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,
- reduce financial crime, and
- support the Island’s economy and its development as an international financial centre.

The Commissioners

Rosemary Penn MBE (Chairman)  John Aspden (Chief Executive)
John Cashen OBE (Deputy Chairman)  Tim Cullen
Geoff Karran MBE  Alan Smith  Bryan Stott
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Glossary

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

Last year’s Report outlined the exceptional turbulence which had been occurring in financial markets during the preceding 12 months. These conditions persisted, especially during the early part of the period when confidence remained at a very low ebb and it was too early to say whether internationally co-ordinated efforts to stabilise and then revive economic activity were taking effect.

Although there are signs that some recovery is slowly emerging in certain sectors, it is evident that contagion is still working through the system. In financial markets, impaired asset quality is requiring further write-downs, and at the macro level a number of economies are having to introduce deep austerity programmes to address structural imbalances.

For a regulator, these are times when lessons learned have to be translated into a more robust infrastructure. This does not need to mean more regulation at the expense of commercial activity, although there is a recognition globally that risks need to be more adequately covered. Some continuing restraint is therefore expected in the future.

For the Isle of Man, it is fortunate that our financial system has been relatively immune from credit and toxic issues mainly because of the nature of business conducted from the Island. Nonetheless a number of parent groups with offices in the Island have been severely impacted, and this has been felt in different ways. The Commission has coped with the significant challenges presented by the global financial conditions and this Report provides an account of the actions we have taken and our aims to assist in securing a firm foundation for the next stage of the Island’s development.

Of particular significance during the period was publication of the IMF’s Financial Sector Assessment Programme covering the Island’s financial sector, in September 2009.

I am delighted to say that the Island received a very favourable review, especially in terms of supervision and financial stability. This follows from the IMF’s previous assessment conducted in 2003 and again reaffirms the Island’s position as a well-regulated and respected jurisdiction.

At a time when smaller jurisdictions continue to attract international scrutiny and the public is demanding effective oversight, it is essential for our future that we measure up to the demanding standards expected of us.

The AML/CFT component of the IMF report is also of critical importance, and again I am pleased to report that the IMF found the Island to be broadly compliant with most aspects of the FATF Recommendations. This is a commendation for all of the Island’s regulators, law enforcement authorities and Government Departments which formed part of the assessment exercise. At the time of publishing this Report the Island has maintained its position of 10th equal in the global standing of jurisdictions’ overall compliance with the FATF Recommendations. This is regarded as a very positive outcome.

A full account of the assessment is given in section 4, and the report is published on the Commission’s website.

However this is only part of the picture. In responding to the financial turbulence and global instability, the G20 countries have set increasingly tough standards for all countries to meet in terms of regulatory effectiveness. We must set our sights firmly on these standards if we are to sustain our reputation.
In AML/CFT terms, our IMF review demonstrates that we meet the G20’s expectations in terms of compliance with the FATF’s core and key Recommendations. We also meet the Financial Stability Board’s minima for adherence to relevant co-operation and exchange of information principles taken from the Basel Core Principles, the IAIS Core Principles and the IOSCO Core Principles. However, standards continue to increase and for AML/CFT purposes we have only a small margin of compliance above the minimum thresholds set for the core and key Recommendations. We need to take early action to improve our ‘ratings’ still further and in some cases pass important legislation. We will need to garner all the support and resources we can if we are to turn this position into one of strength for the future. The Commission is committed to improving the position further.

Soon after the IMF report was published Michael Foot released his independent review of British offshore financial centres, undertaken for HM Treasury. This recognised the important steps taken by the Island to meet international standards, and acknowledged the significant contribution which it makes to the UK economy, by providing a gateway for routing funds to the City and servicing the financial needs of many UK nationals living abroad.

One of the strengths of the Island is being able to find niche sectors in which it can respond flexibly and quickly to market developments. Certain investor groups are now looking to benefit from opportunities created by the increased volatility which is occurring in the financial markets and we have been able to respond to this by working with the industry including to develop a new type of international scheme known as the Regulated Fund. This fund was launched at the beginning of May 2010, and there has already been strong interest in the new offering. The Specialist and Qualifying Funds have also been reclassified as types of Registered Funds.

The business model adopted by many banks locally is to source deposits at competitive rates of interest, and to pass these to central group treasuries for wider deployment. In many cases this has meant that Island banks have been less affected by issues of credit quality than their counterparts elsewhere. The corollary is that it involves the bank taking on a significant exposure to a parent organisation. When properly managed within clearly understood parameters and with the agreement of support for banks of a minimum national standing this model can have a viable future, but for this to occur it is essential that cross-border co-operation and support remain in place.

In the Regulatory Approach section of the Report you will see outlined a number of ways in which the Commission is sharpening its focus on the conduct of business. While the Commission believes that the vast majority of IFAs offer the most suitable products for their clients’ needs, it is looking for this to be supported by in-house analysis of why a product is deemed appropriate for market at a particular time. It is important the public should know that verification of the IFAs processes in this area forms a core part of the Commission’s on-site inspection work.

After the end of the period Companies Registry moved to the new Department of Economic Development. This was part of a wider restructuring of Government. The Commission has expressed concerns to Government at the potentially serious effect which the lack of a formal regulatory connection with Companies Registry could have on the reputation of the Island as a respected and well-regulated financial centre.

Companies Registry was transferred to the Commission in the year 2000 expressly as part of a package to reform corporate conduct. Companies continue to be perceived by international standard-setters as vehicles presenting considerable reputational risks, and it had been deemed important for all matters concerning the oversight of companies to come under the Commission. The Island is in challenging times but it is critical to our future in finance that, in a desire to attract new business, we do not jeopardise the good reputation which we have spent many years building up.

The Commission is fortunate in having a Board which is both experienced and representative of the different industry sectors which it supervises. All of us in the Executive are very grateful for the support and encouragement which Board members extend to us.

Finally, my job would not be possible without the dedication and professionalism of all of the Commission’s staff. Many of the visit feedback returns which I receive refer very positively to the way in which our regular contact is carried out, and I would like to thank my colleagues for the way in which they perform their different roles so effectively.

John R Aspden
Chief Executive and Commissioner
International financial markets and the global economy

This time last year we were still in the midst of the greatest economic crisis since the Second World War. During that period, global trade fell by 40% and stock markets fell by even more. The UK’s GDP is estimated to have fallen by the largest annual percentage since the First World War. Fortunately, while the UK was hit by a major recession, it is now apparent that a depression was avoided and its GDP growth is now just positive.

In the latter part of 2009 the global financial system appeared to regain some stability. Measures introduced by the authorities in the UK and elsewhere, such as low interest rates and support for the banking system, reduced uncertainty among investors and contributed to some improvement in market confidence. As a result, funding constraints began slowly to ease, but this has led to concern that market participants may again build risky positions which could be vulnerable to rises in interest rates.

The UK bank interest rate remains at the historically low level of 0.5%. However banks in the UK lent less to private non-financial businesses from mid 2009, although this decline has now reversed slightly.

World trade increased in early 2010 on the back of the tentatively increasing consumer and business confidence, but it remains unclear whether a double-dip recession will be avoided. An increase in house prices in Britain during 2009 is now waverling, despite low interest rates. Retail sales, unemployment and house price data are generally predicted to fall behind anticipated GDP growth of just one per cent and investment forecasts remain negative for this financial year. Inflation remains a concern in the UK (3.5% January) and real interest rates are currently negative for most savers, although the ratio of household savings has recently risen sharply.

The Bank of England suggests that it is essential to tackle the “too big to fail” view of major financial groups, in order to address the root causes of the financial crisis and prevent similar crises in future. Several international organisations are considering the same issues, including the G20, the Financial Stability Board, the Basel Committee and committees within the European Union. It is acknowledged that international co-operation is essential, although it is apparent that there are significant challenges in reaching international consensus.

For example the UK and USA are known to share similar views on the need for higher capital and liquidity requirements in financial institutions, but these views are not always shared by the larger European countries.

It is clear that countries around the world took a range of bold actions in response to the crisis - easing monetary conditions, adopting a fiscal stimulus, and co-operating on cross-border financial problems. The IMF also contributed to the international crisis response, increasing lending to unprecedented levels.

According to IMF data, central banks’ reserves have risen during the last decade from around $2,000 billion to a record high of around $7,500 billion now. These reserves are concentrated primarily in Asia and oil-producing countries, with six countries holding 60% of the total. China is the most significant repository of foreign exchange reserves, holding one-third of the world’s total. The IMF states that 60% of reserves are held in US dollars, around 30% in euros and 5% in sterling.

A trough in foreign exchange trading in London and New York, the major world markets, which was reached in April 2009, has been followed by a recovery to levels similar to those of 2007. However, markets are evidencing a more cautious approach to trading these days, with more transactions going through clearing houses, thereby reducing counterparty risk and increasing transparency.

Since the start of the year, concerns have increased over the weaker euro countries which have caused the euro to lose around 7% of its value against the US dollar. The key concern has been Greece, although several other southern European countries are also struggling with large budget deficits and high labour costs. The EU’s stability and growth pact, which requires member states to maintain budget deficits below 3% of GDP, has highlighted concerns about how to handle fiscal issues in a diverse range of member states. The expected need to keep euro interest rates low or the foreseeable future suggests that the currency will weaken further against the dollar, which in turn is expected to benefit from the Federal Reserve’s plans to tighten monetary policy.

The aftermath of the financial crisis shows that, in the preceding period, threats to macro-financial stability were able to develop alongside stable prices, small output gaps, and healthy public finances. The IMF has commented that
regulatory weaknesses allowed significant risks to build up and enabled the bursting of the US housing bubble to turn into a major global crisis. Once the crisis started, rules aimed at guaranteeing the soundness of individual institutions worked against the stability of the system. For instance, mark-to-market rules, coupled with constant regulatory capital ratios, forced financial institutions into fire-sales and de-leveraging.

A fundamental rethink on some core areas of regulatory policy is now underway internationally. Capital adequacy, and liquidity management and resources, are being re-evaluated in the light of recent experience. Co-operation and co-ordination, especially within common areas such as the EU (alongside which the Island is positioned), have assumed further importance but perhaps tinged with a greater reality as to where responsibilities actually do lie.

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 crisis has inevitably led to some difficulties.

The Isle of Man is in its twenty-seventh consecutive year of economic growth, the period since the mid-90s having seen a particularly impressive performance with real growth averaging 7% per annum. Although the rate of growth has slowed recently the economy is still expanding. Per capita income is now 22% higher than that of the UK and 30% higher than the EU15 average.

The key primary sectors in generating this performance over the last two decades have been financial and professional services. Banking generates almost one-fifth of the Island’s gross domestic product, with the rest of the finance industry producing a similar total. One of the 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, e-business and the space industry.

The Island’s strong economic performance has provided a year on year strengthening of reserves until recently, when a combination of the economic slowdown and the cut in the standard rate of VAT has resulted in a period of declining revenues. Treasury receipts have fallen from a peak of £606 million in 2006/07 to a probable £555 million in 2009/10.

The zero/10 rate of income tax for business (10% for deposit-taking and property development) has remained, although the higher rate of personal income tax was increased in the 2010 Budget from 18 to 20%. The maximum individual tax liability has also been raised to £115,000 on personal incomes.

The Island has continued to receive AAA credit ratings from both Moody, and Standard & Poor’s, indicating that plans for handling the public finances are considered satisfactory. The ratings have also no doubt been influenced by the Island’s fiscal strength via its established and self-imposed legislative requirement that Government must not budget for a deficit in respect of its annual revenue spending.
After a period in early 2009 when unemployment suddenly increased, the Island’s labour market has settled down and is still able to post an unemployment rate of just 2%. Most job losses have been in the construction and retail sectors, with the primary, export-earning sectors of the economy relatively unaffected in net terms. In the light of the weakening of the economy and the local labour market the Island’s work permit system has been reviewed to tighten requirements in areas where recruitment is for relatively unskilled employees. But in other areas and for newly establishing entities, recruitment has been deregulated, including for short term permit applications.

Employment costs on the Island have generally increased at a modest and manageable rate. The latest figure, from the 2009 Earnings Survey, showed that average earnings from employment had increased by only 0.5% over the 12 months to June (compared with a rise in the cost of living over the same time period of 0.9%). Wage settlements are continuing to be modest. In the public sector the 2010 Budget announced a freeze on pay awards for two years.

A combination of falls in energy costs and mortgage costs following the cuts in UK base rates from 4.5% in October 2008 to 0.5% by March 2009 resulted in the Isle of Man Retail Price Index becoming negative for a period in 2009, for the first time since the Index was initiated in 1976. As these deflationary effects have dropped out of the Index annual price inflation has started to creep up again. In March 2010 inflation as measured by the RPI stood at 5.0% (compared to 4.4% in the United Kingdom). It is difficult to predict how the annual rate might change over the year. Generally upward pressures are fairly subdued, but there are great uncertainties over energy prices, whilst there is a strong possibility of UK Government action to raise customs duties and VAT as a means of improving its own finances. Any such moves would impact directly on the Isle of Man via the Customs and Excise Agreement between the Island and the United Kingdom. Longer term, the inflation outlook will depend critically on the extent to which global economic recovery impacts upon commodity prices and whether there is significant inflation of asset prices in the financial markets.

In contrast to experiences elsewhere, over the last two years property prices on the Island have remained stable. In 2009 the average sale value of a residential property was £276,000 a relatively small fall of just 4% over the year, although volumes were down by around a third. But already in 2010, sales volumes are up and selling prices have also recovered lost ground.

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

There are several, prospectively serious, destabilising scenarios still troubling financial markets, not least those concerning sovereign debt levels, so any growth expectations come, naturally, with attendant caveats. But the Isle of Man Treasury is predicting that 2010/11 will see a return to increasing growth in GDP in the local economy.
Market statistics

Bank deposits

Deposits (net of local inter-bank placings) with Isle of Man deposit taking licenceholders (“banks”), including those held with overseas branches of Isle of Man incorporated banks totalled £63.09bn as at 31 March 2010, consisting of £38.85bn sterling deposits and £24.24bn non-sterling deposits. Of the £63.09bn, £10.99bn relates to deposits held with overseas branches of Isle of Man incorporated banks.

Distribution of locally incorporated banks by risk asset ratio

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

Of the 21 locally incorporated banks seven had actual risk asset ratios between 10% and 15%, two had risk asset ratios between 15% and 20% and 12 had risk asset ratios above 20%. All figures are at the end of March 2010.

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

<table>
<thead>
<tr>
<th>At 31 March 2010</th>
<th>Total</th>
<th>Subsidiaries</th>
<th>Branches</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>17</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>Ireland</td>
<td>5</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Spain</td>
<td>4</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>South Africa</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Switzerland</td>
<td>2</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>France</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Cayman Islands</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>USA</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td><strong>Sub total</strong></td>
<td><strong>34</strong></td>
<td><strong>19</strong></td>
<td><strong>15</strong></td>
</tr>
<tr>
<td>Isle of Man</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>36</strong></td>
<td><strong>19</strong></td>
<td><strong>15</strong></td>
</tr>
</tbody>
</table>


Assets and liabilities of licensed banks (£ billion)

<table>
<thead>
<tr>
<th>Assets</th>
<th>At 31 March</th>
<th>At 31 March</th>
</tr>
</thead>
<tbody>
<tr>
<td>Money market assets, due from banks and building societies</td>
<td>55.8</td>
<td>58.9</td>
</tr>
<tr>
<td>Loans, advances and assets leased</td>
<td>11.3</td>
<td>11.3</td>
</tr>
<tr>
<td>Investments</td>
<td>0.2</td>
<td>0.1</td>
</tr>
<tr>
<td>Other assets</td>
<td>0.5</td>
<td>1.2</td>
</tr>
<tr>
<td>Total assets</td>
<td><strong>67.8</strong></td>
<td><strong>71.5</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>At 31 March</th>
<th>At 31 March</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposits due to banks and building societies</td>
<td>12.2</td>
<td>10.8</td>
</tr>
<tr>
<td>Deposits due to customers</td>
<td>51.8</td>
<td>56.1</td>
</tr>
<tr>
<td>Other deposits (held as security and interest payable) including deposits due to public sector bodies</td>
<td>0.7</td>
<td>0.7</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>0.6</td>
<td>1.3</td>
</tr>
<tr>
<td>Capital and reserves</td>
<td>2.5</td>
<td>2.6</td>
</tr>
<tr>
<td>Total liabilities</td>
<td><strong>67.8</strong></td>
<td><strong>71.5</strong></td>
</tr>
</tbody>
</table>

At 31 March 2010, 52% of loans, advances and assets leased were classified as being secured on residential property (31 March 2009: 46%).
Geographical source of non-bank deposits

<table>
<thead>
<tr>
<th>Country</th>
<th>31 March 2010</th>
<th>31 March 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Isle of Man</td>
<td>29%</td>
<td>31%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>34%</td>
<td>29%</td>
</tr>
<tr>
<td>European Union</td>
<td>7%</td>
<td>9%</td>
</tr>
<tr>
<td>(excluding UK)</td>
<td>9%</td>
<td>11%</td>
</tr>
<tr>
<td>Europe (non EU)</td>
<td>5%</td>
<td>4%</td>
</tr>
<tr>
<td>Middle and Far East</td>
<td>5%</td>
<td>6%</td>
</tr>
<tr>
<td>North America</td>
<td>11%</td>
<td>10%</td>
</tr>
<tr>
<td>Other</td>
<td>11%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Deposits (including inter-loM banks) March 2010

- 41% Corporate/trust /fiduciary deposits
- 36% Retail deposits
- 1% Other deposits
- 15% Group depositors
- 7% Other deposit takers

Sectoral breakdown of Isle of Man Funds by value as at 31 March 2010

<table>
<thead>
<tr>
<th>Category of Collective Investment Scheme</th>
<th>Number of schemes</th>
<th>Total net asset value of funds under management/administration $million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authorised Schemes</td>
<td>7</td>
<td>1,100</td>
</tr>
<tr>
<td>Full International Schemes</td>
<td>20</td>
<td>4,266</td>
</tr>
<tr>
<td>Professional Investor Funds</td>
<td>4</td>
<td>55</td>
</tr>
<tr>
<td>Specialist Funds</td>
<td>25</td>
<td>891</td>
</tr>
<tr>
<td>Qualifying Funds</td>
<td>12</td>
<td>516</td>
</tr>
<tr>
<td>Experienced Investor Funds -</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Qualifying Experienced Investor Funds</td>
<td>9</td>
<td>1,026</td>
</tr>
<tr>
<td>• Legacy Experienced Investor Funds</td>
<td>20</td>
<td>1,552</td>
</tr>
<tr>
<td>• Closed Experienced Investor Funds</td>
<td>26</td>
<td>454</td>
</tr>
<tr>
<td>Exempt Schemes</td>
<td>173</td>
<td>6,934</td>
</tr>
<tr>
<td><strong>Sub total</strong></td>
<td><strong>296</strong></td>
<td><strong>16,794</strong></td>
</tr>
<tr>
<td>Overseas Funds</td>
<td>118</td>
<td>8,389</td>
</tr>
<tr>
<td>Closed ended investment companies</td>
<td>50</td>
<td>5,562</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>464</strong></td>
<td><strong>30,745</strong></td>
</tr>
</tbody>
</table>

Collective Investment Schemes

The reduction in the net asset value has been contributed to mainly by decreases in the value of continuing Experienced Investor Funds (qualifying, legacy and closed types), overseas funds and closed ended investment companies. The Experienced Investor Fund has now been superseded by the Qualifying and Specialist Funds and so no new Experienced Investor Funds can be established; however, some existing funds are continuing. Additionally, certain alternative investment fund performances have been stymied via continued liquidity and credit issues.

The figures in this table show all funds except those that are managed/administered under an inward outsourcing agreement. The total funds managed or administered in the Isle of Man is $32.5 billion.
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. During the year there were no changes to the membership of the Board.

Organisation of the Commission

The organisation of the Commission remained the same during the year (see Appendix C). However after the year on 1 April 2010 Companies Registry moved from the Commission to the Department of Economic Development. The Commission issued a statement on this and further details are given on page 39.

The Commission’s regulatory objectives are to:

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

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

- the need for the regulatory, supervisory and registration regimes to be effective, responsible to commercial developments and proportionate to the benefits which are expected to result from the imposition of any regulatory burden
- the need to 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 full Board meets monthly. In addition a quorum (comprising a minimum of three persons) of the Board meets monthly to consider licensing matters. The following meetings were held during the period:

- Meetings of the Financial Supervision Commission 12
- Meetings of the Licence Application Committee 10

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\(^1\) 4
- Meetings of the Remuneration Committee\(^2\) 3
- Meetings of the Complaints Committee 0

A range of policy, case and operational matters were discussed by the Board during its monthly meetings and included the following items (listed in no particular order):

- IMF Review
- Foot Review
- Isle of Man Banking sector
- Specific case issues
- The financial crisis risks and economic conditions affecting Isle of Man licenceholders
- Annual visit plan

\(^1\) Alan Smith (Chairman of the Committee), Rosemary Penn and Tim Cullen.
\(^2\) John Cashen (Chairman of the Committee), Geoff Karran and Bryan Stott.
- Divisional periodic reports
- Company Officers (Disqualification) Bill 2008
- Oversight of Recognised Auditors
- Select Committee Review of Kaupthing Singer & Friedlander (Isle of Man) Limited
- Depositors’ Compensation Scheme
- IT strategy
- Licensing policy
- Review of Supervisory approach
- Code of Conduct; conflicts of interest
- Financial Services legislation update
- Companies Act compliance
- Review of Collective Investment Schemes
- The Turner Review
- Up-streaming from the Isle of Man
- Examination of risks posed by trust corporations.

A Memorandum of Understanding was previously signed between Treasury and the Commission. This sets out the different responsibilities of each party and explains how communication and co-operation is to be extended in different situations. The MOU is published on the Commission’s website and further details are given in Appendix D.

Under Schedule 1 of the Financial Services Act 2008 the Commission is required to submit to Treasury a Report on its proceedings and activities for the previous year, together with its accounts audited under the Audit Act 2006. This Report for 2009/10 is being submitted to Treasury in fulfilment of this obligation.

Under the Financial Services Act 2008 the Report must also be laid before Tynwald. The Commission’s Annual Report and Accounts for 2008/09 were laid before Tynwald in October 2009 also in fulfilment of this requirement.

**Corporate governance and risk management**

The Risk and Internal Control Committee met on four occasions during the year. The Committee has published terms of reference. Its role in particular is to consider and report to the full Board on the adequacy of the control environment within the Commission.

**Matters covered by the Committee during the year included the following:**

- 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 2009 in advance of the Board’s consideration of the Audited Accounts.
- The Commission’s Statement of Internal Control for the year ended 31 March 2009.
- Particular risk factors affecting the Commission and how they can be mitigated, as identified at Divisional level.
- Risks for the Isle of Man in relation to AML/CFT.
- Factors affecting the Isle of Man arising from G20 initiatives.
- Contingency planning for licenceholder failure and high-level risks facing the industry.
- The process for Expressions of Interest for Court Appointments.
- Arrangements for the preparation of the Commission’s Statement of Internal Control for the year ended 31 March 2010.
- The terms of reference and programme of work for RICC.

A number of other risk related matters were considered by the Commission during the year.

As mentioned on page 39, the Commission has been most concerned at the potentially serious effect which the move of Companies Registry away from the Commission could have on the reputation of the Island as a respected and well-regulated financial centre. These concerns have been formally expressed to Government.

During the year the Commission continued to be frustrated by its inability to progress its required IT strategy with Government. This increased the technology risk for Companies Registry, as well as increasing the potential risk for the security of commercially and legally sensitive information submitted to the Commission. The Commission will continue to press for a competitive IT platform suitable for a regulatory body in line with the Commission’s IT strategy. Since the year end a Memorandum of Understanding covering IT development and maintenance was agreed between the Commission and the Information Systems Division of Government.

The Commission acts as Scheme Manager to the KSFIOM Depositors’ Compensation Scheme. In that capacity it has addressed a number of risks arising also from that role.

The Commission has prepared comprehensive business continuity procedures, after undertaking a risk vulnerability assessment embracing different possible stages of incident and recovery. The regular testing of these, including the operation of an off-site facility, is reported on page 42.
External relations

The Commission’s main stakeholders are as follows:

- Tynwald
- Licenceholders
- Licenceholders’ customers and clients
- Treasury
- Other regulatory and law enforcement authorities
- Its own staff.

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 professional bodies
- regular meetings with Treasury
- regular communication with other home/host regulators, including locally the GSC, IPA and OFT
- briefings for Members of Tynwald
- participation in consultative fora
- co-operation in responding to requests for assistance through established gateways
- liaison with the media
- the Commission’s website.

Activities under all of these headings are reported on throughout the Report. Consultation with industry is the main way in which the Commission discusses and seeks comments on regulatory proposals, and the Commission appreciates the time which licenceholders and practitioners set aside to make sure this process works effectively.

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

- ACSP
- CIS Forum (on which the FMA is also represented)
- Financial Planners & Insurance Brokers Association
- IOM Bankers Association
- Accountancy and Isle of Man Law Society representatives.

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

Complaints against the Commission

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

Sometimes a person may wish to lodge a formal complaint about the Commission. The Commission has published its procedures for dealing with complaints made against it, on its website. In short this provides for a review of the matter and response by the Chief Executive. If the complainant is still not satisfied, then he or she may seek a further review by the Board of the Commission.

During the period there were three complaints made against the Commission. None were outstanding at the end of the period.
The Commission prepares a medium term corporate plan which is integrated within the wider plan of Government. The Government plan for 2010/11 was published earlier during the period.

Business Plan 2009/10

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.

The Commission’s Annual Report for 2008/09 outlined its business plan for 2009/10. This Report now gives an account of what the Commission has achieved during that period.

Business Plan 2010/11

Under each of the Commission’s Regulatory objectives the following deliverables have been identified:

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

- introduce an Auditor Oversight Regime to comply with the EU 8th Directive on Statutory Audits
- participate in Treasury considerations of new DCS Regulations and consider any recommendations made from the Select Committee on KSF(IOM)
- in conjunction with Treasury consider potential changes to the foreign company registration requirements under Part XI of the Companies Act 1931
- improve information management on regulatory matters
- undertake visits with specific themes by sector covering:
  - suitability of financial advice given by intermediaries
  - valuation of collective investment schemes
  - risk rating of investment clients, and clients’ money & corporate governance (including Board packs)
  - risk assessment of fiduciaries’ client business for AML/CFT purposes
  - corporate governance and maintenance of registers by fiduciaries
  - liquidity/treasury management by banks
  - credit risk incurred by banks
- closer monitoring of the provision of services by licenceholders to public companies and closed ended investment companies
- policy and practice – large exposures and liquidity
- monitor developments in international standards and strengthen relationships with overseas regulators
- review the Commission’s licensing policy for Class 1 activities.

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

- action planning following IMF recommendations, and the addressing of implications arising from the financial turbulence
- Authorised Collective Investment Schemes Review
- Full International Collective Investment Schemes Review
- a rolling review and update of the Rule Book and related secondary legislation
- a progressing of the Council of Ministers-approved application to EPC for SEPA entry
- new secondary legislation under the Collective Investment Schemes Act 2008 to replace legislation under the old regime
- Treasury shares: draft regulations and consult with the industry
- consider the need for legislative change re constitutional matters for building societies
- keep under review the developments taking place under the EU Alternative Investment Fund Managers Directive and consider the need for legislative change as the introduction of the Directive progresses
- produce a Collective Investment Schemes Handbook.

Objective: Reduce financial crime

- conduct on-site AML/CFT themed visits to licenceholders
- licenceholder reports on CDD compliance and risk assessments as part of themed questionnaire response
- address the recommendations on AML/CFT contained within the IMF Review report
- redraft the AML/CFT Handbook
- brief licenceholders regarding AML/CFT and financial fraud trends.

Objective: Maximise efficiency and use of resources

- implement Lean Methodology across the Commission
- review resources as well as the budget and HR requirements, in the light of current financial constraints
- update the FSC website and Rule Book
- commence implementation of the Commission’s IT strategy
- upgrade desktop hardware
- introduce a document management system
- review and make changes to the licenceholder database
- introduce an online reporting system for collective investment schemes, and online financial returns for the FIS area
- consider the outsourcing of the Commission’s off-site storage facility
- prepare for a review of licence fees in 2011.
04 IMF Report and International Assessment

The Island’s continuing high level of compliance with global standards of financial sector regulation and supervision - including international co-operation, and the combating of money laundering and the financing of terrorism - has been confirmed by the IMF.

In September 2009 the IMF published its Financial Sector Assessment Programme Report on the Island. This was a positive and highly constructive independent assessment of the Island’s regulatory and supervisory regime, and embraced a detailed assessment of observance of the FATF’s AML/CFT standards. The outcome was a positive endorsement of the steps taken to position the Island as a credible and well-regulated jurisdiction.

The Island had previously been assessed by the IMF in 2003. Both the 2003 report and the current exercise are part of the IMF’s ongoing mandate from the Financial Stability Board to review countries’ adherence to regulatory standards. On this occasion however, the Island was one of the first smaller countries to be subject to the full FSAP process which included a Financial System Stability Assessment accompanied by the stress-testing of aspects of the banking system.

The full text of the assessment is published on the Commission’s website.

The Report states the Island has a general high standard of financial sector regulation and supervision, and a ‘very high standard of compliance’ with the Basel Core Principles for effective banking supervision. The IMF found that the Manx banking system had a limited exposure to market shocks, with a ‘very sound’ level of capitalisation. The insurance sector was found to be similarly well regulated, also with ‘considerable resilience against shocks’.

The Report goes on to say that ‘the Isle of Man authorities take their responsibilities in the area of international co-operation seriously’, citing supervisory co-operation, mutual legal assistance and tax information exchange agreements.

The assessment Report concludes that ‘… the Isle of Man is broadly compliant with most aspects of the FATF Recommendations … having continued to upgrade its requirements significantly.’ It goes on to state that ‘the quality of implementation of AML/CFT measures by financial institutions was found to be mainly of a high standard. In meetings with financial institutions (as well as in some cases their auditors and legal advisors) the assessors found a very high level of awareness of AML/CFT risks and requirements’.

As expected, the Report also contained a number of recommendations, including in relation to AML/CFT. An action plan covering these points is referred to below.

The Report notes the coverage provided by the Isle of Man’s Depositors’ Compensation Scheme.

The following sets out the ratings taken from the IMF Report, in respect of compliance with the Basel Core Principles:

<table>
<thead>
<tr>
<th>Compliance Level</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliant</td>
<td>24</td>
</tr>
<tr>
<td>Largely compliant</td>
<td>7</td>
</tr>
</tbody>
</table>

In January 2010 the FSB announced a Framework for Adherence to International Standards. As part of this exercise the FSB will evaluate (using, in the Island’s case, the IMF Report) a jurisdiction’s adherence to a set of relevant co-operation and exchange of information principles taken from the Basel Core Principles, the IAIS Core Principles and the IOSCO Core Principles. The FSB will measure adherence by expecting a compliant or largely compliant (or observed or largely observed for insurance) rating in all except one of the relevant Principles. The Island meets this test.

A summary of the AML/CFT ratings in the IMF Report on the Island, assigned for the 40 + 9 FATF Recommendations, is as follows:

<table>
<thead>
<tr>
<th>Compliance Level</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliant</td>
<td>12</td>
</tr>
<tr>
<td>Largely compliant</td>
<td>24</td>
</tr>
<tr>
<td>Partially compliant</td>
<td>13</td>
</tr>
<tr>
<td>Non-compliant</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>49</td>
</tr>
</tbody>
</table>

1Including principles 1.1-1.6
2BCPs 3, 21, 24 and 25 and ICPs 5, 6, 7 and 17. The relevant Principles also include IOSCO Principles 8, 9, 10, 11, 12 and 13. Although on this occasion the IMF’s Report did not include a full IOSCO assessment, in the IMF Report conducted in 2003 the Island was rated as ‘Implemented’ on the relevant IOSCO Principles.
3The 16 FATF core and key Recommendations are R1, 3, 4, 5, 10, 13, 23, 26, 35, 36, 40, SR1, SR2, SR3, SR4 and SRV
Based on the ratings assigned, at the time the Report was published the Island attained a position of 10th equal in the global standing of jurisdictions’ overall compliance with the Recommendations. This is regarded as very positive. In addition the Island received a compliant rating in relation to Recommendation 6 concerning PEPs: the Island is one of only three jurisdictions so far to have received a fully compliant rating in this area, demonstrating a strong resolve to prevent the passage of international corruption payments through Island institutions.

**In September 2009 the G20 confirmed a further international test of compliance, in relation to 16 core and key FATF Recommendations of the FATF. The Island’s standing against these two Recommendations is as follows:**

<table>
<thead>
<tr>
<th>Compliance Level</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliant and largely compliant</td>
<td>8</td>
</tr>
<tr>
<td>Partially compliant</td>
<td>8</td>
</tr>
</tbody>
</table>

Importantly the Island therefore exceeds the minimum of six compliant or largely compliant ratings required to demonstrate adequate adherence.

However, we have only a small margin of compliance above the minimum threshold, and important action is now being taken to improve this further.

A recommended action plan is embodied within the IMF documents included on the Commission’s website. However the action plan is evolving. A pan-Government IMF implementation working group is chaired by the Chief Secretary and oversees progress on implementing the IMF’s recommendations, especially legislative matters and matters relating to designated non-financial businesses and professions.

A six-monthly progress report on implementation is presented to the Board of the Commission also for their review.

The Commission will update the IMF on continuing progress with the assessment’s recommendations, and the Commission expects to publish this update when released.
The guiding principles for the Commission’s regulatory approach continue to be those set internationally. If the Island is to continue to attract reputable institutions and enjoy market access overseas, then these are the standards against which it will be judged.

**Authorisations**

The Commission publishes a licensing policy so that everyone can be fully informed on its expectations, and be guided on what licence permissions are available and how the applications process should be framed. It is important that prospective applicants should consult this guidance because the more complete an application is when received, the speedier it can be processed. The Commission typically advises that a period of three months should be allowed for full consideration of an application, which incorporates the time needed for vetting conducted via third parties. The period can be shortened if the persons involved are already undertaking regulated activity in the Isle of Man.

The Authorisations Division within the Commission is very willing to talk applicants through the procedure. When a recommendation on an application has been initially drafted, it is considered by an internal committee which conducts a preliminary review of what is proposed. Importantly the committee will contain members of Supervision Division as this will be the area which takes over with day-to-day supervision once any licence is granted.

The final recommendation on the application which goes to the Board of the Commission for consideration, will be copied to the applicant at least 14 days ahead of the hearing. The applicant may attend the hearing itself to make any representation. The Board members sitting on the Licensing Committee will not have had any previous involvement with the application, so they can form a fresh and objective view. If an applicant is not satisfied with the decision of the Commission, an application for review can be made to the Financial Services Tribunal.

<table>
<thead>
<tr>
<th></th>
<th>Received</th>
<th>Determined</th>
<th>Issued</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSP</td>
<td>9</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>TSP</td>
<td>1</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Investment Business</td>
<td>5</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Collective Investment Schemes</td>
<td>7</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Money Service Businesses</td>
<td>0</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>22</strong></td>
<td><strong>22</strong></td>
<td><strong>22</strong></td>
</tr>
</tbody>
</table>
The Commission has recently extended which it considers to be “key person” roles. As a result it has commenced an exercise for persons advising on financial products offered by IFAs where they had not previously been approved in conjunction with a key role in a licensed business, to be formally vetted. This is to ensure the suitability of such individuals when offering advice to the public.

In January 2009 a requirement was introduced in the new Financial Services Rule Book for all licenceholders to appoint a Deputy Money-Laundering Reporting Officer. This has also incurred additional vetting work as people come forward to take on this role. There were also a few changes taking effect from January 2009, with further amendments in January 2010, to the different exemptions applying to persons who take on directorship and trusteeship activities, and a number of these decided that they needed to apply for a licence.

As reported on page 41, the Commission is enthusiastically adopting the LEAN approach to its business, to achieve the efficiencies and greater productivity which such a re-engineering of its business can achieve. Authorisations was chosen to pilot this work as a number of its workflows were felt to lend themselves to a more streamlined arrangement.

As part of this initiative there are likely to be changes to some of the requirements (for example, in reducing form-filling), to be announced in the near future.

The Commission already has in place an arrangement whereby licenceholders who receive an on-site inspection from the Commission are invited after the visit to complete a feedback questionnaire on how they feel the Commission conducted the visit. During the year this process was extended to provide feedback on how licence applications were dealt with.

### Vetting applications received

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>New</td>
<td>313</td>
</tr>
<tr>
<td>Updates</td>
<td>293</td>
</tr>
<tr>
<td>Total</td>
<td>606</td>
</tr>
</tbody>
</table>

Supervision

It was with great sadness that in November 2009 the Commission lost one of its most experienced Senior Managers, with the death of Geraldine Smith. Geraldine was held in high regard both internally within the Commission and by many licenceholders who knew her through their work.

The Commission’s Regulatory Objectives (set out in Appendix A) require it to “secure an appropriate degree of protection for the customers of persons carrying on a regulated activity”. In seeking to meet its objectives the Commission applies regulatory and prudential requirements to its licenceholders to minimise the risk of failure, mismanagement, mis-selling, fraud and money laundering. These standards are designed to set appropriate requirements for financial soundness, corporate governance, risk-management, conduct of business, CDD and to mitigate the risks inherent in any regulated business. However the Commission does not manage licensed entities. Thus its regulatory requirements do 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.

Desk-based (analysis of prudential data, and meetings with management in the Commission’s offices) and on-site (visits to licenceholder premises for an on-site inspection of files and records and business meetings) work provide an essential basis for the Commission to establish whether a business is well managed and in compliance with regulatory requirements. If this is not the case, the Commission can take remedial action.

As previously reported the Commission issues an inspection visit feedback questionnaire, so that licenceholders can provide feedback to the Chief Executive (or Chairman) on how the visit was conducted and whether the recommendations were useful. Over two-thirds of the licenceholders visited provided responses to the Commission.

The Chief Executive responds to each questionnaire submitted, and discusses any comments made with supervisory staff. A summary of all responses received is presented to the Board of the Commission.
The following are the main themes which emerged from questionnaire responses.

- **Additions should not be made to the report findings, after the exit meeting has been held.** Once draft reports have been prepared internally they are reviewed by senior management who may have additions to make. It is agreed, however, that if any additions are made then the licenceholder should be notified before finalisation.

- **An indication should be given before visits of what files are to reviewed.** The Commission believes that this would interfere with a key purpose of the visit, which is to assess the conduct of a business on an ongoing, rather than specially prepared, basis.

- **There should be more discussion of the findings as the visit progresses, to simplify the report writing.** It is agreed that ongoing contact, including at the exit discussion, is essential. However the purpose of the inspection is to assess as a snapshot how a business is being run and to examine files as they are regularly maintained. Then, it is for the team to report on its findings for follow-up discussion (using factual back-up obtained from the file reviews which can be discussed as necessary). Inspection teams will tend to avoid ‘negotiations’ or protracted exchanges whilst the files and records are being reviewed as this could interfere with an assessment of the business as it first appeared.

- **Reports were delayed.** It is agreed that some reports were delayed for resource reasons or other regulatory matters having to take priority. The Commission will endeavour to liaise with licenceholders in advance if reports are going to be unavoidably delayed.

The Commission regards this feedback as extremely valuable and all suggestions are carefully considered. It has been said that some licenceholders may be reluctant to comment objectively or even adversely for fear of an ongoing negative reaction from the Commission. The Commission has not been given any evidence that this has ever occurred. The Commission aims to work constructively with licenceholders to assist them in achieving high standards of compliance with regulatory requirements. It is open to challenge and scrutiny on the actions which it takes.

**Visit programme**

The Commission’s visit, meeting and review programme, which is considered and agreed by the Board of the Commission, is prepared in detail prior to the beginning of the visit year and in line with the Supervisory Approach. The Commission’s Supervisory Approach employs a risk-based methodology and details are published on the Commission’s website.

The risk profile and impact of each licenceholder is assessed, taking into account business risks and control risks as well as the extent to which the control environment operating within the business mitigates the business risks.

The resulting risk rating determines the intensity and nature of the supervisory approach adopted for each licenceholder. Thus, higher risk licenceholders are subject to a wider, more frequent and more in-depth programme of action.

The year was a very busy period. The need to respond to issues which arose with some licenceholders and undertake a number of ad hoc remedial assignments required adjustments to the visit programme as the period progressed. Additional visits were also carried out to address developing situations and the need for consolidated supervision.

---

<table>
<thead>
<tr>
<th>Activity</th>
<th>31 March 2010</th>
<th>31 March 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deposit Taking (Class 1)</td>
<td>36</td>
<td>38</td>
</tr>
<tr>
<td>Investment Business (Class 2)</td>
<td>74</td>
<td>79</td>
</tr>
<tr>
<td>Services to Collective Investment Schemes (Class 3)</td>
<td>65</td>
<td>59</td>
</tr>
<tr>
<td>Corporate Services (Class 4)</td>
<td>201</td>
<td>203</td>
</tr>
<tr>
<td>Trust Services (Class 5)</td>
<td>129</td>
<td>132</td>
</tr>
<tr>
<td>E-Money (Class 6)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Money Transmission Services (Class 8)</td>
<td>1</td>
<td>n/a</td>
</tr>
</tbody>
</table>

| Licenceholders as at 31 March 2009    | 302           |
| New licences issued                   | 18            |
| Transitional licences                 | 2             |
| Surrendered licences                  | 26            |
| Revoked licences                      | 1             |
| Licenceholders as at 31 March 2010    | 295           |

A licence does not surrender until all classes of regulatory activity have ceased.
Total number of visits undertaken over the last three years, and the average number of 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>55</td>
<td>116</td>
</tr>
<tr>
<td>Focus visits</td>
<td>101</td>
<td>70</td>
</tr>
<tr>
<td>Supervisory and on-site risk assessments</td>
<td>50</td>
<td>61</td>
</tr>
<tr>
<td>Total visits and days</td>
<td>206</td>
<td>247</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>28</td>
<td>55</td>
<td>43</td>
<td>126</td>
</tr>
<tr>
<td>Focus visits</td>
<td>23</td>
<td>21</td>
<td>33</td>
<td>77</td>
</tr>
<tr>
<td>Supervisory visits</td>
<td>0</td>
<td>25</td>
<td>15</td>
<td>40</td>
</tr>
<tr>
<td>Total</td>
<td>51</td>
<td>101</td>
<td>91</td>
<td>243</td>
</tr>
</tbody>
</table>

This year the Commission is aiming to issue the draft visit report within 15 working days of the date of the completion of the on-site visit.

Risk and compliance

The Commission faces challenges similar to those which face any business, in ensuring that its systems and procedures are up-to-date, relevant and applied in practice. The risk and compliance team is responsible for this activity. Compliance reviews also contribute to change management by challenging inconsistencies and addressing whether existing procedures are effective and efficient, not merely whether they are being followed.

Internal and external risks faced by the Commission are monitored and where possible mitigated. Risk reports are submitted to the Risk and Internal Control Committee of the Board.

Encouraging licenceholders to focus on regulatory compliance is an important theme in risk mitigation. By improving information and guidance we aim to assist licenceholders’ compliance with the rules, particularly in the area of returns submitted to the Commission. Reducing accidental breaches both reduces the cost of compliance for licenceholders and helps Commission staff to focus on other priorities. Recent examples include:

- guidance on the Rule Book which is updated every six months
- quick reference tables on matters such as events which need to be notified to the Commission or approved by the Commission
- shuttle checklists to help licenceholders compile their annual compliance returns and attachments
- template compliance registers which provide a quick and simple resource for smaller licenceholders.

A recent focus of activity has been to revise the balance between desk-based and on-site supervision. A themed questionnaire is being used to develop a standardised desk-based approach to some of the issues which are usually covered during focus visits. The areas covered include risk assessment and risk rating, corporate governance as well as registers and logs. The questionnaire does not merely ask “yes/no” questions, it also asks for supporting evidence. This encourages licenceholders to review the material themselves in order to identify and address any issues ahead of a Commission visit. Respondents will be visited on a sample basis. It is therefore anticipated that the number and length of focus visits to licenceholders will be reduced. Supervisory visits and annual business meetings will remain in line with the Supervisory Approach.

The Commission has commenced trialling the new themed questionnaire and visit format in 2010/2011. We expect the process to make our reviews more efficient and to reduce the disruption to licenceholders’ business. The new approach is being piloted with the fiduciaries team. If successful it may be extended to other areas.

The Commission will offer some specific guidance in relation to the additional information requested in each questionnaire.

During 2010 we intend to introduce a regulatory newsletter which will be emailed to licenceholders, providing briefings and feedback on current issues.
Banking

Current statistics on the banking sector are shown on page 10.

Liquidity and intra-group arrangements

A large part of the Island’s banking sector is involved in raising individual and corporate deposits, and passing these to central group treasuries for group-wide management. This is a banking model which has come under scrutiny because of the dependence which it creates for local banks on their parents.

The Commission will want to be guided by international regulatory developments in this area, since regulators internationally are looking in detail at the cross-border risks involved and at how far parent responsibility and support in a crisis can be expected to extend. On the basis that the Commission continues to adopt a very selective approach to the licensing of banks, and can secure firm understandings with home regulators on the level of prospective support for an Island subsidiary which can be expected, then it believes that this model can continue effectively but with additional safeguards.

One of the areas on which the Commission has focused was to increase the level of independent assets which a bank holds locally in certain circumstances, to enhance the first line of defence in the event that difficulties arise. Close liaison and co-operation with home state regulators has also continued to be vital during the current environment.

Looking forward the Commission expects soon to issue more detailed guidance on the liquidity requirements applying to banks extending to stress testing. It will also provide further clarity on expectations for contingency plans, and information expected for the reporting of deposit liability flows on a behavioural basis (in addition to contractual terms).

Following on from the IMF assessment, the Commission will also be reviewing large exposure positions as they relate to group entities. This may, in turn, link to any changes that will be required to the liquidity regime in the longer term, based on international developments for a more harmonised framework across jurisdictions.

Liquidity and treasury management is forming part of the visit programme during 2010-2011 across many banks.

Capital adequacy assessments

Banks incorporated in the Island are required to complete a forward-looking assessment of their capital needs on at least an annual basis through an ICAAP, which the Commission must then review and assess. The process of ICAAP and supervisory review is now becoming more embedded in the regulatory system as parties learn to streamline and focus on the core risks from a capital perspective. The Commission intends to refresh its guidance in relation to ICAAP and supervisory review during 2010.

The Commission will also need to assess the impact of the proposed changes to capital adequacy standards internationally and how they may apply locally, including the applicability of a ‘leverage ratio’. Further clarity internationally is however still awaited.

AML & CFT

The visit programme for 2009-2010 focused intensively on banks’ compliance with the Island’s AML & CFT regime and feedback was issued to the sector highlighting common issues and best practice recommendations. The assessments covered seven core areas: account opening procedures including the risk assessment methodology, higher risk relationships and the monitoring thereof, transaction monitoring tools and screening techniques, wire transfers, staff training and employee screening, suspicious transaction reporting, and reporting, governance and oversight. Generally, the level of compliance and understanding in banks was reasonable and AML/CFT risks were subject to appropriate controls and oversight.

Credit

The Island’s banking sector is mostly deposit driven with external lending only making up around 15% of the total assets (the remainder of funds being placed in the inter-bank market or with the parent or group banks).

The Commission receives quarterly prudential data from banks on their credit exposures, including high level figures covering loans in arrears and impairments. A small number of visits undertaken in 2009-2010 focused on the credit management process in smaller banks. In 2010-2011 the Commission plans to undertake further focus visits on credit with particular emphasis on identification and management of problem and deteriorating loans and the use of early warning indicators. As an interim measure, in 2009 the Commission conducted a desk-based credit survey across the sector and the results of this are being aggregated with a view to issuing a summary report.
The fiduciaries team identified an increase of breaches of the regulatory requirements during 2009/2010 compared with the previous year. These were identified from compliance visits, the desk-based Annual Compliance Review and from ongoing regulatory matters.

The increase appeared mainly to arise from changes in the legislation and reporting/notification requirements under the Rule Book. There were also breaches relating to the non-submission of the Annual Compliance Return and supporting documents and to clients’ money requirements.

The Commission has worked with licenceholders to assist them to comply with legislation and to reduce the number of breaches. Other initiatives taken are detailed in the Risk and Compliance section on page 24.

A number of broad areas have been identified from recent on-site visits where there are deficiencies or regulatory issues. These include:

**Financial Services Rule Book changes and in particular the 2009 updates:**
- procedures, for example relating to complaints, a conflicts of interest policy, and the breaches log
- professional indemnity insurance, for example the level of cover and specific items to be covered
- client bank accounts and trust bank accounts, for example monthly reconciliation and dual sign off, including where there is no movement on the account
- rubric, for example where it was not shown on the required documentation.

**and the Criminal Justice Money Laundering Code 2008 requirements:**
- procedures, for example related to risk assessment of business, and to the termination of business
- CDD, and enhanced CDD for higher risk clients and potential new clients
- ongoing monitoring.

In addition, some matters pertaining to good governance were identified as in need of strengthening, such as:
- general record keeping and minute taking
- terms of business/client agreement deficiencies.

The fiduciaries team is now using a themed questionnaire (referred to on page 24) and the pre-visit questionnaire to collect information on PLCs being administered by licenceholders. Future compliance visits may in some cases focus on PLCs and services provided to them.

On a separate matter, the Commission became aware through complaints made to it that there is not always a full appreciation by clients of the basis on which a licenceholder may be acting for them. For example, if a settlor establishes a trust then the assets which are settled into the trust must be dealt with in accordance with trust law. The trustees have their own duties and responsibilities. A settlor cannot dictate terms to the trustees, as once settled the property becomes that of the trustees and not the settlor. Seeking a change of trustees may not be easy and can involve an extended process (and additional fees).

Similarly, a company which is established to hold assets has its own directors who in turn have their legal responsibilities and their fiduciary and statutory duties to follow. Such directors may have been provided by the administering licenceholder. A shareholder, while having the power to remove directors, cannot act in a shadow director capacity and simply ignore, or dictate terms to, the directors.

In the Commission’s experience, a misunderstanding of the formal separation of roles and responsibilities caused by the creation of a vehicle such as a trust or company can give rise to difficulties if the issues are not properly understood in advance.

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Fiduciary Services

Fiduciaries that are licensed in the Island administer different types of companies and trusts for their clients.

<table>
<thead>
<tr>
<th>Companies, Trusts &amp; Partnerships under administration by Fiduciary Services</th>
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</thead>
<tbody>
<tr>
<td>Companies and Partnerships</td>
</tr>
<tr>
<td>IOM Companies</td>
</tr>
<tr>
<td>Other Companies</td>
</tr>
<tr>
<td>Partnerships</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

*1507 are 2006 Act Companies
Funds and Investment Services

The last year has been a challenging period for the funds sector. With asset values under pressure a number of funds have been unable to sustain meaningful performance. This has especially applied in the case of property related funds and other asset classes where values have been difficult to obtain. In some cases funds as a result have had to suspend dealings.

The Commission’s role, working with its licenceholders, is to protect the interests of investors. In the Commission’s experience there are a number of areas where all parties can be proactive in addressing and managing investors’ expectations, and during the period the Commission has sought the industry’s assistance in furthering this approach.

One area has been to make sure that public information, usually in the form of an offering document, is kept up-to-date. Investors can thereby not only be kept informed of what is happening, but it also gives the promoter and manager the opportunity to engender support for working through a difficult period. Key areas might be an explanation about any restructuring, significant changes in the value of underlying assets, the use of side-pockets, payment deferrals and suspensions.

The funds sector will be aware about the Commission’s increasing focus on the timeliness of audited accounts. Clearly in difficult markets the timely publication of accounts is an important source of information for investors, quite apart from the need for compliance. The Commission is aware of the difficulty in producing accounts when asset values are difficult to obtain, and has been working with the industry to minimise delays.

Diminished values of underlying assets, particularly where shareholders are not in a liquid market and cannot readily realise their investments, are likely to mean that the governing body needs to reassess the level of fees which are taken from a fund. Where flat rate fees are charged and markets have become further depressed since the date of the last audit, consideration is being given to taking fees at a lower level than those derived from historic valuations.

In this connection the Commission issued an important guidance note in February 2010 on Funds – Valuation and Fee Charging.

The period under review also saw the EIF transition process take effect which involved significant work involving 141 schemes. The majority of these were successfully transitioned within the required timetable. Some were more problematical and required directions to permit extended time. November saw the final EIFs transition into the new regulatory environment.

The on-site visit programme revealed recurring themes from previous years ranging from governance issues, weaknesses in systems and controls, anti-money laundering findings and issues revolving around suitability and licence permissions.

More retail type investors are also vulnerable in the present investment climate. The Financial Services Rule Book 2009 contains an important section on Conduct of Business, and the Commission has begun a more intensive mode of oversight of intermediaries using this as its benchmark.

On-site visits already include a review of client files to establish that suitable advice has been given to clients and that an appropriate comparison of products has been provided in a timely manner. The Commission expects this to be supported by a clear in-house analysis as to why a particular product is deemed to be appropriate for market at the relevant time. The vetting of sales staff identified as key persons, has also commenced to establish their suitability for giving investment and product advice.

After the end of the period in May 2010 the Commission issued a Guidance Note for Class 2 licenceholders with sub-class (3) and (7) permissions (financial advisers), on the conduct of business. This focuses on the documentary evidence which the Commission expects to see on a client file, from the initial contact with the client to the execution of the transaction.

In certain cases a licenceholder will have to bear additional costs in bringing compliance or expertise up to a level which can properly support the regulated activities being pursued. However the Commission regards this as an essential cost of protecting the public.

The Commission was pleased that intermediaries came together to establish the Financial Planners and Insurance Brokers Association, to represent the sector’s interests and provide a channel of communication with the regulators.

In the meantime the Commission is moving towards a position in the coming year where it intends that its website will become more user friendly in helping investors to establish what type of authorisation an intermediary holds.

**Actionable fund events**

<table>
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<tr>
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<tbody>
<tr>
<td>New</td>
<td>69</td>
<td>57</td>
</tr>
<tr>
<td>Amendments</td>
<td>126</td>
<td>203</td>
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<tr>
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<td>127</td>
<td>91</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>322</strong></td>
<td><strong>351</strong></td>
</tr>
</tbody>
</table>

*A ‘fund actionable event’ entails work associated with creating and amending funds eg. modifications to functionary agreements.*
The Commission records all rule breaches which are notified to it, or which it identifies.

The Commission has powers of investigation and enforcement which can be used following a breach or a pattern of breaches (for example, civil penalties, directions, or action over the fitness and propriety of the directors or key persons). These powers are used where appropriate. In practice most breaches are of a relatively minor or technical nature and handled without the need to use such powers. However, when a breach occurs, the Commission requires that the situation is addressed and, where necessary, remedied.

By recording all breaches, it is possible to identify persistency (or a pattern) of breaches which might indicate poor controls in the licenceholder. Conversely, if a number of licenceholders are not complying with a particular requirement it might be appropriate to issue guidance or amend the rule.

During the period there was an increase in breaches and errors from the previous year. Much of this increase was due to a more comprehensive recording practice, in that breaches identified on visits are now included in the statistics. There was also an increase in technical breaches as licenceholders were still familiarising themselves with the new Rule Book.

The Financial Services Act 2008 (section 11) gave the Commission the power to issue a warning notice about activities or circumstances which could affect a person’s fitness or propriety. During 2009/10 five such notices were issued.

Civil penalties based on breaches occurring totalled £10,400 arising from 30 events.

### Depositors’ and Investors’ Compensation Schemes

The Depositors’ and Investors’ Compensation Schemes are separate from the Commission, although the Commission currently acts as Scheme Manager of them. The DCS produces its own report and accounts. No claim has ever been made against the Investors’ Compensation Scheme, which covers investors only in authorised collective investment schemes. Further information about the current levels of protection under both schemes 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 also request funding from Government up to a maximum level set down in the relevant regulations. The Scheme Manager also has a power to borrow.

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

There were no changes to coverage during the year. However, changes were made to the legislation in October 2009 and April 2010 which extended the temporary caps...
on funding arrangements until October 2010, and a change in August 2009 excluded the liquidators of KSFIOM from participation in the DCS.

On 27 May 2009 the DCS was activated in respect of the insolvency of Kaupthing Singer & Friedlander (Isle of Man) Limited. The bank previously went into provisional liquidation on 9 October 2008. In the intervening period proposals for a Scheme of Arrangement were put forward by Government, but these were later not agreed by creditors. The Government and banks provided sufficient funding to enable the DCS to pay all eligible claimants 100% of the compensation due to them under the Scheme in one amount.

The DCS publishes its own Annual Report and Accounts which refers to this event in greater detail. The Commission as Scheme Manager has devoted considerable resources to ensure the effective operation of the DCS.

The Government has consulted on possible changes to the DCS and further information on possible revisions is awaited.

Complaints about licenceholders

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

The Scheme became fully operational in January 2002. The role and powers of the Scheme are set down by law and the Ombudsmen are appointed by the Isle of Man Office of Fair Trading.

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

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

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

International relations

The financial crisis has put a spotlight on the effectiveness of co-operation and communication between regulators. This is of special relevance for the Island which hosts a large number of institutions owned by parent groups located in other jurisdictions.

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

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

The Commission sent 248 letters to other regulators for regulatory purposes. These included standard letters to home and host regulators in relation to high impact licenceholders, requests for information and replies to other regulators’ requests for assistance.

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

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

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

The Island is a member of IOSCO. The Commission is a full signatory of the IOSCO MMOU. An account is given on page 32 of the assistance provided by the Commission in respect of requests made under the MMOU.

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

In September 2009 the Commission chaired and hosted the annual meeting of the Enlarged Contact Group of Collective Investment Fund Supervisors.
A strong enforcement function which ensures that AML/CFT activity is kept up-to-date, and which can take prompt steps to deal with unlicensed activity and pursue remedial action as required, is an essential part of an effective regulatory regime.

Prevention of money laundering and countering the financing of terrorism

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

The Island takes its AML/CFT responsibilities very seriously. Indeed, during the year a major prosecution for money laundering was brought by the Attorney General under the Criminal Justice Act 1990. A conviction was secured in the High Court in October which resulted in imprisonment. Convictions under the Theft Act 1981 for false accounting were also made.

Following the G20 group of countries’ decision in 2009 to complete peer review processes and assess adherence to international standards, a particular focus was given to compliance with 16 core Recommendations drawn from the FATF 40 + 9 Recommendations. Jurisdictions identified as not being fully compliant or largely compliant with at least 6 of the 16 core Recommendations are to be singled out for special review and assistance towards further improvement.

The visit of the IMF to the Island and the publication of its report in September (see page 18) included a detailed assessment of observance of AML/CFT standards. Overall the Island received a good report, and also met the minimum test referred to in the previous paragraph. However there were a number of recommendations for improvement made by the IMF which will need to be followed up if the island is to sustain its good reputation.

The AML/CFT Recommendations of the IMF report broadly fall into two categories. The first is those relating to legislation where adherence to certain key international protocols and conventions needs to be formally ratified in legislation; generally speaking these are matters now in hand by the Government. The second category embraces a number of AML/CFT practices which need to be formally codified in secondary legislation (in particular so that they have full effect across required areas outside of the regulated sector). The arrangements for including all designated non-financial businesses and professions within an effective regime were also identified for further strengthening.

This latter imperative has caused the Commission to assist in preparing amendments to the existing Criminal Justice (Money Laundering) Code 2008, which are being progressed by the Government’s Department of Home Affairs. An amended Code was circulated initially to JAMLAG and then for industry consultation, in March 2010. JAMLAG is a key group to advise and comment on proposed legislation, including the effect of proposed AML/CFT changes.

All of the Commission’s supervisory legislation and guidance can be accessed via the Commission’s website. Included within this is the AML/CFT Handbook which summarises and explains the requirements of the primary and secondary
AML/CFT legislation in the Island and assists licenceholders in complying with it.

During the year the Commission updated the Handbook on five occasions. A detailed explanation and chronology of the changes are shown on the website.

The Commission’s AML/CFT regime includes an important risk-based emphasis to the monitoring of compliance. The Commission has identified the Island’s companies and trust based work as requiring particular scrutiny, and relationships introduced via third parties are also likely to present higher risk. This is in addition to other high-risk country and PEP considerations.

All of these areas receive close attention in the course of on-site inspection visits. During the year feedback was also given to licenceholders on issues arising from such visits by Supervision Division. Two conferences were also organised by the Enforcement Division, one for Money Laundering Reporting Officers and the other dealing with AML/CFT and financial fraud.

A key part of an anti-money laundering and a countering the financing of terrorism regime is effective co-operation and co-ordination of intelligence shared with other regulators and law enforcement authorities. As described elsewhere in this report the Island has a particular interest in its ongoing dialogue with the other Crown Dependencies of Guernsey and Jersey, and in an AML/CFT context this crystallised in a tripartite meeting held in December 2009.

Certain Commission staff have been specifically trained via FATF courses to conduct assessments of other jurisdictions’ compliance with the FATF Recommendations. Their expertise was called upon during the year, including in training and providing technical assistance.

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 full signatory to the IOSCO Multilateral Memorandum of Understanding. In order to become a signatory an IOSCO member (which includes the Island) has to demonstrate that it has the necessary laws and information gateways to enable it 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 eight requests for information under the MMOU. Some of these were part of major international investigations.

The Commission is very aware that prompt assistance is needed and will respond to requests for assistance as speedily as possible, usually within one month or sooner. The MMOU has now been in use for a number of years, and over this time greater familiarity has been gained with how requests should be framed in order to meet the gateway provisions. This reduces delays. IOSCO itself has an MMOU Monitoring Group which observes countries’ performance under the MMOU, through which the Commission can also verify that its performance is meeting international expectations.

The Commission made one request for information from another regulator under the MMOU.

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

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

Remedial action

In previous reports the Commission has explained its role in promoting good corporate behaviour and governance. The fact that Companies Registry has been part of the Commission has greatly assisted this process.

On occasions the Commission will become aware that company officers are not carrying out the duties and responsibilities which they bear. The Commission considers any shortfalls in the context of the powers available to it, and if they are sufficiently serious it may consider remedial action. In some cases such action may comprise the use of regulatory powers. In other cases the Commission may feel it necessary to petition the Court under section 3 (1) (a) of the Company Officers (Disqualification) Act 2009 which came into operation on 18 June 2009.
This Act drew together under one instrument all of the previous grounds for disqualification of directors and other officers who may be unfit to be involved with the promotion, formation or management of a company.

The main change was the introduction of the concept of a “disqualification undertaking”, which is an agreement between the relevant person and the Commission whereby that person acknowledges their previous unfit conduct and agrees not to, amongst other responsibilities, be an officer of a company for a number of years. In this way the time and cost of going through the courts can be avoided.

Another major change is that the Commission now has the power to investigate a person it suspects of:

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

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

During the period four persons were disqualified for a total amount of 26.5 years. Further information is shown on the Commission’s website, along with details of 16 other persons whose previous disqualifications are still current.

**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. There is the scope for investors to lose large amounts of money in these scams.

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 114 regulators and law enforcement authorities world-wide to whom it “pushes” warnings as soon as they are made. A total of 45 public warnings were made during the period.

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

**Other work**

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

The period has been busy with a number of external developments requiring close monitoring and evaluation to assess their impact for the Island. These included the publication of the Turner Review in London, the release of the Final Report of the Independent Review of British Offshore Financial Centres by Michael Foot, the meetings of the G20 and the issues emerging from these, the implications arising from the de Larosière report on financial supervision in the EU, and future EU changes regarding the supervision of Alternative Investment Fund Managers.

The Commission has introduced a rolling programme of review for secondary legislation issued under the Financial Services Act 2008. Following consultation, amendments were made which came into effect on 1 January 2010. Key changes related to the types of client bank accounts and the pooling arrangements for those types of account, additional financial resources rules for stockbrokers, new rules relating to the suspension and liquidation of schemes, and revised exemptions from licensing for directors and group connections.

The class of regulated activity known as Money Transmission Services was also divided into two separate classes from 1 January 2010 in order to separate e-money issuers into their own class of business (now Class 6). At the same time e-money issuers were subjected to an increased level of regulatory requirements under the Rule Book.

Industry briefings on key elements of the new requirements were given, including two training sessions on the clients’ money changes to assist licenceholders’ understanding of the new requirements.

The Financial Services (Fees) Order 2009 and the Collective Investment Schemes (Fees) Order 2009 came into operation on 1 April 2009. These Orders increased existing fees by 8.9% which was based on the increase of the retail price index between November 2006 and November 2008.

Additionally, the Collective Investment Schemes (Fees) Order 2009 introduced some new periodical fees for certain classes of international schemes.

The Financial Services (Fees) (No.2) Order 2009, which separated fees for e-money issuers from those for Money Transmission Services and further split the activities of investment businesses applying different fees, came into operation on 1 January 2010.

The Commission generally reviews its fees on a biennial basis and therefore the next review will take place during 2010 with the increase coming into effect in 2011. In view of the complexity of the current fee structure, the Commission intends to undertake a far-reaching review of the way in which fees are charged and, given the current economic climate and the approach taken by other jurisdictions, there is likely to be a significant increase in the level of fees.
Consultation took place from October 2009 on the reissuance of secondary legislation (including updated International Scheme Regulations) required under the Collective Investment Schemes Act 2008. Comments were received, and revised secondary legislation was approved by Tynwald in April 2010. This introduced a new type of international scheme known as the Regulated Fund, and the Specialist and Qualifying Funds were reclassified as types of Registered Funds.

Work was undertaken to revise and update the Authorised Schemes Regulations. Draft Regulations were subsequently issued for consultation commencing on 1 March 2010.

The new Companies (Amendment) Act 2009 came into effect on 1 September 2009. This Act made certain changes mainly in relation to company prospectuses, the registration of charges, and accounting provisions, and also gave the Commission powers to make Regulations allowing companies to issue treasury shares.

Consultation on the latter subsequently took place with the industry and the Companies Act 1931 to 2004 (Treasury Share) Regulations 2010 were approved by Tynwald in April 2010.

Policy Division assisted in progressing the Company Officers (Disqualification) Act 2009 which, as reported in Appendix G, came into effect in June 2009. In order to implement this Act, a new Order 43 of the Rules of the High Court of Justice 1952 and Chapter 7 of the Rules of the High Court of Justice 2009 were drafted together with the new Form of Undertaking and Form of the Disqualified Persons Register.

The Commission continued to work closely with the Guernsey and Jersey regulators, the UK POB and the ICAEW in relation to the EU 8th Directive on Statutory Audits. Under the Directive auditors that audit firms that 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 “EU equivalent” system needed to be put in place.

Consultation took place in October 2009 on whether Limited Partnerships should be permitted to opt to have separate legal personality. The consultation responses were favourable, however the responsibility for taking forward any changes to the Partnership Act was passed to the Department of Economic Development as part of the recent changes to the structure of Government.

During the period Treasury consulted on proposals to amend the Depositors’ Compensation Scheme. Policy Division prepared the Commission’s response.

Policy Division continued its work in relation to the Island’s prospective application for membership of SEPA, the Single European Payments Area. Government has established a working group to take this work forward.

The Commission participates in the IOSCO MMOU Screening Group, and took part in three meetings during the period. IOSCO is placing a very high priority on ensuring that its members sign up to this important facility for assistance and co-operation, and the vetting and screening process is designed to ensure that members have the legal means to be able to deliver under the agreement which they sign. In doing this work the Island has formally assessed two jurisdictions applying to become signatories to the MMOU over the period.

Policy continued its role in dealing with Data Protection issues for the Commission and responded to one data subject access request 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 15.
Companies Registry and Corporate Activity

Companies Registry maintains the register and records of all companies incorporated in the Isle of Man, and provides a facility for the public to view documents which have been filed by these companies.

The Island hosts a significant number of companies of different types which are incorporated and administered locally. Frequently these companies are established in conjunction with many of the diverse financial activities conducted from the Island.

Companies Registry consists of seven distinct registries, each with their own legislation, fees and statutory filing obligations. 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 (which are stand-alone figures 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).

The number of new companies incorporated under the 1931 Companies Act fell by 15% during the year from 1,506 to 1,285. This fall is significantly less than last year and should be seen as a consequence of the general turmoil in financial markets around the world.

The number of new companies incorporated under the 2006 Act has also fallen by 20%.

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<table>
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<td>190</td>
<td>1,215</td>
<td>1,124</td>
<td>839</td>
</tr>
<tr>
<td>% change</td>
<td>539 %</td>
<td>-7 %</td>
<td>-25 %</td>
<td></td>
</tr>
<tr>
<td>2006 Act – 1931 Act conversions % change</td>
<td>64</td>
<td>628</td>
<td>289</td>
<td>299</td>
</tr>
<tr>
<td>% change</td>
<td>881 %</td>
<td>-54 %</td>
<td>3 %</td>
<td></td>
</tr>
<tr>
<td>2006 Act - Transfer of Domicile in % change</td>
<td>9</td>
<td>12</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>% change</td>
<td>33 %</td>
<td>33 %</td>
<td>58 %</td>
<td></td>
</tr>
<tr>
<td>Total % change</td>
<td>254</td>
<td>1,852</td>
<td>1,425</td>
<td>1,143</td>
</tr>
<tr>
<td>% change</td>
<td>629 %</td>
<td>-23 %</td>
<td>-20 %</td>
<td></td>
</tr>
</tbody>
</table>
Companies Registry’s fees were increased after the end of the period, with effect from 6 April 2010. The fees were last increased in April 2008 except for the annual return fee which was last increased in January 2006. An RPI increase will see all fees increase by 2.3% with the exception of the annual return fees which will increase by 12.8%.

Legislation was passed to bring the fee changes into effect, and this is referred to in Appendix G.

The mainframe for Companies Registry was successfully migrated to the Government’s Strategic Microsoft Platform (dual data centre) during the previous year. This converted the hierarchy database structure software language. Subsequently, during 2009/10, all workflows supporting the 2006 company vehicle were successfully implemented to the 2006 company database.

At the beginning of 2010 the Government announced a plan to restructure a number of its operations. Part of this plan extended to Companies Registry, with the proposal to transfer Companies Registry from the Commission to a new Department of Economic Development. This move subsequently became effective on 1 April 2010.

The Commission expressed concerns to Government about the potentially serious effect which this move could have on the reputation of the Island as a respected and well-regulated financial centre. Companies Registry was transferred to the Commission in the year 2000 expressly as part of a package to reform corporate conduct, and for all matters concerning the oversight of companies to come under the Commission. Companies continue to be perceived by international standard-setters and evaluators as vehicles which can present considerable reputational risks.

The Commission is concerned to ensure that no gaps in regulatory oversight occur as a result of these changes. The Commission, as an independent regulator, will continue its dialogue with Government on the matter.

<table>
<thead>
<tr>
<th>Total Incorporations</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Incorporations - 1931 Act Companies</td>
<td>3,465</td>
<td>2,830</td>
<td>1,506</td>
<td>1,285</td>
</tr>
<tr>
<td>New Incorporations - 2006 Act Companies</td>
<td>190</td>
<td>1,215</td>
<td>1,124</td>
<td>839</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,655</strong></td>
<td><strong>4,045</strong></td>
<td><strong>2,630</strong></td>
<td><strong>2,139</strong></td>
</tr>
<tr>
<td>% change</td>
<td>37</td>
<td>11</td>
<td>-35</td>
<td>-19</td>
</tr>
<tr>
<td>2006 Act – 1931 Act conversions</td>
<td>64</td>
<td>628</td>
<td>289</td>
<td>299</td>
</tr>
<tr>
<td><strong>Total Incorporations</strong></td>
<td><strong>3,719</strong></td>
<td><strong>4,673</strong></td>
<td><strong>2,919</strong></td>
<td><strong>2,423</strong></td>
</tr>
<tr>
<td>% change</td>
<td>39%</td>
<td>26%</td>
<td>-38%</td>
<td>-17%</td>
</tr>
</tbody>
</table>
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 2010 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 the Commission’s income decreased by £226,212 compared with 2009. This was largely due to a reduction in receipts within Companies Registry. The Commission made savings in its expenditure during the year of £292,196 (6.2%) against its approved budget. This exceeded the Treasury request for Government departments to reduce spending by 5% in the year.

With the segregation from the Commission of Companies Registry in future years the Commission will not show a surplus in its accounts.

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.

In October 2009 the Government announced the need for Government-funded Departments and Statutory Boards to reduce their budgeted expenditure by at least 15% for the next financial year, and to reduce headcount. Where possible it was also requested that budgets for the current year should achieve at least a 5% reduction in budgeted expenditure.

In both cases the Commission met these requests, as well as making suggestions for an increase in revenue through a raising of fees.

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

‘Lean’ is the process of identifying the most efficient way to provide value to customers and is built around a process of providing better service with no delays and at a lower cost. The Commission took a strategic decision to embrace the concept, to promote efficiency and improved service to its stakeholders.

The methodology is rapidly being adopted in the public sector in the UK including in the NHS, UK Government and Local Authorities. It is also being used within some areas of the Isle of Man Government.
As a platform for launching and driving the concept forward, 24 of the Commission’s staff received training on the methodology. A pilot team comprising of six staff from the Commission was established to review the processes used within the Authorisations Division in relation to the vetting process. The team mapped the existing process, identified ‘waste’ and recommended a future process.

The Commission has a detailed business continuity plan. Quarterly reviews are undertaken of the Commission’s business risks, following which its contingency plan is discussed by senior management and revised accordingly.

A review was undertaken of the Commission’s external storage facilities addressing the destruction of documents after an appropriate ‘lifing’ period, archiving and retention policies, and ongoing administration and resourcing of the facility.

**Human resources**

Staff turnover for the period remained at a low level of 10.2%. While this reflects market conditions and less staff movement within the industry generally, it has also given the Commission an opportunity to increase continuity within its team.

The average self-certified sickness absence per employee was 2.9 days. In addition certified sickness absence represented an average of 12.5 days absence per employee but this related to a number of longer term sickness cases which affected staff within the Commission. The Commission further clarified its absence management policy so that all staff are aware how absence is addressed on a consistent and fair basis.

**The executive has an internal Personnel Committee which meets quarterly to agree on and co-ordinate staff management issues throughout the Commission.**

**Key topics considered during the year were:**

- detailed review of terms and conditions
- pilot of a 360° feedback initiative
- development of core values statement
- attendance management
- staff satisfaction survey
- risk assessment of the Commission’s HR, and a report to the Risk & Internal Control Committee.

The Commission participated in an Island Careers Convention. It also undertook an annual review of its health and safety risk register.

The Commission is an enthusiastic participant in the IIP process and has previously been recognised by IIP as meeting its standards at a Silver level. During the period a task force team within the Commission continued with a regular process of self-assessment, including the piloting of a 360° degree review process and an internal staff satisfaction survey. Further advancement is planned.

**Learning and development**

The Commission places a high priority on the development and training of its staff. This support is provided in a number of different ways.

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

The Commission supported 11 staff in their studies towards professional qualifications during the period.

- ICSA Certificate
- ICSA Professional (2)
- ACCA Professional
- ICSA Diploma
- ILM – Team Leadership
- ACCA – CAT
- CIPD Graduate level (2)
- ILM – Strategic Leadership

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

<table>
<thead>
<tr>
<th>Qualifications</th>
<th>Staff</th>
<th>Commissioners</th>
</tr>
</thead>
<tbody>
<tr>
<td>Masters Degree</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Undergraduate Degree</td>
<td>16</td>
<td>2</td>
</tr>
<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>3</td>
<td>1</td>
</tr>
<tr>
<td>Legal</td>
<td>2</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>FPC</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>No. of years of business, professional &amp; financial experience</td>
<td>742</td>
<td>234</td>
</tr>
</tbody>
</table>
Technical development is also assisted by attendance at selected internal and external events. This is especially important to keep all staff up-to-date on current developments. Regulation of financial services, especially in the aftermath of the financial crisis, is undergoing many changes and it is essential that the Commission keeps fully abreast with the debate on this.

**Particular subjects covered during the period were:**

- changes to the financial services legislation
- Companies Amendment Bill
- data protection awareness
- personal fraud awareness
- evidence gathering and Court skills.

Personal development is not exclusively about technical competency. It is also about nurturing a softer skills set to prepare for increasing responsibilities. In response the Commission provides a rolling programme of professionally-led workshops and training groups to cover these competencies and they have been well received.

**The following topics were included:**

- leadership
- change management
- negotiating and influencing skills
- one-to-one coaching
- managing attendance at work.

Evaluation of the previous year’s learning and development programme was undertaken and a review of management competencies conducted to measure performance improvement of the Commission’s management.

An average of 11.8 training days per employee was provided during the period. The average actual training spend per employee was £820.

**Information technology**

The Commission’s IT infrastructure is a core part of its service delivery plan. When Companies Registry first moved to the Commission in 2000, a significant investment was made in creating an electronic database of companies’ records and opening this up to online access via the Commission’s website. This has become a popular medium for users to search companies’ files.

The development of the 2006 companies database in Companies Registry was completed during the year. Workflows that support the 2006 company vehicle have been successfully implemented.

The success of this venture has encouraged the Commission to extend online access in particular to licenceholders for the submission of their prudential and statistical data. During the period a major upgrade to this system was completed. The changes included upgrading key components and security standards to move the application onto a modern environment. Consideration was given to biometric authentication but this was insufficiently supported by the industry to proceed further.

The Commission has an internal IT resource. During the year 492 internal user calls for assistance were covered (168 of these were support calls for online system users). Queries were either dealt with in-house, or heat calls were raised where the Government’s Information Systems Division provides support.

The Commission has off-site accommodation for contingency planning purposes, and the IT facilities there were tested on a six-monthly basis.

The internal IT Committee met on three occasions. A key impediment to the development of the Commission’s IT strategy was, during the early part of the year, a lack of progress in reviewing a report submitted to Government. During the latter stages a dialogue was established and a draft Memorandum of Understanding covering IT issues was developed. It is hoped that this will now provide a basis on which IT issues can be expedited.

The Commission’s website has been a very important means of communication. During the year over one million visits were made to the website – a 10% increase from the previous year.

The Commission’s website is used to access the online search facility for company documents. During the year 81,741 company documents were purchased, with 55% of its purchases coming from the Isle of Man. The most popular documents include changes in director/secretary and annual returns.

The graphs below set out the geographical usage of the system and the top five document types purchased.
The Financial Services Act 2008 sets out the Commission’s regulatory objectives which are as follows:

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

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

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

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

- the regulation and supervision of persons undertaking regulated activities
- the maintenance and development of the regulatory regime for regulated activities
- the oversight of directors and persons responsible for the management, administration or affairs of commercial entities
- 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.

With effect from 1 April 2010 Companies Registry was transferred to the Department of Economic Development.
Membership of the Financial Supervision Commission

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

Geoff Karran MBE

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.

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.

Tim Cullen
Appointed June 2001. Spent 21 years with the World Bank, where he served inter alia as Chief Spokesman of the Bank and, latterly, as Senior Advisor for External and United Nations Affairs. He is Executive Director of the Small Countries Financial Management Centre and an Associate Fellow of the Said Business School at the University of Oxford, where he directs the Oxford Programme on Negotiation. He is also a trustee of the Institute of Business Ethics and heads a small international consulting firm that focuses on issues of governance, integrity and the environment.
Organisation Chart
as at 31 March 2010

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

Chief Executive

OPERATIONS
Anne Dorling
Head of Operations

ENFORCEMENT & AUTHORISATIONS
Paul Heckles
Head of Enforcement and Authorisations

COMPANIES Registry

Human Resources
Managers
Trish Cain
Brenda Dougherty

IT
Manager
Donna Shimmin

Operational Management
Manager
Suzie Biddulph

Enforcement
Managers
Kathryn Cain
Paul Mylchreest

Enforcement Officer & Secretary to the CEO
Carolyn Davis

Authorisations
Manager
Dave Hodgson

Authorisations Officer
Ashley Hanlon

Accounts Assistant
Francesca Lindsay

Companies Registry

Senior Manager
John Wilkinson

Senior Manager
Clive Oldale

Administrative Officers
Mike Astill
Les Clarke
Nick Cowell
Mark Edwards
Helen Stuart

Administrative Assistants
Stephen Meehan

Secretaries
Susan Cross
Becky Driver

Secretary
Janet Moore

Administrative Officer
Sarah Davidson

Receptionists
Sue Clague
Sue Freeman
Elaine Morretta
How the Commission operates

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 financial centre.

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:
- 12 routine monthly meetings
- 10 licensing meetings (quorum)
- A 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.

With effect from 1 April 2010 Companies Registry was transferred to the Department of Economic Development.
Licenceholders

As at 31 March 2010, a total of 295 institutions were licensed by the Financial Supervision Commission under the Financial Services Act 2008. The Classes of business which these institutions were licensed to conduct were as follows:

<table>
<thead>
<tr>
<th>Class of Business</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Deposit Taking (Class 1)</td>
<td>36</td>
</tr>
<tr>
<td>(ii) Investment Business (Class 2)</td>
<td>74</td>
</tr>
<tr>
<td>(iii) Services to Collective Investment Schemes (Class 3)</td>
<td>65</td>
</tr>
<tr>
<td>(iv) Corporate Services (Class 4)</td>
<td>201</td>
</tr>
<tr>
<td>(v) Trust Services (Class 5)</td>
<td>129</td>
</tr>
<tr>
<td>(vi) E-Money (Class 6)</td>
<td>0</td>
</tr>
<tr>
<td>(vii) Money Transmission Services (Class 8)</td>
<td>1</td>
</tr>
</tbody>
</table>

Some licenceholders are permitted to conduct more than one Class of business under the Act; hence the total of the above (506) exceeds the number of licenceholders.

Collective Investment Schemes

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

As at 31 March 2010 the following schemes were authorised, notified or recognised by the Commission:

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Authorised Schemes under Schedule 1 of the CIS Act</td>
<td>7</td>
</tr>
<tr>
<td>(ii) Full International Schemes under Schedule 2 of the CIS Act</td>
<td>20</td>
</tr>
<tr>
<td>(iii) Other International Schemes under regulations made under Schedule 2 of the CIS Act or continuing regulations under previous legislation:</td>
<td></td>
</tr>
<tr>
<td>• Professional Investor Funds</td>
<td>4</td>
</tr>
<tr>
<td>• Specialist Funds</td>
<td>25</td>
</tr>
<tr>
<td>• Qualifying Investor Funds</td>
<td>12</td>
</tr>
<tr>
<td>• Experienced Investor Funds:</td>
<td></td>
</tr>
<tr>
<td>➞ Qualifying type</td>
<td>9</td>
</tr>
<tr>
<td>➞ Legacy type</td>
<td>20</td>
</tr>
<tr>
<td>➞ Closed</td>
<td>26</td>
</tr>
<tr>
<td>(iv) Exempt Schemes under Schedule 3 of the CIS Act and Exempt Type Schemes</td>
<td>173</td>
</tr>
<tr>
<td>(v) Recognised Schemes from a designated territory under Schedule 4 paragraph 1 of the CIS Act</td>
<td>28</td>
</tr>
<tr>
<td>(vi) Individually Recognised Schemes under Schedule 4 paragraph 2 of the CIS Act</td>
<td>9</td>
</tr>
<tr>
<td>(vii) Overseas Schemes administered or managed in the Island</td>
<td>118</td>
</tr>
<tr>
<td>(viii) Schemes for which management or administration services are provided to the manager or administrator, under an “inward” outsourcing agreement</td>
<td>29</td>
</tr>
</tbody>
</table>
Statement of responsibilities in respect of
the Chief Executive’s report and the accounts

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

The Audit Act 2006 requires the Isle of Man Financial Supervision Commission (“the Commission”) to prepare accounts for each financial year, which meet the requirements of the Accounts and Audit Regulations 2007 to 2008 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.
We have audited the accounts of the Isle of Man Financial Supervision Commission for the year ended 31 March 2010 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 page 51.

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 2010; 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 2010

<table>
<thead>
<tr>
<th>Income</th>
<th>Notes</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td>Licence &amp; Scheme Fees</td>
<td>2</td>
<td>1,766,777</td>
<td>1,641,179</td>
</tr>
<tr>
<td>Companies Registry</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Resident Company</td>
<td></td>
<td>47,000</td>
<td>54,750</td>
</tr>
<tr>
<td>Companies Registration Fees</td>
<td></td>
<td>9,790,986</td>
<td>10,103,966</td>
</tr>
<tr>
<td>Companies Capital Fees</td>
<td></td>
<td>297,865</td>
<td>329,344</td>
</tr>
<tr>
<td></td>
<td></td>
<td>10,135,851</td>
<td>10,488,060</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>134,290</td>
<td>133,891</td>
</tr>
<tr>
<td>Total Income</td>
<td>1(b)</td>
<td>12,036,918</td>
<td>12,263,130</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenditure</th>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>4</td>
<td>3,035,280</td>
<td>3,040,254</td>
</tr>
<tr>
<td>Commissioners’ Remuneration</td>
<td></td>
<td>96,942</td>
<td>100,108</td>
</tr>
<tr>
<td>Premises</td>
<td></td>
<td>527,411</td>
<td>477,941</td>
</tr>
<tr>
<td>Training</td>
<td></td>
<td>78,522</td>
<td>64,582</td>
</tr>
<tr>
<td>Travel</td>
<td></td>
<td>32,367</td>
<td>40,828</td>
</tr>
<tr>
<td>Professional Fees</td>
<td></td>
<td>146,880</td>
<td>384,161</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td></td>
<td>128,223</td>
<td>162,301</td>
</tr>
<tr>
<td>Information Technology</td>
<td></td>
<td>549,997</td>
<td>526,508</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td>23</td>
<td>86</td>
</tr>
<tr>
<td>Total Expenditure</td>
<td>1(c), 3</td>
<td>(4,595,645)</td>
<td>(4,796,769)</td>
</tr>
<tr>
<td>Surplus for the year</td>
<td>1(a)</td>
<td>7,441,273</td>
<td>7,466,361</td>
</tr>
</tbody>
</table>

The notes on pages 55 to 57 form part of these accounts.

The income and expenditure account was approved by the Financial Supervision Commission on the 27 May 2010 and signed on its behalf by Mrs R V Penn (Chairman) and Mr J R Aspden (Chief Executive).
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.

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 Licence and scheme fees income


Detailed analysis of each category of licence and scheme fee income has not been provided due to the enactment of the Financial Services Act 2008 and the subsequent fees orders, being Financial Services (Fees) (No. 2) Order 2009 and Collective Investment Schemes (Fees) Order 2009. Under the new fee regulations, licenceholders conducting multiple types of licensable activity will have received one invoice only. Under the previous fee regulations, the licenceholders would have received separate invoice for separate activity conducted. Detailed analysis of each category of licence and scheme fee income would therefore not provide a meaningful comparison.

3 Auditors’ remuneration

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

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

<table>
<thead>
<tr>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>Number</td>
</tr>
<tr>
<td>£50,000 - £74,999</td>
<td>6</td>
</tr>
<tr>
<td>£75,000 - £99,999</td>
<td>4</td>
</tr>
<tr>
<td>£100,000 - £124,999</td>
<td>-</td>
</tr>
<tr>
<td>£125,000 - £149,999</td>
<td>-</td>
</tr>
<tr>
<td>£150,000 - £174,999</td>
<td>-</td>
</tr>
<tr>
<td>£175,000 - £199,999</td>
<td>-</td>
</tr>
<tr>
<td>£200,000 - £224,999</td>
<td>-</td>
</tr>
<tr>
<td>£225,000 - £250,000</td>
<td>1</td>
</tr>
</tbody>
</table>

Included within salaries are pension contributions of £17,200 (2009: £17,200).

5 Debtors

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

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debtors</td>
<td>760,235</td>
<td>1,217,245</td>
</tr>
<tr>
<td>Provision for doubtful debts</td>
<td>(171,067)</td>
<td>(495,306)</td>
</tr>
<tr>
<td></td>
<td>589,168</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></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prepayments</td>
<td>-</td>
<td>75,409</td>
</tr>
</tbody>
</table>

7 Accruals

The following accruals have been included within expenditure:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued expenditure</td>
<td>24,733</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></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within 12 months</td>
<td>265,675</td>
<td>372,440</td>
</tr>
<tr>
<td>Between 1 and 5 years</td>
<td>968,817</td>
<td>1,421,933</td>
</tr>
<tr>
<td>After 5 years</td>
<td>1,706,865</td>
<td>2,810,897</td>
</tr>
<tr>
<td></td>
<td>2,941,357</td>
<td>4,605,270</td>
</tr>
</tbody>
</table>

Due to restructuring of departments by the Isle of Man Government, Companies Registry will report under the Department of Economic Development from 1 April 2010. The Commission will be responsible for meeting 69% of the rental lease obligations from this date. The commitments for the year reflect this new arrangement and are not comparable against prior year.

Prior year commitments have been re-stated by £26,060 (between 1 and 5 years) to adjust for the correct expiry date on one of the rental lease agreements.

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>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premises</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Training</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Travel</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Professional fees</td>
<td>-</td>
<td>34,000</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Information technology</td>
<td>-</td>
<td>58,880</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>92,880</td>
</tr>
</tbody>
</table>

12 Post balance sheet event

Due to restructuring of departments by the Isle of Man Government, Companies Registry will report under the Department of Economic Development from 1 April 2010. As a consequence, Companies Registry fees, and related fees and expenditure will no longer form part of the Commission’s Income and Expenditure Account.
Legislation coming into force after 31 March 2009

Primary legislation

**Companies (Amendment) Act 2009**  
- Chapter No 7 effective 1/9/09.

**Company Officers’ (Disqualification) Act 2009**  
- Chapter No 4 effective 18/6/09.

Secondary legislation

**SD No 131/09 Financial Services (Fees) Order 2009** effective 1/4/09. This Order prescribes the application and annual fees payable in relation to the licensing of regulated activities under the Financial Services Act 2008.

**SD No 132/09 Collective Investment Schemes (Fees) Order 2009** effective 1/4/09. This Order prescribes the application and periodical fees payable by schemes under the Collective Investment Schemes Act 2008.

**SD No 325/09 Company Officers (Disqualification) Act 2009 (Appointed Day) Order 2009** effective 18/6/09. This Order brings the remaining provisions of the Company Officers (Disqualification) Act 2009 into operation, and contains a transitional provision to treat disqualification proceedings commenced, but not completed, before the appointed day to be treated as proceedings under the new Act. Provisions are also included to treat disqualification orders made under legislation replaced by this Act as made under this Act.

**SD No 336/09 Collective Investment Schemes (Authorised Schemes) (Alternative Investment and Borrowing Powers) Regulations 2009** effective 7/5/09. These Regulations allow Authorised Schemes to elect to adopt a more flexible regime for investment and borrowing where they also adopt certain risk management processes.

**SD No 466/09 Compensation of Depositors (Amendment) (No.2) Regulations 2009** effective 29/5/09. These Regulations add the Provisional Liquidators of Kaupthing Singer & Friedlander (Isle of Man) Ltd (in liquidation) to the Schedule to the Compensation of Depositors Regulations 2008. The effect of this is to remove the provisional liquidators from the list of participants in the depositors’ compensation scheme.

**SD No 572/09 Companies (Amendment) Act (Appointed Day) Order 2009** effective 1/9/09. This Order brings the Companies (Amendment) Act 2009 into operation.

**SD No 645/09 Compensation of Depositors (Amendment) (No.4) Regulations 2009** effective 6/8/09. These Regulations add the Liquidator of Kaupthing Singer & Friedlander (Isle of Man) Ltd (in liquidation) to the Schedule to the Compensation of Depositors Regulations 2008 and revoke SD 466/09. The effect of this is to remove the liquidators from the list of participants in the depositors’ compensation scheme.

**SD No 737/09 Financial Services Rule Book 2009** effective 1/1/10. 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.

**SD No 738/09 Regulated Activities Order 2009** effective 1/1/10. 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 739/09 Financial Services (Exemptions) Regulations 2009** effective 1/1/10. 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 740/09 Financial Services (Civil Penalties) (Amendment) Regulations 2009** effective 1/1/10. These Regulations amend the Financial Services (Civil Penalties) Regulations 2008 so that a penalty is due for the late submission of auditors’ management letters and audit reports on banking returns.

**SD No 741/09 Financial Services (Fees) (No.2) Order 2009** effective 1/1/10. This Order specifies the application fees and annual fees payable in relation to the licensing of regulated activities under the Financial Services Act 2008. No increases were made to the Financial Services (Fees) Order 2009. However a new annual fee was included for e-money issuers.

**SD No 742/09 Financial Services (“Not Fit and Proper”) (Amendment) Regulations 2009** effective 1/1/10. These Regulations amend the Financial Services (“Not Fit and Proper”) Regulations 2008 to reflect the fact that the register held by the Commission will only show current directions.
SD No 743/09 Financial Supervision (Revocation) Regulations 2009 effective 1/1/10. These Regulations revoke some Regulations made under the Financial Supervision Act 1988. The Regulations which have been revoked have been replaced by similar legislation under the Financial Services Act 2008.


SD No 745/09 Investment Business (Revocation) Order 2009 effective 1/1/10. This Order revokes two pieces of secondary legislation that were made under the Investment Business Acts 1991 – 1993. The Regulations which have been revoked have been replaced by similar legislation under the Financial Services Act 2008.

SD No 7/10 Register of Recognised Auditors Regulations 2010 effective 5/4/10. These Regulations provide for the application for entry to, and keeping of a register of, recognised auditors. The Regulations only apply to the auditors of market traded companies.

SD No 8/10 Public Oversight of Recognised Auditors Regulations 2010 effective 5/4/10. These Regulations provide for the public oversight of recognised auditors by the Professional Oversight Board and for the monitoring of recognised auditors by the Institute of Chartered Accountants in England and Wales on behalf of the Financial Supervision Commission.

SD No 9/10 Accounting (Recognised Auditors) Regulations 2010 effective 5/4/10. These Regulations stipulate that any auditor wishing to audit market traded companies must qualify to act as auditor under the Companies Acts 1982 and 2006 as well as under the criteria for being a recognised auditor.

SD No 28/10 Companies (Fees and Duties) Order 2010 effective 6/4/10. This Order prescribes fees to be charged in the Companies Registry in respect of the Companies Act 1931.

SD No 29/10 Companies (Fees, Duties and Penalties) Regulations 2010 effective 6/4/10. These Regulations prescribe the fees to be charged by the Registrar of Companies in respect of the Companies Act 2006.

SD No 30/10 Limited Liability Companies (Fees and Duties) Order 2010 effective 6/4/10. This Order prescribes the fees to be charged in the Companies Registry in respect of Limited Liability Companies formed under the provisions of the Limited Liability Companies Act 1996.

SD No 31/10 Registration of Business Names (Fees and Duties) Rules 2010 effective 6/4/10. These Rules prescribe the fees to be charged in the Companies Registry in respect of business names.

SD No 32/10 Partnership (Fees) Rules 2010 effective 6/4/10. These Rules prescribe the fees to be charged in the Companies Registry in respect of Limited Partnerships registered under the Partnership Act 1909.

SD No 33/10 Companies (Transfer of Domicile) (Fees and Duties) Order 2010 effective 6/4/10. This Order prescribes the fees to be levied in 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.

Companies Registry issues Practice Notes to assist practitioners and service providers in understanding how the different statutory requirements are applied. During the year the following Practice Notes were issued:

PN 3/2009 - Documents to be filed when an LLC is put into liquidation. This Practice Note sets out the procedure for filing documents with the Companies Registry when an LLC is put into liquidation. 1 September 2009.


PN 1/2009 - Registration and Continuance of Business Names. 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. 1 July 2009.
Consultative Documents
issued between 1 April 2009 and 31 March 2010

<table>
<thead>
<tr>
<th>Title of consultation</th>
<th>Date consultation published</th>
<th>Date consultation closed</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Auditor oversight to satisfy the terms of the EU Statutory Audit Directive (2006/43/EC)</strong> –</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Draft Register of Recognised Auditors Regulations 2009</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Draft Public Oversight of Recognised Auditors Regulations 2009</td>
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<td></td>
</tr>
<tr>
<td>Draft Accounting (Recognised Auditors) Regulations 2009</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Draft Crown Dependencies’ Audit Rules and Guidance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consultation Paper on Full Regulations</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>30 March 2009</td>
<td>8 May 2009</td>
</tr>
<tr>
<td><strong>Consultation on the review of financial services legislation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consultation Paper</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appendix A - Regulated Activities Order 2009</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appendix B - Financial Services (Exemption) Regulations 2009</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appendix C - Rule Book amendments 2009</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>29 June 2009</td>
<td>10 August 2009</td>
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<tr>
<td><strong>INFORMATION PAPER - Review of financial services legislation - consultation comments and updated draft legislation for information</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Summary of responses – Rule Book</td>
<td></td>
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<tr>
<td>Summary of responses – Regulated Activities Order and Exemptions Regulations</td>
<td></td>
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<tr>
<td>Final Draft Financial Services Rule Book 2009</td>
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<td></td>
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<tr>
<td>Final Draft Regulated Activities Order 2009</td>
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<td></td>
</tr>
<tr>
<td>Final Draft Financial Services (Exemptions) Regulations 2009</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Final Draft Financial Services (Fees) (No. 2) Order 2009</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Final Draft Financial Services (“Not Fit and Proper”) Regulations 2009</td>
<td></td>
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</tr>
<tr>
<td>Final Draft Financial Services (Civil Penalties) Regulations 2009</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Final Draft Banking, Building Societies, Investment Business and Fiduciary (Revocation) Regulations 2009</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Final Draft Financial Supervision (Revocation) Regulations 2009</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Final Draft Investment Business (Revocation) Order 2009</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>29 June 2009</td>
<td>29 June 2009</td>
</tr>
</tbody>
</table>

Not applicable – paper for information rather than consultation
<table>
<thead>
<tr>
<th>Title of consultation</th>
<th>Date consultation published</th>
<th>Date consultation closed</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Consultation on the review of collective investment schemes legislation</strong></td>
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</tr>
<tr>
<td>Draft Collective Investment Schemes (Full International Scheme) Regulations 2010</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Draft Collective Investment Schemes (Specialist Fund) Regulations 2010</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Draft Collective Investment Schemes (Qualifying Fund) Regulations 2010</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Draft Collective Investment Schemes (Experienced Investor Fund) Regulations 2010</td>
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<td></td>
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<td>Draft Collective Investment Schemes (Registers) Regulations 2010</td>
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<td>Draft Collective Investment Schemes (Promotion of Schemes Other Than Authorised And Recognised Schemes) Regulations 2010</td>
<td>22 October 2009</td>
<td>18 December 2009</td>
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<td>Draft Collective Investment Schemes (Recognised Schemes From Designated Countries Or Territories Notification) Regulations 2010</td>
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<td>Draft Collective Investment Schemes (Recognised Schemes) (Facilities In the Island) Regulations 2010</td>
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<td>Draft Collective Investment Schemes (Prospectus) (Exemption) Regulations 2010</td>
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<td>Draft Collective Investment Schemes (Returns Of Allotment And Redemption) (Exemption) Order 2010</td>
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<td>Draft Limited Partnerships (Collective Investment Schemes) (Exemption) Regulations 2010</td>
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<td><strong>Limited partnerships - Optional separate legal personality</strong></td>
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<td>Consultation paper</td>
<td>23 October 2009</td>
<td>4 December 2009</td>
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<td><strong>INFORMATION PAPER - Financial services legislation approved by Tynwald</strong></td>
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<td>Final versions of the:</td>
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<td>Regulated Activities Order 2009</td>
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<td>Financial Services Exemption Regulations 2009</td>
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<td>Financial Services Rule Book 2009</td>
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<td>Financial Services (Fees) (No. 2) Order 2009</td>
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<td>Financial Services (&quot;Not Fit and Proper&quot;) Regulations 2008*</td>
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<td>Financial Services (Civil Penalties) Regulations 2008*</td>
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<td>*Keeling schedule</td>
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<td><strong>Treasury Share Regulations</strong></td>
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<tr>
<td>Consultation paper containing draft Companies Act 1931 to 2004 (Treasury Share) Regulations 2010</td>
<td>5 February 2010</td>
<td>19 February 2010</td>
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<tr>
<td><strong>Review of Authorised collective investment schemes Regulations</strong></td>
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<tr>
<td>Consultation paper containing draft Authorised Collective Investment Schemes Regulations 2010</td>
<td>1 March 2010</td>
<td>7 May 2010</td>
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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 Rule Book provides legislation and guidance for licenceholders together with downloadable PDFs of the various legislation and regulations.

Further publications relating to Fiduciaries, Funds, Insurance and Pensions, Tax, and Business Relocation are available from the Isle of Man Government, Isle of Man Finance, 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>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ACCA</td>
<td>The Association of Chartered Certified Accountants</td>
</tr>
<tr>
<td>ACIB</td>
<td>The Association of Chartered Institute of Bankers</td>
</tr>
<tr>
<td>ACSP</td>
<td>Association of Corporate Service Providers</td>
</tr>
<tr>
<td>AML</td>
<td>Anti-Money Laundering</td>
</tr>
<tr>
<td>CAT</td>
<td>Certified Accounting Technician</td>
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<tr>
<td>CDD</td>
<td>Customer Due Diligence</td>
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<tr>
<td>CFT</td>
<td>Countering the Financing of Terrorism</td>
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<tr>
<td>CIPD</td>
<td>Chartered Institute of Personnel &amp; Development</td>
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<tr>
<td>CIS</td>
<td>Collective Investment Scheme</td>
</tr>
<tr>
<td>Commission</td>
<td>The Financial Supervision Commission</td>
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<tr>
<td>CPD</td>
<td>Continuing professional development</td>
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<tr>
<td>CSP</td>
<td>Corporate Service Provider</td>
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<tr>
<td>DCS</td>
<td>Depositors’ Compensation Scheme</td>
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<tr>
<td>EIF</td>
<td>Experienced Investor Fund</td>
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<tr>
<td>EPC</td>
<td>European Policy</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>FIS</td>
<td>Funds and Investment Services</td>
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<td>FPC</td>
<td>Financial Planning Certificate</td>
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<td>FSB</td>
<td>Federal Savings Bank</td>
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<tr>
<td>FSAP</td>
<td>Financial Sector Assessment Programme</td>
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<tr>
<td>G20</td>
<td>The Group of Twenty Finance Ministers and Central Bank Governors</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GSC</td>
<td>Gambling Supervision Commission</td>
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<tr>
<td>IAIS</td>
<td>International Association of Insurance Supervisors</td>
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<tr>
<td>ICAAP</td>
<td>Internal Capital Adequacy Assessment Process</td>
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<tr>
<td>ICAEW</td>
<td>The Institute of Chartered Accountants in England and Wales</td>
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<td>ICSA</td>
<td>Institute of Chartered Secretaries and Administrators</td>
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<td>IFA</td>
<td>Independent Financial Adviser</td>
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<td>IIP</td>
<td>Investors in People</td>
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<tr>
<td>IT</td>
<td>Information Technology</td>
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<tr>
<td>ILM</td>
<td>Institute of Leadership and Management</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>IOSCO</td>
<td>International Organisation of Securities Commissions</td>
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<td>IPA</td>
<td>Insurance and Pensions Authority</td>
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<td>Island</td>
<td>Isle of Man</td>
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<td>JAMLAG</td>
<td>Joint Anti-Money Laundering Advisory Group</td>
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<td>KSF(IOM)</td>
<td>Kaupthing Singer &amp; Freidlander (Isle of Man) Limited</td>
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<tr>
<td>LLC</td>
<td>Limited Liability Company</td>
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<td>MMOU</td>
<td>Mutual Memorandum of Understanding</td>
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<td>MOU</td>
<td>Memorandum of Understanding</td>
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<td>OGBS</td>
<td>Offshore Group of Banking Supervisors</td>
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<td>OFT</td>
<td>Office of Fair Trading</td>
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<td>PEP</td>
<td>Politically Exposed Persons</td>
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<td>PLC</td>
<td>Public Limited Company</td>
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<td>POB</td>
<td>Professional Oversight Board</td>
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<td>RICC</td>
<td>Risk &amp; Internal Control Committee</td>
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<td>RPI</td>
<td>Retail Price Index</td>
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<td>SII</td>
<td>Securities and Investment Institute</td>
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<td>SEPA</td>
<td>Single Euro Payments Area</td>
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<td>STEP</td>
<td>The Society of Trust &amp; Estate Practitioners</td>
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<td>TSP</td>
<td>Trust Service Provider</td>
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<tr>
<td>UK</td>
<td>United Kingdom</td>
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<td>USA</td>
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