Welcome to the 9th edition of the Financial Supervision Commission’s (“FSC”) news update which gives a short overview of recent initiatives and events which are of interest to, and impact upon, licenceholders.

Topics in this issue –

- General Supervision update
- Fiduciaries update
- Funds and investment services update
- Legislation
- Banking update
- AML/CFT, public notices, warnings, sanctions
- Consultations.

General Supervision update

Revisions to the Rule Book, Regulated Activities Order and Exemptions Regulations – Following consultation in 2013, the new versions of the Rule Book and amendments to the Regulated Activities Order and Exemptions Regulations will come into force on 1 February, subject to Tynwald approval in January. Tracked change / as amended versions of the Rule Book, Regulations and Order can be accessed here.

The existing Rule Book remains in force until the new version commences. Of particular note for Class 2 licenceholders is that the new concept of “restricted advice” will not come into effect until the commencement date of the new Rule Book and consequently should not be offered to clients until that date.

FATCA – The IoM signed IGAs with the UK on 10 October and the US on 13 December. Details of the registration process for US FATCA can be found on the relevant IRS webpage. Further information on UK FATCA is available on HMRC’s FATCA pages. Please continue to monitor IoM Government’s FATCA pages for information.

Fiduciaries update

Client money visits – The Fiduciary team is continuing its programme of client money visits. These are “smart supervisory” visits with a principal theme that also look at the wider picture. Visit teams are still finding readily-avoidable breaches of the client money rules in terms of:

- Failing to reconcile dormant accounts to ensure that they have not been reactivated, and zero balance accounts to ensure that they have not been used); and
- Accounts going overdrawn because of bank charges (rule 3.10(6)(a) allows money to be kept in a client money account to maintain the account).

Industry liaison – The FSC is scheduled to meet with the ACSP on 3 and 7 February and appreciates such opportunities to liaise with industry representatives.

Funds and investment services update

Authorised Schemes – Following the consultation on trustees and fiduciary custodians of Authorised Schemes (per paragraph 2 of Schedule 1 to the CIS Act 2008) the draft Order will come into operation on 1 February, subject to Tynwald approval in January.

Statistics – The latest quarterly fund statistics were published on 27 November.

Legislation

The new versions of the Rule Book and amendments to the Regulated Activities Order and Exemptions Regulations will come into force on 1 February, subject to Tynwald approval in January.
Banking update

Domestic Systemically Important Banks ("D-SIBs") and Recovery & Resolution – A discussion paper, prepared jointly with the GFSC and JFSC, (and shared with respective Governments) is expected to be issued to banks in January.

UK Banking Reform – The FSC continues to participate in the IoM Government Working Group. Work with the UK authorities continues.

The UK has now published a summary of responses to its consultation on draft secondary legislation for UK Banking Reform. This recognised the submission made by the IoM Government and included the following statement, under “geographical restrictions”:

“Respondents welcomed the exemption the government proposed to allow ring-fenced banks to have branches in the Crown Dependencies ("CDs"). However, some thought that this exemption should be extended to locally incorporated subsidiaries in the CDs. Some respondents thought that the (UK) Financial Services Compensation Scheme should be extended to cover branches of ring-fenced banks in the CDs.”

Basel III – A discussion paper, prepared jointly with the GFSC and JFSC, was issued to banks on 17 December focusing on proposals for changes to the capital adequacy framework in the Isle of Man. A period of three months has been given to banks to send responses to the FSC. Further work on other aspects of Basel III will continue to be undertaken during 2014.

Statistics – The latest deposit base figures and quarterly banking statistics were published on 27 November.

Transfer of business including deposit taking – Following the consultation on transfer of business from one deposit taker to another entity the draft Regulations will come into operation on 1 February, subject to Tynwald approval in January.

Visit / questionnaire feedback – A letter was provided to IOMBA (11 December) explaining key findings from the themed AML/CFT visits undertaken in 2012-2013. A version of this will be published on the FSC’s website in due course.

A letter was provided to IOMBA (21 November) explaining key findings from the responses submitted by banks to a questionnaire on structured deposits. The FSC continues to undertake on-site review work at certain banks in relation to structured deposits including how they deal and communicate with customers. Following this work, and taking into account regulatory changes in the UK, the FSC expects to review and update its guidance, including focusing on how banks should conduct certain types of business and deal with their customers. Any rule changes would need to be made as part of the next Rule Book review.

BIS (stage 2) statistical reporting – The FSC released new templates and guidance to banks on 11 December to enable submissions to be made for stage 2 reporting to BIS for the December data set. The new templates will be set up against each reporting bank in the online reporting system in January and the old templates will be removed. Banks are required to submit data using the new forms by the end of February. The sector split should be completed on a best endeavours basis.

AML/CFT, public statements, warnings and sanctions

MONEYVAL – The Island’s First 3rd Round Written Progress Report outlining progress made by the Isle of Man to implement recommendations previously identified by the IMF, was presented and adopted at the MONEYVAL Plenary in September and published on its website.

AML/CFT Handbook updates – Some minor amendments were made to the handbook on 23 December to improve clarity in a certain area and also to rectify some typographical errors.

Other public statements & warnings
7 Nov: Endeavour Assets

Sanctions updates
6 Jan: North Korea & Ivory Coast
17 Dec: Terrorism
12 Dec: Al Qaida / Iran (Nuclear Proliferation)
31 Oct: Belarus
15 Oct: T. Funding / Al Qaida / Syria / North Korea
27 Sep: Zimbabwe / Al Qaida

Bogus websites
6 Dec: trade-your.com
25 Sep: First Data Ltd – http://firstdata.im
Consultations

**Designated Businesses (Registration and Oversight) Bill** – The FSC is working on revised drafting instructions to ensure that the draft Bill takes account of comments received during the first public consultation period. It is intended to have a new draft of the Bill to consult on in the first quarter of 2014.

**Update briefing for audit / accountancy firms** – The FSC is writing to representative bodies of all audit and accountancy service providers to inform them that it is hosting a briefing session in relation to progress being made on the Designated Businesses (Registration and Oversight) Bill which is due to come into effect in 2015. This session is only relevant to audit and accountancy sectors. There will be a presentation aimed at other sectors of “designated businesses” in the near future.

**Closed consultations** – Information on closed FSC consultations, including summaries of responses, may be accessed [here](#).

**Government consultations** – The Government’s central consultations register may be accessed [here](#). Current and future Government consultations that may be of interest to licenceholders are listed below:

<table>
<thead>
<tr>
<th>Dept.</th>
<th>Status</th>
<th>Consultation topic</th>
<th>Link / contact</th>
</tr>
</thead>
<tbody>
<tr>
<td>IPA</td>
<td>Closing Today</td>
<td>2014 Regulatory fees of the Insurance and Pensions Authority</td>
<td>Francesca Hooper</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><a href="mailto:francesca.hooper@ipa.gov.im">francesca.hooper@ipa.gov.im</a></td>
</tr>
<tr>
<td>FSC</td>
<td>Expected Feb 2014</td>
<td>Expansion of the civil penalties framework</td>
<td>Andrew Kniveton</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><a href="mailto:andrew.kniveton@fsc.gov.im">andrew.kniveton@fsc.gov.im</a></td>
</tr>
<tr>
<td>FSC</td>
<td>Expected Q1 2014</td>
<td>Register Regulations for audit firms authorised under section 14E of the Companies Act 1982</td>
<td>Andrew Kniveton</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><a href="mailto:andrew.kniveton@fsc.gov.im">andrew.kniveton@fsc.gov.im</a></td>
</tr>
<tr>
<td>FSC</td>
<td>Expected Q1 2014</td>
<td>Designated Businesses (Registration and Oversight) Bill</td>
<td>Shirley Corlett</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><a href="mailto:shirley.corlett@fsc.gov.im">shirley.corlett@fsc.gov.im</a></td>
</tr>
<tr>
<td>FSC</td>
<td>Expected Q2 2014</td>
<td>Financial Services (Appointment of a Manager) Order</td>
<td>Andrew Kniveton</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><a href="mailto:andrew.kniveton@fsc.gov.im">andrew.kniveton@fsc.gov.im</a></td>
</tr>
</tbody>
</table>

***************