administration services are provided to the manager or administrator, under an “inward” outsourcing agreement 9
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 Commission to prepare accounts for each financial year, which meet the requirements of the Accounts and Audit Regulations 2007 to 2008 and the Audit Directions 2008, made under the Audit Act 2006. The regulations require the Commission to prepare the accounts in accordance with UK Accounting Standards, as modified by the Audit Directions 2008.

The accounts are required by law to give a true and fair view of the financial affairs 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 applicable UK Accounting Standards have been followed, as modified by the Audit Directions 2008, subject to any material departures disclosed and explained in the accounts, 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 disclose with reasonable accuracy at any time the financial affairs of the Commission and to enable them to ensure that the accounts comply with the Accounts and Audit Regulations 2007 to 2008 and the Audit Directions 2008, made under the Audit Act 2006. They have 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.
Appendix F

Report of the Independent Auditors, KPMG Audit LLC, to the Isle of Man Financial Supervision Commission

We have audited the accounts of the Isle of Man Financial Supervision Commission for the year ended 31 March 2009 which comprise the Income and Expenditure Account and the related notes. These accounts have been prepared under the accounting policies set out therein.

This report is made solely to the Commission, 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 Auditors

The Commission's responsibilities for preparing the accounts in accordance with applicable laws and regulations and UK Accounting Standards, as modified by the Audit Directions 2008, are set out in the Statement of Responsibilities on the previous page.

The Audit Directions 2008 modify UK Generally Accepted Accounting Practice by:

- allowing fixed assets to be expensed in the year incurred, except for advances made from the Consolidated Loans Fund, and amending the application of Financial Reporting Standards 10 (Goodwill and Intangible Assets), 11 (Impairment of Fixed Assets and Goodwill) and 15 (Tangible Fixed Assets) and Statements of Standard Accounting Practice 19 (Accounting for Investment Properties) and 21 (Accounting for Leases and Hire Purchase Contracts)
- defining all matters relating to superannuation schemes as defined contribution schemes for the purposes of FRS 17 (Retirement Benefits) and SSAP 24 (Accounting for Pension Costs)
- defining who is a related party, which transactions require disclosure and which transactions are exempt from disclosure requirements, and removing the requirement to comply with FRS 8 (Related Party Disclosures).

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Accounts and Audit Regulations 2007 to 2008 and the Audit Directions 2008, made under the Audit Act 2006. We also report to you if in our opinion the Commission has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the Chief Executive's Report and any other information accompanying the accounts and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or inconsistencies with the accounts. Our responsibilities do not extend to any other information.

We review whether the Statement of Internal Control prepared by the Commission reflects compliance with the Accounts and Audit Regulations 2007 to 2008 and the Audit Directions 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.
Basis of opinion

We conducted our audit in accordance with the Accounts and Audit Regulations 2007 to 2008 and the Audit Directions 2008, made under the Audit Act 2006 and International Standards on Auditing (UK and Ireland) issued by the UK Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the Commission in the preparation of the accounts, and of whether the accounting policies are appropriate to the Commission’s circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion:

- the accounts give a true and fair view, in accordance with UK Accounting Standards, as modified by the Audit Directions 2008, of the Commission’s income and expenditure for the year ended 31 March 2009, and

- the accounts have been properly prepared in accordance with the Accounts and Audit Regulations 2007 to 2008 and the Audit Directions 2008, made under the Audit Act 2006.

KPMG Audit LLC
Chartered Accountants
Income and Expenditure Account for the year ending 31 March 2009

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Licence &amp; Scheme Fees</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banking</td>
<td></td>
<td>677,196</td>
<td>£681,667</td>
<td>681,667</td>
<td>£681,667</td>
</tr>
<tr>
<td>Investment Business</td>
<td></td>
<td>183,988</td>
<td>£186,965</td>
<td>186,965</td>
<td>£186,965</td>
</tr>
<tr>
<td>Fund Managers</td>
<td></td>
<td>178,741</td>
<td>£156,017</td>
<td>156,017</td>
<td>£156,017</td>
</tr>
<tr>
<td>Collective Investment Schemes</td>
<td></td>
<td>95,533</td>
<td>£99,988</td>
<td>99,988</td>
<td>£99,988</td>
</tr>
<tr>
<td>Fiduciary Service Providers</td>
<td></td>
<td>498,471</td>
<td>463,990</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Money Transmission Services</td>
<td></td>
<td>7,250</td>
<td>-</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1,641,179</td>
<td>1,588,627</td>
</tr>
<tr>
<td>Companies Registry</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Resident Company</td>
<td></td>
<td>54,750</td>
<td>£298,428</td>
<td>298,428</td>
<td>£298,428</td>
</tr>
<tr>
<td>Companies Registration Fees</td>
<td></td>
<td>10,103,966</td>
<td>£10,038,310</td>
<td>10,038,310</td>
<td>£10,038,310</td>
</tr>
<tr>
<td>Companies Capital Fees</td>
<td></td>
<td>329,344</td>
<td>£552,395</td>
<td>552,395</td>
<td>£552,395</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>10,488,060</td>
<td>10,889,133</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>133,891</td>
<td></td>
<td>131,596</td>
<td></td>
</tr>
<tr>
<td>Total Income</td>
<td>1(b)</td>
<td>12,263,130</td>
<td></td>
<td>12,609,356</td>
<td></td>
</tr>
<tr>
<td>Expenditure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries</td>
<td>3</td>
<td>3,040,254</td>
<td></td>
<td>2,495,067</td>
<td></td>
</tr>
<tr>
<td>Commissioners’ Remuneration</td>
<td></td>
<td>100,108</td>
<td></td>
<td>85,998</td>
<td></td>
</tr>
<tr>
<td>Premises</td>
<td></td>
<td>477,941</td>
<td></td>
<td>459,789</td>
<td></td>
</tr>
<tr>
<td>Training</td>
<td></td>
<td>64,582</td>
<td></td>
<td>71,417</td>
<td></td>
</tr>
<tr>
<td>Travel</td>
<td></td>
<td>40,828</td>
<td></td>
<td>59,459</td>
<td></td>
</tr>
<tr>
<td>Professional Fees</td>
<td>4</td>
<td>384,161</td>
<td></td>
<td>178,973</td>
<td></td>
</tr>
<tr>
<td>Operating Expenses</td>
<td></td>
<td>162,301</td>
<td></td>
<td>166,093</td>
<td></td>
</tr>
<tr>
<td>Information Technology</td>
<td></td>
<td>526,508</td>
<td></td>
<td>360,140</td>
<td></td>
</tr>
<tr>
<td>Secondments</td>
<td></td>
<td>-</td>
<td></td>
<td>19,544</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>86</td>
<td></td>
<td></td>
<td>1,076</td>
<td></td>
</tr>
<tr>
<td>Total Expenditure</td>
<td>1(c), 2</td>
<td>(4,796,769)</td>
<td></td>
<td>(3,897,556)</td>
<td></td>
</tr>
<tr>
<td>Surplus for the year</td>
<td>1(a)</td>
<td>7,466,361</td>
<td></td>
<td>8,711,800</td>
<td></td>
</tr>
</tbody>
</table>

The notes on pages 59 to 61 form part of these accounts.

The income and expenditure account was approved by the Financial Supervision Commission on the 25 June 2009 and signed on its behalf by Mrs R V Penn (Chairman) and Mr J R Aspden (Chief Executive and Commissioner).
Notes to the accounts for the year ended 31 March 2009

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 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. Amounts due to the Commission at year end but not yet received are included within income, less any provision for non-recoverable amounts. Provisions for non-recoverable amounts include an estimate of specific fees unlikely to be received and a general provision of 25% of other debtors.

c) Expenditure
Expenditure is accounted for on an accruals basis. Amounts properly incurred during the year but not yet paid are included within expenditure. Pursuant to the Audit Directions 2008 the Commission has elected to include within expenditure the cost of fixed assets, not being made from the Consolidated Loans Fund of the Isle of Man Government. Consequently the following Financial Reporting Standards do not apply:

- FRS 10 – Goodwill and Intangible Assets
- FRS 11 – Impairment of Fixed Assets and Goodwill
- FRS 15 – Tangible Fixed Assets
- SSAP19 – Accounting for Investment Properties
- SSAP21 – Accounting for Leases and Hire Purchase Contracts

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) Related parties
The requirements of FRS 8 – Related Party Disclosures have been replaced by the requirements of the Audit Directions 2008, which define who are related parties and the transactions which require disclosure in the accounts.

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

3 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>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>Number</td>
</tr>
<tr>
<td>£50,000 - £74,999</td>
<td>8</td>
</tr>
<tr>
<td>£75,000 - £99,999</td>
<td>3</td>
</tr>
<tr>
<td>£200,000 - £224,999</td>
<td>-</td>
</tr>
<tr>
<td>£225,000 - £249,999</td>
<td>1</td>
</tr>
</tbody>
</table>

Salaries have risen during 2009 due to an increase in approved headcount of three additional staff, including the cost of their pensions which is now borne by the Commission for all new staff, a realignment of some salaries after a market review following a period of high staff turnover, and the cost of the annual review of salaries conducted with effect from 1 April 2008.

Included within salaries are pension contributions of £17,200 (2008: £nil).

4 Professional fees
Professional fees have increased during the year primarily due to the costs incurred by the Commission in addressing the failure of Kaupthing Singer & Friedlander (Isle of Man) Limited and preparing for the activation of the Depositors' Compensation Scheme.

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

<table>
<thead>
<tr>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td>Debtors</td>
<td>1,217,245</td>
</tr>
<tr>
<td>Provision for doubtful debts</td>
<td>(495,306)</td>
</tr>
<tr>
<td></td>
<td>721,939</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td>Prepayments</td>
<td>75,409</td>
</tr>
</tbody>
</table>

7 Accruals
The following accruals have been included within expenditure:

<table>
<thead>
<tr>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td>Accrued expenditure</td>
<td>44,479</td>
</tr>
</tbody>
</table>

8 Operating lease commitments
The Commission has the following rental lease commitments expiring:

<table>
<thead>
<tr>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td>Within 12 months</td>
<td>372,440</td>
</tr>
<tr>
<td>Between 1 and 5 years</td>
<td>1,395,873</td>
</tr>
<tr>
<td>After 5 years</td>
<td>2,810,897</td>
</tr>
<tr>
<td></td>
<td>4,579,210</td>
</tr>
</tbody>
</table>

9 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.
10 Related party disclosures
There were no related party transactions requiring disclosure in the accounts.

11 Commitments and contingencies
The Commission had committed to or planned to make the following expenditures at year end:

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premises</td>
<td>-</td>
<td>2,026</td>
</tr>
<tr>
<td>Training</td>
<td>-</td>
<td>3,775</td>
</tr>
<tr>
<td>Travel</td>
<td>-</td>
<td>4,319</td>
</tr>
<tr>
<td>Professional fees</td>
<td>34,000</td>
<td>82,905</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>-</td>
<td>10,004</td>
</tr>
<tr>
<td>Information technology</td>
<td>58,880</td>
<td>622,801</td>
</tr>
<tr>
<td></td>
<td>92,880</td>
<td>725,830</td>
</tr>
</tbody>
</table>
Appendix G

Legislation and Practice Notes introduced from 1 April 2008 - 31 March 2009

Primary legislation

Collective Investment Schemes Act 2008 - Chapter No 7 effective 01.08.08.

Financial Services Act 2008 - Chapter No 8 effective 01.08.08.

Secondary legislation

SD No 83/08 effective 06.04.08 Companies (Fees, Duties and Penalties) Regulations 2008. This Order prescribes the fees to be charged by the Companies Registry in respect of the Companies Act 2006.

SD No 84/08 effective 06.04.08 Companies (Fees and Duties) Order 2008. This Order prescribes the fees to be charged by the Companies Registry in respect of the Companies Act 1931.

SD No 85/08 effective 06.04.08 Limited Liability Companies (Fees and Duties) Order 2008. This Order prescribes the fees to be charged by the Companies Registry in respect of Limited Liability Companies formed under the provisions of the Limited Liability Companies Act 1996.

SD No 86/08 effective 06.04.08 Companies (Transfer of Domicile) (Fees and Duties) Order 2008. This Order prescribes the fees to be charged by the Companies Registry for companies to be continued in the Isle of Man or in a country or territory outside the Isle of Man under the Companies (Transfer of Domicile) Act 1998. It also prescribes the fees for the issue of a duplicate certificate of registration and the filing of an instrument of continuance under the Act.

SD No 87/08 effective 06.04.08 Insurance Companies (Transfer of Domicile) (Fees and Duties) Order 2008. This Order prescribes the fees to be charged by the Companies Registry in respect of the continuance and discontinuance of insurance companies.

SD No 88/08 effective 06.04.08 Companies Registry (Miscellaneous Fees) Order 2008. This Order prescribes the fees to be charged by the Companies Registry in relation to providing copies of documents, certifying documents, extraction fees, certificates of fact and taking/witnessing affidavits, affirmations, declarations or attestations.

SD No 89/08 effective 06.04.08 Partnership (Fees) Rules 2008. These Rules prescribe the fees to be charged by the Companies Registry in respect of Limited Partnerships registered under the Partnership Act 1909.

SD No 90/08 effective 06.04.08 The Registration of Business Names (Fees and Duties) Rules 2008. These Rules prescribe the fees to be charged by the Companies Registry in respect of business names.

SD No 340/08 effective 01.07.08 Collective Investment Schemes (Registers) (Amendment) Regulations 2008. These Regulations amend the Collective Investment Schemes (Registers) Regulations 2001 to include the content of the public registers to be maintained by the Financial Supervision Commission for Specialist Funds and Qualifying Funds.

SD No 366/08 effective 01.08.08 Financial Services Act 2008 (Appointed Day) Order 2008. This Order brought the Financial Services Act 2008 into force on 1 August 2008, and provides for certain transitional arrangements.

SD No 367/08 effective 01.08.08 Regulated Activities Order 2008. This Order specifies the activities which constitute regulated activities for the purpose of the Financial Services Act 2008. It also defines expressions used in section 1(2) of that Act.

SD No 368/08 effective 01.08.08 Financial Services (Exemptions) Regulations 2008. These Regulations set out exemptions for certain persons from section 4 of the Financial Services Act 2008, which prohibits the carrying on of regulated activities except in accordance with a licence.

SD No 369/08 effective 01.08.08 Financial Services Rule Book 2008. This Rule Book contains detailed rules to be complied with by the holders of licences under the Financial Services Act 2008 in carrying on regulated activities. It replaces the regulatory codes issued under the Acts repealed by that Act.

Part 1 is introductory. Part 2 imposes requirements with respect to financial resources and reporting. Part 3 requires client money and trust money to be kept separate from a licenceholder’s money. Part 4 deals with the safeguarding and safekeeping of clients’ investments. Part 5 provides for the audit of licenceholders’ accounts. Part 6 lays down standards for the conduct of business by licenceholders. Part 7 imposes requirements with regard to licenceholders’ administration, and Part 8 with risk management and internal control. Part 9 contains new requirements to prevent money-laundering and the financing of terrorism, to supplement the Criminal Justice (Money Laundering) Code 2007.
SD No 370/08 effective 01.08.08 Financial Services (Fees) Order 2008. This Order specifies the application fees, licence fees and annual fees payable in relation to the licensing of financial services under the Financial Services Act 2008.

SD No 371/08 effective 01.08.08 Financial Services (Not Fit and Proper) Regulations 2008. These Regulations detail the information required to be included in a register of directions given under section 10 of the Financial Services Act 2008 which is to be open to public inspection; and also prescribe the information to be included in a public statement made under section 13 (3)(a) of the Financial Services Act 2008.

SD No 372/08 effective 01.08.08 Financial Services (Civil Penalties) Regulations 2008. These Regulations specify the penalties payable by licenceholders in the event that returns are not submitted or provided to the Financial Supervision Commission within certain specified periods.

SD No 373/08 effective 01.08.08 Authorised Collective Investment Schemes (Compensation) Regulations 2008. These Regulations provide for the establishment of a fund out of which compensation is to be paid to investors in the event that a manager, trustee or fiduciary custodian of an authorised collective investment scheme is unable or likely to be unable to satisfy claims in respect of any description of civil liability incurred in connection with a regulated business. The Regulations further provide for the levying of contributions from managers, trustees or fiduciary custodians and the administration of the compensation fund.

SD No 461/08 effective 01.08.08 Collective Investment Schemes Act 2008 (Appointed Day) Order 2008. This Order brings the Collective Investment Schemes Act 2008 into operation, and provides for certain transitional arrangements.

SD No 462/08 effective 01.08.08 Collective Investment Schemes (Definition) Order 2008. This Order specifies the types of arrangements which do not amount to a collective investment scheme under section 1 of the Collective Investment Schemes Act 2008.

SD No 530/08 effective 01.08.08 Financial Services (Register of Permitted Persons) Regulations 2008. These Regulations prescribe the content of the register of all former and current holders of a licence under the Financial Services Act 2008, and all classes of persons who are exempt from any provision of that Act (required to be kept by the Commission under section 35 of that Act) and the availability of the register for public inspection.

SD No 559/08 effective 01.11.08 Companies (Fees, Duties and Penalties) (Amendment No.2) Regulations 2008. This Order reduces the annual return fee for a qualifying members’ club from £320 to £75.

SD No 560/08 effective 01.11.08 Companies (Fees and Duties) (Amendment No.2) Order 2008. This Order reduces the annual return fee for a qualifying members’ club from £320 to £75.

SD No 787/08 effective 01.11.08 Financial Services (Fees) (Amendment) Order 2008. This Order amends sections 2(1) and 3(2) of, and substitutes Schedule 1 to, the Financial Services (Fees) Order 2008 (SD 370/08).

SD No 826/08 effective 09.10.08 Compensation of Depositors Regulations 2008. These Regulations provide some compensation to depositors of a deposit taking business licensed in the Isle of Man (with certain exceptions) in the event of the default of the deposit taker.

SD No 844/08 effective 23.10.08 Compensation of Depositors (Amendment) Regulations 2008. These Regulations amend SD No 826/08.

SD No 946/08 effective 22.01.09 Financial Services (Appointment of Manager) Order 2008. This Order specifies the circumstances in which the Financial Supervision Commission may apply to the High Court for the appointment of a manager to manage the affairs of a person, so far as they relate to the carrying on of a regulated activity.

SD 232/09 effective 18.03.09 Compensation of Depositors (Amendment) Regulations 2009. These Regulations amend SD No 826/08 in part to make it clear that an early payment under the Kaupthing Singer & Friedlander (Isle of Man) Early Payment Scheme will be recoverable from any amount paid to a depositor under the 2008 Regulations or contributed by the Treasury for the purposes of compensating eligible depositors.

SD No 95/09 effective 20.03.09 Financial Services (Gateways) Order 2009. This Order creates a gateway for the primary recipient of restricted information to disclose it to the Isle of Man Office of Fair Trading to assist it in discharging its functions under the enactments.
listed in the Schedule to the Order. The Order also prescribes that any information disclosed under it shall not be disclosed to third parties without the prior written approval of the primary recipient.

SD No 131/09 effective 01.04.09 Financial Services (Fees) Order 2009. This Order specifies the application fees and annual fees payable in relation to the licensing of regulated activities under the Financial Services Act 2008. The fees replicate existing fees under the legislation repealed by article 7 of this Order, but an increase has been applied to the fees based on the increase in the retail price index between November 2006 and November 2008, which was 8.9%.

SD No 132/09 effective 01.04.09 Collective Investment Schemes (Fees) Order 2009. This Order specifies the application and periodical fees payable by schemes under the Collective Investment Schemes Act 2008 (“CISA 2008”). It revokes and replaces the Collective Investment Scheme (Fees) Regulations 2007 (SD 112/07), which were made under the Financial Supervision Act 1988 (which was repealed in full by the CISA 2008). The fees have been increased based on the increase in the retail price index between November 2006 and November 2008, which was 8.9%. Additionally, periodical fees for other classes of international scheme have been introduced.

Practice Notes

PN 1/2008 - Information for new officers – 6 April 2008. This practice note sets out the requirements for filing in the Companies Registry the more common statutory documents prescribed under the Companies Acts 1931 - 2004.

PN 2/2008 Companies Registry Fees – 6 April 2008. This practice note contains details of the fees payable in the Companies Registry

PN 3/2008 - Restoring a Dissolved Company to the Register under Section 273B of the Companies Act 1931– 6th April 2008. This Practice Note sets out the procedure for applying to the Financial Supervision Commission for a Direction to Restore a dissolved company to the Register.

PN 4/2008 - Dissolving a Solvent Company under Section 273A of the Companies Act 1931 – 6th April 2008. This Practice Note sets out the procedure for applying to the Financial Supervision Commission for a Declaration of Dissolution under Section 273A of the Companies Act 1931.

PN 5/2008 - Companies (Transfer of Domicile) Act 1998 - Transferring the Domicile of a Company to the Isle of Man – 6th April 2008. This practice note sets out the procedure for transferring the domicile of a company to the Isle of Man from another country or territory in accordance with Part 1 of the Companies (Transfer of Domicile) Act 1998


PN 7/2008 - Documents to be filed when a Company is put into Liquidation – 6th April 2008. This practice note summarises the requirements for filing documents with the Financial Supervision Commission (Companies Registry) when a company is put into liquidation.

PN 8/2008 - Submission of Company Documents and the Calculation of Filing Fees – 6th April 2008. This practice note sets out the prescribed filing periods and how we determine if a document is submitted on time.

PN 9/2008 - Registering a Foreign Company in the Companies Registry – 6th April 2008. This practice note outlines the statutory forms that need to be submitted by a foreign company registering under Part XI of the Companies Act 1931.

PN 10/2008 - Filing Obligations of a Foreign Company Registered under Part XI - 6th April 2008. This practice note outlines the ongoing statutory filing requirements by a foreign company under the Companies Act 1931.

PN 11/2008 - Registering an LLC in the Companies Registry - 6th April 2008. This practice note sets out the requirements for registering an LLC in the Companies Registry under the provisions of Part II of The Limited Liability Companies Act 1996

PN 12/2008 - Filing Obligations of an LLC - 6th April 2008. This Practice Note sets out the filing requirements for the more common statutory documents prescribed
under the Limited Liability Companies Act 1996

PN 13/2008 - Restoring a Dissolved LLC to the Register under Section 11B - 6th April 2008. This Practice Note sets out the procedure for applying to the Financial Supervision Commission for a Direction to Restore a dissolved limited liability company to the Register under Section 11B of the Limited Liability Companies Act 1996.

PN 14/2008 - Dissolving a Solvent LLC under Section 11A - 6th April 2008. This Practice Note sets out the procedure for applying to the Financial Supervision Commission for a Declaration of Dissolution under Section 11A of the Limited Liability Companies Act 1996.

PN 15/2008 - Documents to be filed when an LLC is put into Liquidation - 6th April 2008. This Practice Note sets out the procedure for filing documents with the Companies Registry when an LLC is put into liquidation.

PN 16/2008 - The Partnership Act 1909 - 6th April 2008. This practice note sets out the policies operated by the Financial Supervision Commission for registering and maintaining a limited partnership.

PN 17/2008 - Registration and Continuance of Business Names - 6th April 2008. This practice note sets out the policies operated by the Financial Supervision Commission in relation to the submission of business name documents and the calculation of filing fees.
### Consultative Documents issued between 1 April 2008 and 31 March 2009

<table>
<thead>
<tr>
<th>Title of consultation</th>
<th>Date consultation published</th>
<th>Date consultation closed</th>
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</thead>
<tbody>
<tr>
<td>CAROL 9 - Information Paper - Information and final drafts of various secondary legislation to be made under the Financial Services Bill 2008: (Not fit and proper Regulations; Civil Penalties Regulations; Authorised Collective Investment Schemes Compensation Regulations; Fees Order; and Appointed Day Order).</td>
<td>28 April 2008</td>
<td>Not applicable – paper was for information rather than consultation</td>
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<tr>
<td>CAROL 10 – Feedback of industry comments on the consultative paper on Regulated Activities Order and Exemption Regulations; also publication of the final draft of complete Financial Services Rule Book.</td>
<td>28 April 2008</td>
<td>6 May 2008</td>
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<tr>
<td>Consultation on draft Financial Services (Appointment of a Manager) Order.</td>
<td>1 September 2008</td>
<td>10 October 2008</td>
</tr>
<tr>
<td>Consultation on draft Financial Services (Gateways) Order.</td>
<td>25 November 2008</td>
<td>12 December 2008</td>
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</table>
Other Information

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 Rulebook 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, Illiam Dhone House, Circular Road, 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>Acronym</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>ACIB</td>
<td>The Association of Chartered Institute of Bankers</td>
</tr>
<tr>
<td>ACCA</td>
<td>Association of Chartered Certified Accountants</td>
</tr>
<tr>
<td>ACSP</td>
<td>Association of Corporate Service Providers</td>
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<tr>
<td>AIM</td>
<td>Alternative Investment Market</td>
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<tr>
<td>AIMA</td>
<td>Alternative Investment Management Association</td>
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<td>BCCI</td>
<td>Bank of Credit &amp; Commerce International</td>
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<td>BoE</td>
<td>Bank of England</td>
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<tr>
<td>BVI</td>
<td>British Virgin Islands</td>
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<td>AML</td>
<td>Anti-Money Laundering</td>
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<tr>
<td>CAROL</td>
<td>Consolidation and Review of legislation</td>
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<tr>
<td>CFT</td>
<td>Countering the Financing of Terrorism</td>
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<td>CIPD</td>
<td>Chartered Institute of Personnel &amp; Development</td>
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<td>CIS</td>
<td>Collective Investment Scheme</td>
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<td>Commission</td>
<td>The Financial Supervision Commission</td>
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<td>CSPs</td>
<td>Corporate Service Providers</td>
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<td>DCS</td>
<td>Depositors’ Compensation Scheme</td>
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<td>ECG</td>
<td>Enlarged Contact Group</td>
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<td>EIF</td>
<td>Experienced Investor Fund</td>
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<td>EU</td>
<td>European Union</td>
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<td>EU15</td>
<td>15 countries in the European Union before the expansion on 1 May 2004</td>
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<tr>
<td>FATF</td>
<td>Financial Action Task Force</td>
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<td>FINCEN</td>
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<td>Financial Sector Assessment Programme</td>
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<td>Financial Supervision Commission</td>
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<td>G7</td>
<td>Group of seven industrialised nations of the world formed in 1976</td>
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<td>GIABA</td>
<td>Groupe Intergouvernemental d’Action</td>
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<td>ICAAP</td>
<td>Internal Capital Adequacy Assessment Process</td>
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<td>ICEAW</td>
<td>The Institute of Chartered Accountants in England and Wales</td>
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<td>JAMLAG</td>
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<td>MIF ID</td>
<td>The Markets in Financial Instruments Directive</td>
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<td>NAV</td>
<td>Net Asset Value</td>
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<td>Offshore Group of Banking Supervisors</td>
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<td>RPI</td>
<td>Retail Price Index</td>
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<td>SEPA</td>
<td>Single Euro Payments Area</td>
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<td>The Society of Trust &amp; Estate Practitioners</td>
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