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**ISLE OF MAN
FINANCIAL SERVICES AUTHORITY**

Lught-Reill Shirveishyn Argidoil Ellan Vannin

ANNUAL REPORT 2022/23



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FINANCIAL SERVICES AUTHORITY**

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RISING TO THE CHALLENGE



'The past 12 months have seen a further period of considerable change, both in the regulatory environment and wider financial world.'

LILLIAN BOYLE, CHAIR OF THE ISLE OF MAN FINANCIAL SERVICES AUTHORITY



In providing our annual report to stakeholders one of the key considerations is demonstrating how the Authority is moving ahead with its objectives and initiatives. This report is all about how we transition and adapt through the different challenges and regulatory requirements facing today's financial services regulator.

As highlighted in Bettina's CEO report, we have taken 'transformation' as our theme for this year. The past 12 months have seen a further period of considerable change, both in the regulatory environment and wider financial world. The memory of 2008 has risen again and we have all looked in the mirror to see if we do have the robust safeguards and mitigations that we all believed had been put in place after that catastrophic period.

We have now witnessed the highly charged outcomes from the speed that social media and digital financial transactions bring when there are any perceived problems for financial organisations. From a regulatory perspective, this demands a heightened level of awareness and planning of a more nuanced technical ability than was required in the aftermath of 2008.

It is incumbent on us to look very critically at ourselves and at our financial and people resources. Importantly, we have to be confident in the ability of the Authority to provide a suitable level of coverage across the different sectors within our remit and set appropriate regulatory standards to meet the needs of the Isle of Man as an international financial sector.

The Authority has put in place the foundations to support the move to a new and more sustainable funding model, whereby we become predominately funded by industry. This brings with it an imperative to continue to develop greater understanding and transparency of the way we work.

We remain an Isle of Man Statutory Board accountable to the Treasury and as such reporting to the Treasury Board

is a prerequisite of our governance. However, we are also developing a number of initiatives where we can display to wider stakeholders how the Authority works and how it accounts for the delivery of that work.

This annual report is part of that process and highlights areas where transformation has taken place, including the substantial change in supervisory methodology. We anticipate this initiative will deliver a more proportionate, effective and relevant focus for supervision.

Transformation takes many forms in the Authority and this is not only in terms of our working methods, but in the people who make up our organisation.

The past 12 months in particular have seen a number of long-serving colleagues complete their service with the Authority. On behalf of the Board I would like to acknowledge the considerable contribution they have all made in building the organisation into today's Isle of Man Financial Services Authority. A number of our colleagues started in the Authority's predecessor organisations and we recognise their wider input to the development of Manx financial services regulation over the years.

On a similar note, I would like personally to thank Jane McAndry who has completed her term of office as an Authority Board member. Jane has a considerable history with financial regulation in the Isle of Man having at one stage in her distinguished career held a senior role within the Financial Supervision Commission. She has served on the Board for the last five years and made a valued contribution to all three Board subcommittees at different times, particularly being a member of the Resolution Committee from its inception, and notably for the last two years taking on the additional role of Deputy Chair.

As we write this report, Treasury has already carried out the recruitment for the new appointments to the Board and, as such, the transformation of the Authority continues.

EMBRACING OUR CHANGE JOURNEY

'Transformation was a natural choice for the theme of this year's report as it reflects our own change journey and commitment to becoming an even more effective regulator.'

BETTINA ROTH, CHIEF EXECUTIVE OF THE
ISLE OF MAN FINANCIAL SERVICES AUTHORITY



Events since the publication of last year's annual report have shown just how quickly – and dramatically – the international landscape can shift.

After emerging from the COVID-19 pandemic the world has experienced the repercussions of the war in Ukraine, a cost of living crisis, and significant upheaval in financial markets.

'Transformation' was a natural choice for the theme of this year's report as it reflects our own change journey and commitment to becoming an even more effective regulator. Central to our ambitions is the implementation of an updated approach to financial sector supervision and oversight.

Our revised [Supervisory Methodology Framework](#) will better focus our resources on the greatest threats to our objectives of protecting consumers, reducing financial crime, and maintaining confidence in the financial services sector.

The transition from a predominantly sector-based approach to a more risk and impact-led model is intended to achieve better outcomes by driving a consistent, proactive, and value-added programme of supervisory engagement.

In a wider context, the Authority's work continues to make a valuable contribution to [Our Island Plan's](#) vision for a vibrant and sustainable Manx economy. Maintaining a robust regulatory environment is essential to the Island's status as an excellent place to do business.

While successful offshore jurisdictions such as the Isle of Man will always face intense scrutiny, we must use this as an opportunity to demonstrate our compliance with global standards. With that in mind, the Authority will continue to build on its focused delivery of Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) supervision and oversight.

In collaboration with the Isle of Man Government, we are stepping up our preparations ahead of the next MONEYVAL evaluation. We must all play our part in demonstrating the effectiveness of the Island's AML/CFT regimes in order to meet international expectations.

Alongside the structural changes being embedded at the Authority, we are sharpening our focus on data management and analytics. Greater use of technology will not only generate internal efficiencies, it will also enhance our interaction with firms and create benefits for all parties.

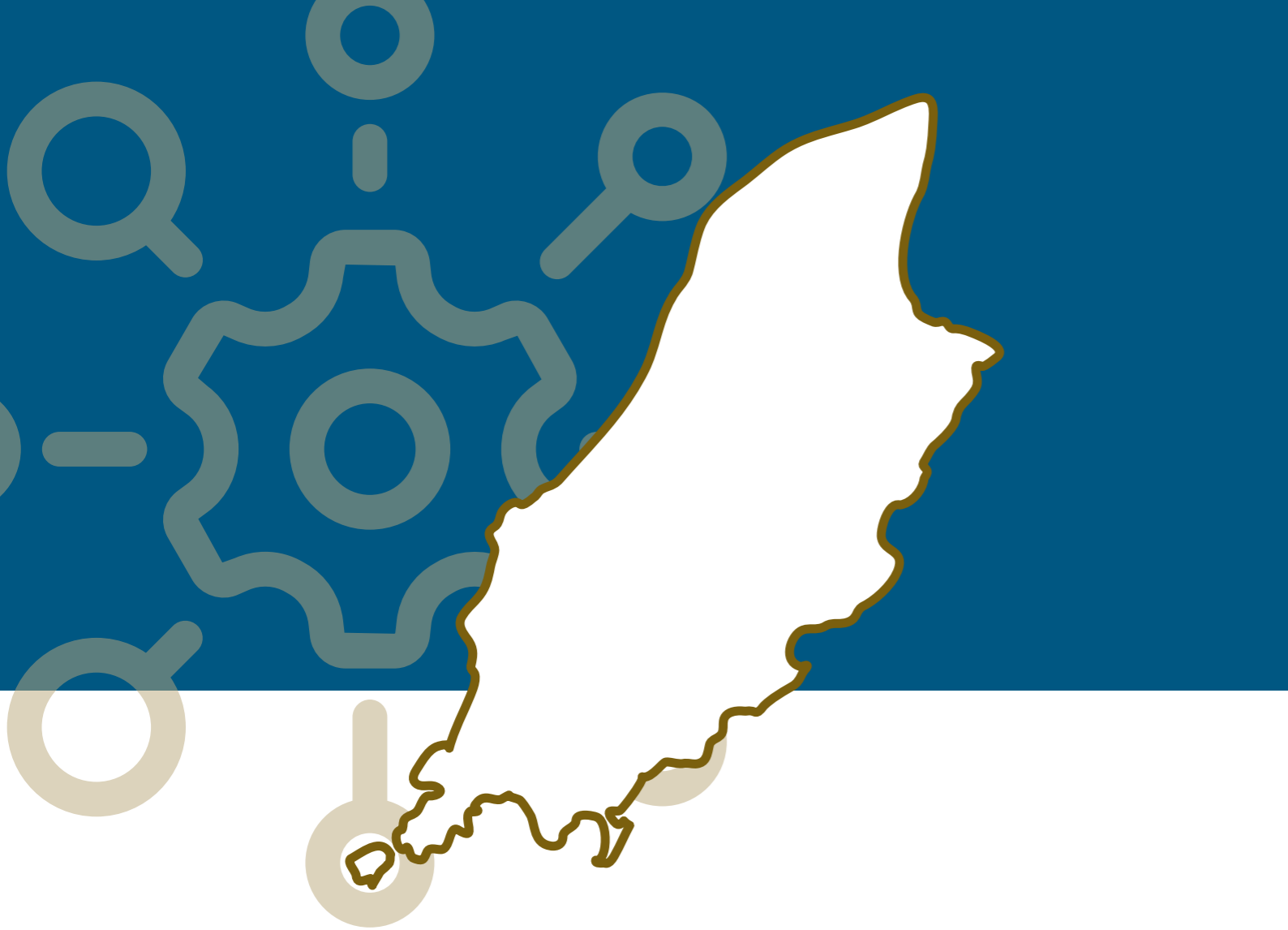
Externally, one of the goals highlighted in our Strategic Plan is a commitment to embracing innovation within an appropriately-regulated environment. In order to showcase the Island's fintech credentials, we have been working closely with the Digital and Finance Agencies at the Department for Enterprise to promote the Innovation Challenge, the Insurtech Accelerator Programme, and the Finnovation Hub.

On a personal note, I wish to express my appreciation to my colleagues for their hard work, and to everyone who continues to engage with the Authority and share their thoughts and views in a spirit of collaboration. As an organisation we are always listening and learning.

While recent events have tested our collective resilience, they have also highlighted the strength of the relationship between the Isle of Man Government, the financial services sector, and the regulator.

We share a common goal – to develop a strong, diverse and well-regulated economy that enables the Island and its people to flourish.

I look forward to working with you all in the time ahead and hope that the contents of this annual report will provide further insight into our ongoing work streams and exciting plans for the future.



WHAT WE DO

The Isle of Man is renowned as a well-regulated jurisdiction with robust company law and substance requirements, and a long-standing policy of compliance with global standards.

The Authority makes a significant contribution to the Island's positive reputation and thriving economy. As a risk-based regulator, our work is driven by our three regulatory objectives of:

- Protecting consumers
- Reducing financial crime
- Maintaining confidence in the finance sector through effective regulation

We are open, accessible and collaborative, and aim to provide clear regulatory pathways that enable businesses to develop their proof of concept, to engage with the application and authorisation processes, and to start up or scale up their activities.

What we regulate

[Financial Services Act 2008](#) and [Regulated Activities Order 2011](#)

- Class 1 Deposit takers
- Class 2 Investment businesses
- Class 3 Services to Collective Investment Schemes
- Class 4 Corporate Services
- Class 5 Trust Services
- Class 6 Crowdfunding platforms
- Class 7 Management/Administration of another licenceholder
- Class 8 Money transmission services
- Class 9 Credit Unions

[Insurance Act 2008](#) and [Retirement Benefits Schemes Act 2000](#)

Insurers

- Life assurers
- Non-life commercial insurers
- Non-life captive insurers
- Special purpose vehicles/insurance-linked securities

General insurance intermediaries

Trustees/administrators of retirement benefit schemes

What we register

[Designated Businesses \(Registration and Oversight\) Act 2015](#)

Our remit includes oversight of AML/CFT compliance for a wide range of businesses:

- Lawyers and accountants
- Tax advisers
- Payroll agents
- Lenders
- Financial leasing and guarantees
- Convertible virtual currency (crypto) businesses
- Estate agents
- Dealer in high value goods
- Safe custody providers
- Specified no-profit organisations

SUPPORTING A VIBRANT AND WELL-REGULATED ECONOMY

As the Isle of Man's financial services regulator, the Authority is focused on protecting consumers, reducing financial crime, and maintaining confidence in the financial services sector through effective regulation.

The Authority was established as an independent Statutory Board on 1 November 2015 and provides a yearly update on its proceedings and activities to the Isle of Man Treasury by way of an annual report.

This report, which will be laid before Tynwald, covers the period 1 April 2022 to 31 March 2023 and includes the Authority's accounts.

The content highlights the progress being achieved in key areas such as the transition to an updated Supervisory Methodology Framework and the ongoing work to become a more technology and data-driven regulator.

It builds on our [Strategic Plan for 2021-24](#), and the aspirations set out in last year's report to future-proof the Island's financial services sector.

The water imagery used throughout these pages represents fluidity, transparency, and strength. The intention is to reflect the forward momentum being achieved by the Authority across a range of significant projects.

The annual report also provides an opportunity to share our plans for 2024 and beyond – and to highlight how we will continue to work with Government and industry to support the vision for a vibrant, diverse and well-regulated Manx economy.

As a modern regulator, we never stop listening – and would welcome your feedback to help shape our priority projects and enhance our engagement with Island firms.

MEMBERS OF OUR BOARD



Members of the Isle of Man Financial Services Authority Board (back row, left to right) Peter Hahn, Mark Waterhouse, Leam Thompson, Kevin Garland, Jo Hill. (Front row, left to right) Bettina Roth, Lillian Boyle, Lucy McClements, Jane McAndry.

A WEALTH OF EXPERIENCE

The work of the Authority is overseen by members of the Board who, with the exception of the CEO, are appointed by Treasury, subject to the approval of Tynwald.

Board members bring a wealth of international business, regulatory, financial services and wider commercial experience to the organisation in multiple disciplines.

They work with the executive to set the strategic direction of the Authority and ensure it remains well positioned to support a dynamic industry.

THE AUTHORITY'S YEAR AT A GLANCE

2022/23



Authority Funding Model

Plans for our new funding model were finalised during the reporting period ready for implementation on 1 April 2023. The new model lays the foundation for the Authority to be predominantly funded by the firms we regulate and oversee by 2025/26.



Supervisory Methodology

We completed a review of our supervisory approach and moved to the implementation phase of the Supervisory Methodology Framework to focus our resources on the greatest threats to our regulatory objectives.



Cyber security

A third-party provider carried out a data security audit to review the control environment in place for the Authority's data and relevant systems against the requirements of the National Institute for Standards and Technology's Cyber Security Framework.



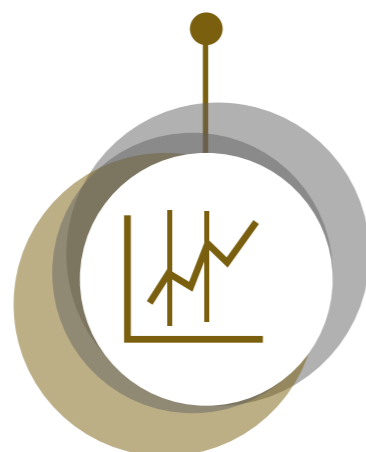
Resolution Authority

In our capacity as the Resolution Authority, we have put in place resolution plans for the majority of locally incorporated banks. We have also engaged with Treasury and representatives of the banking industry to review the key features of the Depositors' Compensation Scheme Regulations, with a view to conducting a consultation later in 2023.



Feedback

We commissioned an independent survey to gather feedback from the firms we regulate and oversee in order to better understand the needs of the Island's finance industry and to inform our future strategic priorities.



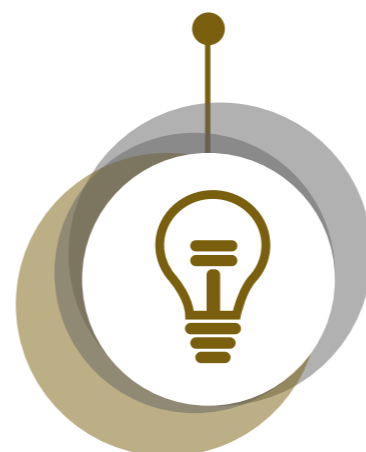
Data Management and Analytics

We implemented a data warehouse for our regulatory returns in order to realise the benefits of automated data validation, to create new efficiencies, and to remove the reliance on legacy systems.



AML/CFT

After a complete refresh of all AML/CFT guidance, including the Handbook and sector specific guides, we stepped up our risk-based inspection activities, including a thematic project focusing on foreign Politically Exposed Persons (PEPs).



Innovation

We continued to support innovation in collaboration with the Digital and Finance Agencies of the Department of Enterprise, while our regulatory sandbox was successfully used for the ongoing supervision of the Island's first licensed digital money and payment services company.



Engagement

We enhanced our programme of engagement and outreach to share key information with the financial services sector and wider business community through presentations at conferences, speeches to industry groups and associations, webinars, newsletters, bulletins, and website updates.



Authorisations

We continued to see a strong pipeline of enquiries and dealt with a number of formal applications for new licences, as well as existing regulated entities applying to extend their licence permissions into new business areas.

STRATEGIC PLAN

Our Core Purpose

Why we do it

In carrying out its statutory objectives the Isle of Man Financial Services Authority aims to uphold trust, confidence and integrity.

Our Core Values

How we conduct ourselves

Acting with Integrity. Respecting Others. Achieving Excellence.

Our Key Principles

How we deliver and engage

We seek to **understand** the business of, and risks posed, by regulated entities: this allows us to **prioritise** our work, focus on what truly matters and take actions **proportionate** to the benefit received.

We welcome **early dialogue** with the industry so that we understand emerging risks and also new opportunities: this helps us **consider** the potential impact and how best to address change.

Regulation and regulators are only effective if they are **understood**: our aim is **not to overcomplicate** matters.

We **intervene** at an **early** justified stage in issues to help prevent unacceptable risks crystallising.

We seek to **understand, collaborate** and follow a reasonable path of **remediation** to achieve the **right outcomes**.

Enforcement is pursued where **proportionate, reasonable** and **appropriate**, which may be in parallel with remediation.

Regulated entities are **responsible** for managing the risks within their business. Our job is to **design** and **advance** a regulatory framework that promotes **effective** controls, good risk management and suitable **disclosure**; this is how we contribute to the soundness of our industry.

Our Long Term Goals

How we will focus on the right things



Continue to review and enhance frameworks so that users of financial services are appropriately protected and can make informed decisions; and - financial crime is effectively deterred.



Ensure effectiveness of our regulatory, supervisory and enforcement approaches.



Work in partnership with stakeholders to embrace innovation within a dynamic, appropriately regulated, international financial sector.



Preserve our independence and build our resilience while remaining accountable and transparent.

Our Strategic Priorities

What we plan to do

1. Authority Funding Model

- 1.1 Move to a "predominantly industry funded model"
- 1.2 Continued engagement and consultation with industry
- 1.3 Enhancements in transparency

2. Supervisory Methodology

- 2.1 Implement updated approach to regulatory inspections; issue public guidance
- 2.2 Revised supervisory framework for assessing risk and impact
- 2.3 An updated and transparent supervisory engagement model

3. Data Management and Analytics

- 3.1 New data warehouse and analytical functions to be implemented
- 3.2 Enhanced digital offering for interaction between the Authority and regulated and registered entities
- 3.3 Replacement of legacy systems

4. Maintaining and Updating our Framework

- 4.1 Introduction of revised Retirement Benefit Scheme Legislation (enhanced regulatory framework for pension schemes and pension providers)
- 4.2 Introduction of a Financial Services (Amendments) Bill, amending existing Acts and to include the introduction of civil penalties against individuals

5. Crisis Management

- 5.1 Embedding the role of the Authority as "Resolution Authority"
- 5.2 Policyholder (insurance) Compensation Scheme review work
- 5.3 Deposit (banking) Compensation Scheme review work (in conjunction with Treasury)

6. AML/CFT

- 6.1 Defining (and implementing) the role and responsibilities of the new AML/CFT Division
- 6.2 Maintenance and review of guidance
- 6.3 Continued engagement with Government AML/CFT Policy

KEY STATISTICS

The Authority regularly publishes statistics on its website that summarise the size and level of activity within the various sectors of the Island's finance industry. As well as current figures, some historical figures are also included to show how the sectors have developed over recent years.

Further information is available to view via the [Statistics section of the Authority's website](#).

£84.5bn

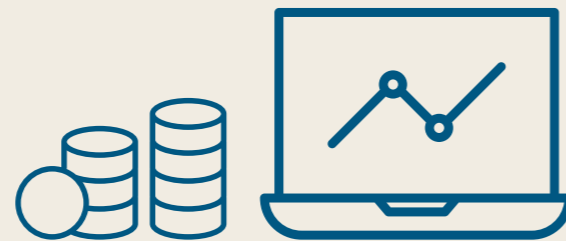
FUNDS UNDER
MANAGEMENT IN THE
INSURANCE SECTOR

207

AML/CFT-RELATED
INSPECTIONS
COMPLETED

£41.0bn

TOTAL BANK DEPOSITS



29

NEW PENSION
SCHEMES REGISTERED



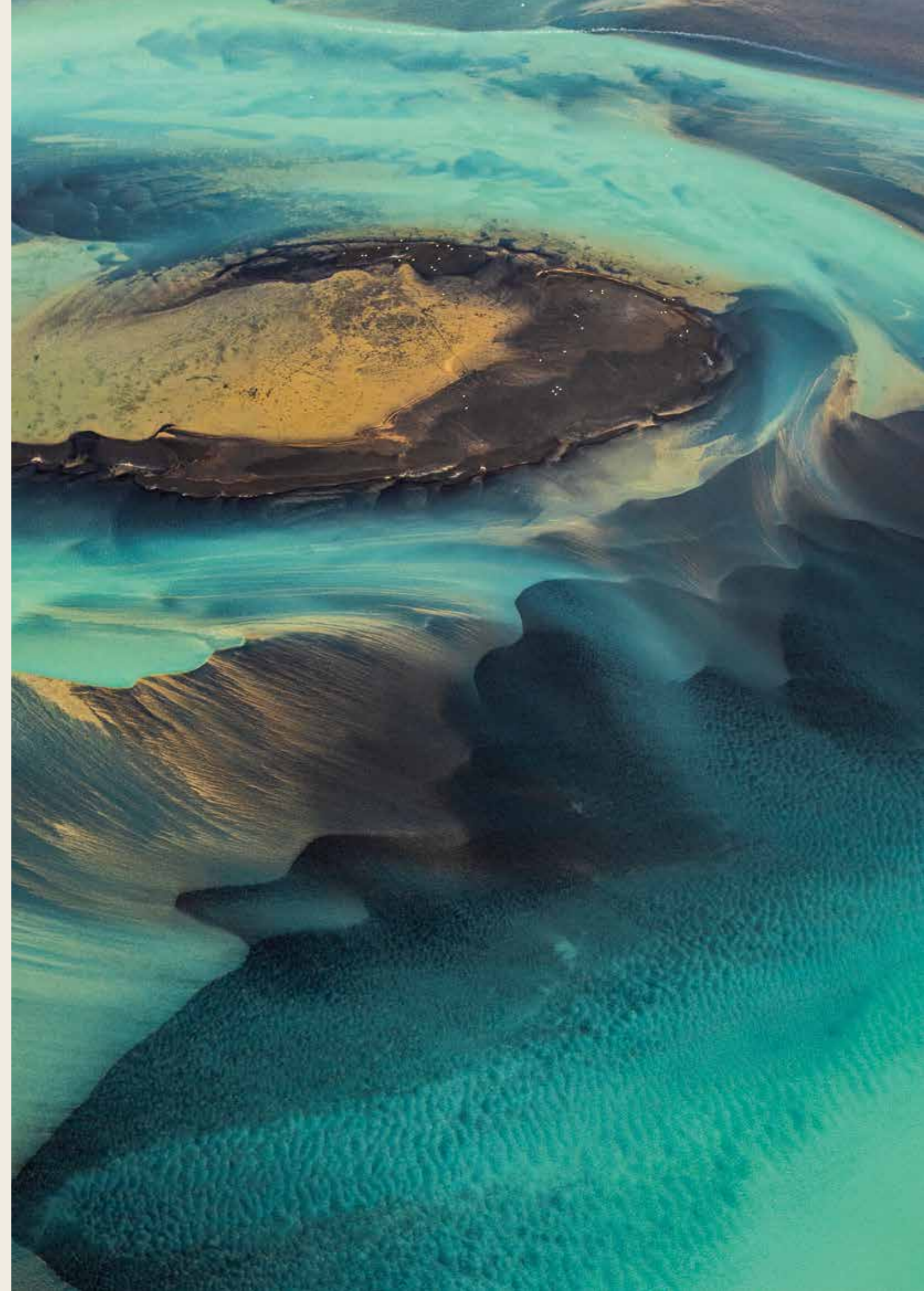
89



TOTAL HEADCOUNT
AT THE AUTHORITY

£2,929

AMOUNT RAISED
BY STAFF FOR
ISLE LISTEN



DEVELOPING OUR SUPERVISORY APPROACH

Central to our ambitions of achieving transformational change has been the development of an enhanced supervisory approach.

We are now in the implementation phase of the Supervisory Methodology Framework, which helps to focus the Authority's resources on the greatest threats to our regulatory objectives. This required the alignment of our supervisory engagement model, internal structure, and tools and processes, with the revised method of assessing risk and impact.

For regulated firms, supervisory activity will now be more proportionate to the firm's impact, as determined by its size, the type of activities it conducts, and its potential to cause disruption to the Island's financial system. In parallel, AML/CFT supervision for all firms (regulated firms and designated businesses) will be aligned to the level of money laundering or terrorist financing risk to which a firm is exposed.

The transition from a predominantly sector risk-based approach to a wider impact and risk-led model will make sure our time, skills and experience are deployed in the most efficient and effective way. It will also underpin efforts to future-proof the delivery of our regulatory services in order to remain effective, responsive and in tune with the needs of a dynamic industry.

Achieved 2022/23:

- Developed tools to assist our supervisory teams in making consistent, informed judgements around risk, inherent and/or residual, as well as the effectiveness of a firm's controls.
- Implemented a methodology to assess and categorise the impact of a firm – high, medium or low – along with internal processes and governance to ensure that this is reviewed periodically and consistently across sectors.
- Restructured our supervision divisions from sector-based to four impact and risk-based divisions: Portfolio, Prudential, High and Medium Impact (HMI), and AML/CFT.

- Published the Supervisory Methodology Framework, which provides detailed information about the Authority's new supervisory engagement models and sets out the four core elements that underpin the supervisory approach – Supervisory Structure, Risk-Based Supervision, Supervisory Activity, and Governance.
- Undertaken significant engagement with our stakeholders to promote awareness and transparency of the Supervisory Methodology Framework.

Planned 2023/24:

- The Authority is at the beginning of its journey of embedding the Supervisory Methodology Framework. Through our governance and feedback mechanisms we will continually reassess effectiveness and refine the Framework.
- Continue to develop a data-driven supervision approach using automation and exception reporting of key risk indicators.
- Continue to develop our internal processes and procedures to support the Supervisory Methodology Framework.

OUR INNOVATION JOURNEY

As an Authority we are on a continuous innovation journey, both externally and internally focused. We support firms in providing innovative solutions to stakeholders and seek innovative ways to carry out our functions efficiently and effectively.

External innovation

The Authority continues to support, through a number of initiatives, firms that are embracing, developing and evolving their products and services in innovative ways, where this is in the best interests of the consumer, the business, the sector, and the Isle of Man.

We encourage early dialogue with businesses that are seeking guidance about proposed innovative business models.

Our regulatory sandbox – a controlled environment for testing innovative financial services products while managing risk to consumers – continues to be successfully used for the ongoing supervision of the Island's first licensed digital money and payment services company.

We collaborate with Government, specifically the Digital and Finance Agencies of the Department of Enterprise, to support innovation.

Achieved 2022/23:

- We held a joint presentation and panel session on 'Demystifying AML Risk', focusing on the use of technology solutions to assist compliance with the Anti-Money Laundering and Countering the Financing of Terrorism Code 2019 (the Code).
- We continued to support the Fintech Innovation Challenge which started in March, with the finale in June 2023.
- We continued to work with the Finance Agency on its insurance-technology Insurtech Accelerator Programme and were an active participant in the finale event.

Planned 2023/24:

- In collaboration with the Digital and Finance Agencies, launch a 'Finnovation Hub' to provide a consistent interface that can consider innovative fintech business propositions.

Internal innovation

Our own innovation journey has been significant, with our back-office system Atlas being implemented in 2019. Atlas has enabled the provision of automated statistical data for relevant stakeholders, including the Authority's Board, Government and external agencies, including the Group of International Finance Centre Supervisors (GIFCS) and MONEYVAL.

The data we collect on Atlas supports evidence-based decision-making and our ability to devote more resources to value-added and risk-based supervision, which is crucial to our updated Supervisory Methodology Framework.

In 2022 we implemented a data warehouse for our regulatory returns, to enable us to realise the benefits of automated data validation, threshold check functionality to identify anomalies and supervisory analytics, and reporting functionality.

The next stage of our journey includes:

- To review and enhance our returns to reduce duplication where possible and refine our data requirements. We are engaging with industry for feedback on the proposed changes.
- To transfer our returns to the new data warehouse to realise its benefits and remove reliance on legacy systems.
- To implement a document management system integrated with the Atlas system, create efficiencies in management of supervisory records.

This work will enable us to:

- Make better use of the data we receive from regulated firms and designated businesses.
- Reduce duplication and ultimately better understand the risks faced by supervised entities.
- Make risk-based supervisory plans and assist the effective allocation of our resources.

UPDATING OUR APPROACH TO RISK

DATA MANAGEMENT AND ANALYTICS

Achieved 2022/23:

- Signed off and implemented the data warehouse in May 2022.
- Redesigned the AML/CFT Statistical Return to improve the quality of the data collected.
- Held a workshop with the Independent Financial Adviser (IFA) sector to improve the draft IFA statistical return.
- Improved the data collection process for insurance returns for both long term and general business in order to streamline and automate the analytics from our data warehouse.
- Drafted a number of sector specific statistical returns, which will be workshopped with industry before going live.
- Made changes to align the Atlas system with the updated Supervisory Methodology Framework, enabling officers to plan supervisory engagement and record and use risk data to identify, understand and manage forward-looking risk.

Planned 2023/24:

- Implementation of data visualisation tools integrated with the data warehouse.
- Continue to review, enhance and automate returns.
- Continue to transfer returns to the new data warehouse.
- Implement a document management system integrated with Atlas.

The Enterprise Risk Management (ERM) Framework is a fundamental part of the Authority's work to meet our regulatory objectives and goals.

The ERM Framework encompasses the policies, processes, tasks, and environment to support the Authority's assessment of existing and emerging risks, and enables the executive team to effectively manage risk through the proportionate allocation of resources.

It seeks to add value through embedding risk management and effective internal control assurance as continuous and developing processes within strategy setting, divisional accountabilities, and ongoing operating activities.

The culture and values in relation to risk management and the associated impact on the overall effectiveness of the internal control framework are key to the successful implementation of the Authority's control environment.

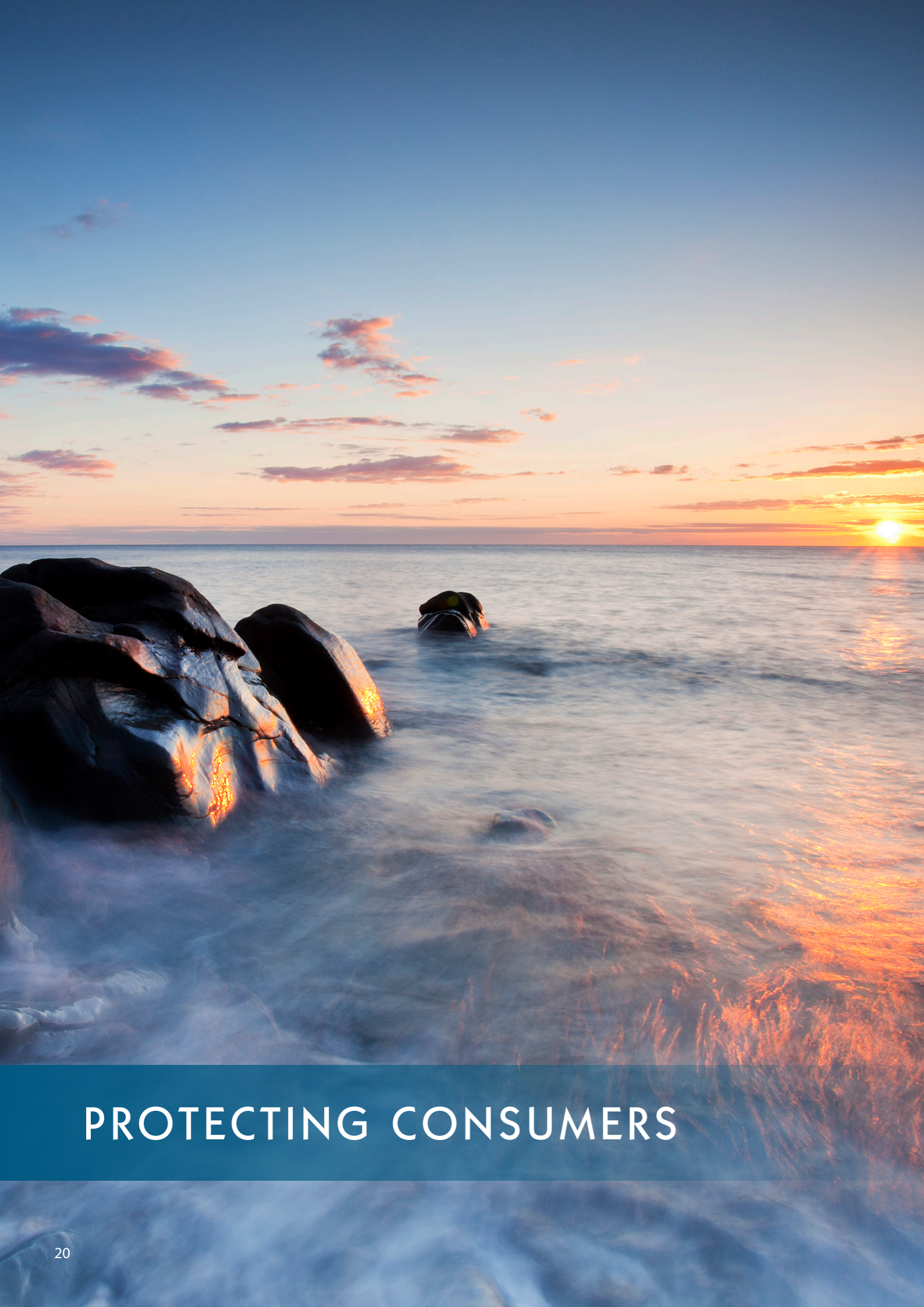
In line with our theme of transformation, the ERM Framework has undergone an important change to reflect the launch of the Authority's updated Supervisory Methodology Framework, which sets out our risk and impact-led approach to the supervision of Island firms. The outlook and structure of the ERM Framework therefore will have a much greater focus on the internal factors that could impact the Authority's objectives.

Achieved 2022/23:

- Launched internal risk event reporting.
- Revised the internal risk structure and the assignment of risk champions.
- Held all-staff risk awareness and culture workshops.
- Dedicated additional resources to the development and maintenance of the Authority's internal risk and control environment.
- Carried out thematic assessments of the control environment within the Authority.
- Staged an exercise including the Authority's executive groups, together with key external stakeholders, in response to a cyber-security scenario.

Planned 2023/24:

- Enhancements to the ERM Framework and policies.
- Implementation of an Enterprise Risk Appetite Statement to replace the existing Enterprise Risk Tolerance Statement.
- Revision of principal risk categories focused on the internal environment within the Authority.
- Introduction of a suite of key risk indicators and other statistical risk data.
- Launch of management quarterly risk life cycle meetings.
- Refine reporting to the Board's Risk and Control Committee.
- Maintain development and maturity of the internal risk and control environment.



PROTECTING CONSUMERS

STRIKING THE RIGHT BALANCE

One of the important roles fulfilled by the Authority is that of gatekeeper to the Island's business sector.

Through our licensing and authorisations processes we can determine who is able to operate in the regulated financial sector. This is a fundamental way in which consumers gain protection as a result of regulatory regimes.

The integrity of the regulatory system is also a major selling point for firms competing in the global marketplace and supports the Island's efforts to attract new business and jobs.

To ensure that the Authority continues to fulfil its regulatory objectives, and that its regulatory framework complies with international standards, it is important that regulated firms meet certain requirements.

This means that applicants wishing to carry out regulated activity must evidence that they are financially sound, have appropriate systems and

controls, have competent and experienced management and staff in place and that they, and those associated with them, are fit and proper persons to operate in the regulated sector.

In addition to our regulation and supervision functions, we register and oversee designated businesses and have responsibilities for the oversight of the beneficial ownership register.

The Authority's authorisation process seeks to ascertain whether those entering the financial services sector meet the regulatory standards. In undertaking that process, the Authority strikes a balance between prudence and compliance on one hand, and the encouragement and support of innovation on the other.

However, as part of our commitment to protecting consumers, authorisation will not be granted if the minimum standards required for the specific regulated activity are not met.

A STRONG PIPELINE OF ENQUIRIES

Applications for licensing, authorisation or registration are considered against the requirements applicable to the applicant entity itself, and those applicable to the individuals associated with the entity, such as its key personnel, management and controllers.

Potential applicants are encouraged to contact the Authority at an early stage – preferably before making a formal application – so that we can discuss their plans; our teams will provide support and guidance where appropriate.

In February 2023 we refreshed our website guidance regarding applications for licensing, authorisation and registration. The changes were implemented with a view to making the relevant information and guidance more streamlined and accessible. Feedback on the changes has been positive.

We continue to see a strong pipeline of enquiries. During the reporting period, the Authority dealt with seven formal applications, including four new licence applicants and three existing regulated entities applying to extend their licence permissions into new business areas.

In addition to formal applications, the Authority received eight substantive enquiries (those with the first draft of a business plan) from parties seeking a financial services licence. Most of these enquiries led to formal applications, while others are still developing their business plans ahead of applying.

Applications have been submitted for new licences and licence permissions from a cross-section of businesses, including payment service providers, electronic money issuers, trust service providers, non-life insurers and deposit takers.

Individuals in specified roles, known as Controlled Functions, are required to be either 'notified and accepted' by the Authority or 'notified only'. This is required as part of the initial application process and also ahead of new appointments in relation to firms that are already regulated or registered.

During the reporting period, the Authority processed 511 'notified and accepted' applications. The assessments undertaken by the Authority took, on average, 18 days to complete against a published service level agreement of 28 days.

SAFEGUARDING THE INTERESTS OF CONSUMERS

As part of the focus on transformation, we are continuing to look at new ways of delivering our core functions.

One of the three regulatory objectives of the Authority is 'securing an appropriate degree of protection for policyholders, members of retirement benefits schemes and the customers of persons carrying on a regulated activity'. In short, 'protecting consumers'.

There are three main building blocks to the Authority's approach to protecting consumers:

- Having appropriate and proportionate requirements in place, including regulations, rules and guidance, which firms have to comply with. This includes requirements for firms to be financially solvent, to protect clients' assets, to be transparent and fair with consumers, to have robust compliance and risk management functions, and to tell the Authority when things go wrong.
- Undertaking risk-based supervision of firms and sectors (our supervisory approach).
- Having appropriate safety nets in place if things do go wrong and consumers suffer loss or harm. For example, this includes firms having indemnity insurance in place, recourse to the Financial Ombudsman Scheme (where applicable), and in some cases statutory protection schemes to deal with firm failures.

The ability to identify and categorise firms that have the capacity to cause the most harm or damage to consumers should they fail, or carry on business in an unsafe manner, is essential to operating a risk-based supervisory framework. This is known as 'impact', and in 2022-23 we completed our work to transition to an updated supervisory methodology as described further in the section headed 'Developing our supervisory approach'.

Similarly, an understanding is needed of which sectors and firms pose the highest risk, pertaining to possible poor consumer outcomes. Consumers can suffer harm not only if a firm fails or does not adequately protect its clients' assets, but also if its governance and control frameworks do not align to the complexity and risks of the products and services that it offers.

In relation to protecting consumers, the Authority aims to devote an appropriate level of supervisory

resources to firms/sectors that pose the highest impact or the highest residual risk to consumer harm, regardless of impact.

The Authority's updated [Supervisory Methodology Framework](#) specifically references the risk categories we assess from the perspective of consumer protection, and the supervisory activities we undertake. These activities include:

- Firm and sector risk assessments.
- Inspections (including thematic based work).
- Meetings with firms (to discuss a range of topics/issues across different functions).
- Review of data (both financial and statistical).
- Engagement with a range of stakeholders including other regulators.
- Targeted work arising from specific trigger events.

Achieved 2022/23:

2022/23 has been a period of significant change, culminating in the updated supervisory methodology and internal restructuring of our organisation. During the reporting period we:

- Undertook a programme of business meetings across firms and sectors; this also included specific meetings with some firms' internal audit functions, and a focus on operational resilience and firms' current strategy in relation to Environmental, Social and Governance (ESG) matters for life insurers.
- Participated in regulatory colleges for banks, insurers, and some large fiduciary services groups.
- Completed our planned inspection programme including: firms providing services to exempt collective investment schemes; follow up work with a sample of fiduciary services firms on actions from the Authority's "Dear CEO" exercise; broker-monitoring review in the life insurance sector; and post licensing reviews of recently authorised firms.
- Completed a first stage thematic review into banks' reimbursement of customers impacted by Authorised Push Payment (APP) fraud, noting the future regulatory changes in progress within the UK.

- Commenced a thematic review into treatment of expenses for regulatory solvency purposes and potential impacts of a high inflation environment for life insurers.
- Enhanced our monitoring of banks' local mortgage portfolios in a rising interest rate environment.
- Rolled out a new data set to financial advisors to help identify trends in advisory activity and practices; the first reports are due in July 2023.
- Considered a range of change of control applications, transfers of business, wind downs (surrenders) and new authorisations across sectors.
- Played an active part in regulatory assessments conducted by GIFCS.
- Completed the first phase of a thematic review in relation to the (Insurance) Policyholder Compensation Scheme.
- Licensed the first Insurance Special Purpose Vehicle (ISPV).
- In respect of the new framework for non-life insurance (effective from June 2022), we undertook focused reviews of financial submissions, issued a suite of guidance documents, and initiated a re-licensing exercise.
- Completed the registration of 29 new pension schemes and processed 140 scheme alterations.

Planned 2023/24:

Our priorities for 2023/24 are focused on delivering the updated supervisory methodology engagement plan, dealing efficiently and professionally with enquiries and requests from our stakeholders, and undertaking certain framework review activities. Examples include:

- Prepare updated firm and sector risk assessments, taking into account impact, as part of embedding our new Supervisory Methodology Framework.
- Roll out new data sets across sectors to help identify trends in activity and practices.

- Consider areas of thematic focus for low impact regulated firms, including covering topics across governance, conduct, client assets and strategy/business models.
- Undertake a thematic review of banks' operational and cyber resilience frameworks.
- Continue the work focused on APP fraud in the banking sector, including monitoring regulatory changes in the UK.
- Develop an updated liquidity framework for banks, based on international standards.
- Undertake technical thematic reviews of larger insurers' prudential risks, including completing the work on lapse and expense risks.
- Undertake a thematic review of insurers' Own Risk and Solvency Assessment (ORSA) processes and governance arrangements (including in respect of insurance managers).
- Continue the review of the (Insurance) Policyholder Compensation Scheme.
- Review and, where applicable, updating the ISPV Regulations.
- Continue to review and update our existing regulatory guidance for firms across sectors and, where applicable, benchmarking to international standards.

DEMONSTRATING EFFECTIVE OVERSIGHT

In order to maintain the Island's reputation as a good place to do business, it is imperative that firms put in place protections to combat money laundering and terrorist financing.

The Isle of Man has strong AML/CFT legislation that aligns with global standards, places legal obligations on businesses, and requires the Authority to have effective oversight and supervision of regulated firms and designated businesses. The Authority has established and staffed a dedicated AML/CFT Supervision Division to lead work in this area.

In order to demonstrate effective oversight, we need to test how businesses are mitigating risks, provide information and guidance, and persuade firms where necessary to correct and improve their defences. Operating on a risk-based approach, the Authority uses a number of supervisory tools to support and test businesses, and to deal with non-compliance with AML/CFT legislation.

In 2022/23, the Authority increased its resources dedicated to AML/CFT work. After a complete refresh of all AML/CFT guidance, including the Handbook and sector specific guides, we also stepped up our risk-based inspection activities.

This included a thematic project focusing on a number of firms with customer relationships involving foreign PEPs, an area highlighted as a key international risk for the Island. Phase one of the PEP review comprised data collection and analysis of AML/CFT statistical returns. Further details were obtained from 91 firms via a bespoke questionnaire, including eight banks, 25 insurance and pensions providers, 33 Trust and Corporate Service Providers, 12 fund managers and investment firms, and 13 designated businesses.

Across the 91 firms, there were more than 10,000 unique foreign PEPs. Almost 95% of foreign PEP numbers came from the Life Insurance (62%), Banking (17.8%), and Fiduciary Services (14.5%) sectors. Following analysis of the data, focused risk-based inspections were then carried out on 29 firms.

The Authority has also been working with developers to produce a new AML/CFT risk analysis tool, and has revised some of the data returns to remove duplication and align with the new system. This increased automation will help us to produce more detailed and multi-faceted risking of the entities and business sectors we supervise, and allow for better focus of customer engagement based on the risks faced.

Like most countries, the Isle of Man is subject to assessment by international bodies on the effectiveness of its AML/CFT defences and controls. Failure to meet the standards would have a significant ongoing negative impact on Island businesses and the economy as a whole.

For the Isle of Man, the key international assessment body is MONEYVAL, a regional body of the Financial Action Task Force (FATF). In collaboration with other Government agencies, intensive work has been undertaken in 2022/23 to review and analyse the Island's current position in relation to the FATF standards and expectations.

As a key element of the Island's AML/CFT approach, the Authority has allocated significant efforts to analyse and evidence effectiveness and areas where improvements can be made.

Achieved 2022/23:

- Conducted a thematic review of a sample of firms in relation to foreign PEPs.
- Completed a total of 207 AML/CFT-related inspections.
- Published sector reports for AML/CFT based on returns data.
- Supervision and oversight activities included 21 new designated business registrations between April 2022 and March 2023.
- Took part in a diagnostic exercise in collaboration with other agencies and Government Departments to enhance preparations for the next MONEYVAL evaluation.

Planned 2023/24

- Continue to work on the Authority and Isle of Man action plans to enhance AML/CFT effectiveness.
- Publish a report on findings from the Foreign PEP thematic project.
- Progress a Business Risk Assessment (BRA) thematic focusing on the Trust and Corporate Services Provider (TCSP) sector.
- Publish a data analysis of findings from Phase 1 of the TCSP BRA thematic project.
- Commence a Customer Risk Assessment (CRA) thematic on Authority-supervised accountancy services businesses.

REDUCING FINANCIAL CRIME

RAISING AWARENESS OF BENEFICIAL OWNERSHIP OBLIGATIONS

- Complete a programme of inspections on operational Convertible Virtual Currency (CVC) firms.
- Work with the CVC industry and others to develop legislation on the 'Travel Rule' for CVC businesses.
- Build engagement and awareness through increased outreach including webinars, revisions of guidance and presentations, including webinars on:
 - o Changes to the AML/CFT Statistics Return and submission timetable.
 - o The Authority's Foreign PEP thematic programme.
 - o An AML/CFT update for Designated Non-Financial Businesses and Professions (DNFBPs).
- Carry out inspections on identified higher risk entities.
- Implement and calibrate the new AML/CFT risk analysis system.

Compliance with beneficial ownership legislation continues to play an important role in maintaining the Isle of Man's reputation as a leading international business centre. It contributes to the Island's robust regulatory environment and supports efforts to mitigate the risk of criminals hiding their identity or links to assets behind a corporate structure.

International standards include a need for countries to maintain a register of the ultimate owners of legal persons, and for information on them to be readily available or produced on demand for competent agencies, such as the police, other regulators or the Financial Intelligence Unit.

In the Isle of Man, the Beneficial Ownership Act 2017 (the Act) requires relevant persons to identify and evidence all people having a beneficial interest in an Isle of Man company – or other legal persons such as foundations and limited partnerships – even if such ownership/interest is part of a complex chain of structures including trusts.

The law further requires that if any of those persons own or control more than 25% of the company, either directly or indirectly, then they must be registered in the Isle of Man beneficial ownership database.

The Department for Enterprise operates and administers the database and the Authority has powers of oversight to check and test compliance with the Act's obligations.

In 2022/23 significant effort was made by the Companies Registry to challenge and correct data errors or gaps in the database and, working jointly with the Authority, to identify and refer cases where their efforts to obtain voluntary compliance were unsuccessful.

Achieved 2022/23:

- Outreach with trade bodies and organisations and local media to raise awareness of the need for all Isle of Man companies to record details of registerable beneficial owners in the database.
- Corresponded with all entities referred to the Authority after multiple attempts by Companies Registry to obtain information or compliance.
- Commenced a programme of oversight inspections of those Corporate Service Providers who act as nominated officers for multiple legal persons – and who in general act for those legal persons linked to more complex structures and arrangements.

Planned 2023/24:

- Step up the programme of beneficial ownership oversight, education and outreach.
- Record a webinar to provide support and guidance, and encourage relevant action where necessary.
- Publish additional information to supplement the guidance issued in 2017.
- Conduct a number of inspections of Island TCSPs to assess compliance with obligations as a nominated officer (for firms appointed to perform that function).

ENFORCEMENT IS AN INTEGRAL PART OF THE REGULATORY ENVIRONMENT

A proportionate and effective enforcement function is an integral part of the regulatory environment. It is also a key part of the Authority's powers in seeking to fulfil its objectives and ensuring the Island's finance sector meets international standards through deterring non-compliant behaviours and educating in appropriate ways of doing business. This is achieved through a mix of encouragement, outreach and, as a last resort, penalising wrongdoing.

The Authority operates an impact and risk-based approach to supervision, supported by the credible threat of enforcement. We have transitioned to a revised supervisory structure to evaluate and manage risk, with enforcement forming a critical part of the framework. Governance panels challenge the use of the supervisory toolkit to refer cases to either enhanced supervision and/or enforcement.

The [Enforcement Decision Making Process](#) (EDMP), first established in November 2019, sets out the approach the Authority follows when exercising certain statutory powers.

We continue to review and implement changes to the EDMP, with a view to refining and enhancing the decision-making processes.

Achieved 2022/23:

- As part of our efforts to maintain compliance with international standards, net discretionary civil penalties totalling £307,292 (2022: £472,409) were levied on regulated entities during the reporting period as a result of successful enforcement actions, including through the use of agreed settlements. These funds were paid to general Government revenues.

- A number of company officer disqualifications were necessary, as well as actions to prohibit individuals from holding Controlled Functions across some or all of the regulated sector.
- Contraventions of the AML/CFT Code 2019 gave rise to penalties for both systemic and serious 'one-off' deficiencies. The Anti-Money Laundering and Countering the Financing of Terrorism (Civil Penalties) Regulations 2019 were used for the first time since their enactment.

Planned 2023/24:

- Ensuring compliance with the Code, as well as focusing on other possible proceeds of crime offences, suspected terrorist financing and sanction breaches, is an ongoing imperative. We will work with industry as much as possible to assist and ensure compliance, but will not hesitate to utilise legal powers where appropriate and proportionate.
- Complete any appropriate revisions to the EDMP during the next reporting period.
- Through public statements and industry outreach, the Authority will aim to communicate and make clear its approach on enforcement action. The Authority's risk appetite and tolerance, EDMP, policies and procedures, objectives and key messages, should be clear to all and the reasoning behind any and all actions clearly understood.
- The Enforcement Division and Authority will continue to support the work of Treasury and a working group looking into insolvency and debt law reform to help shape suitably modernised legislation for the current economic and commercial environment.



SHAPING THE LEGISLATIVE FRAMEWORK

During 2022/23, the Authority introduced various updates to the legislative framework and continued to progress a number of significant projects.

Achieved 2022/23:

- In April 2022, the Financial Services Tribunal Rules were amended to include a definition of the grounds of appeal.
- Beneficial Ownership Civil Penalty Regulations were made in May 2022 to prescribe the penalty payable due to specified breaches of legislation. Additionally, an Obligated Entities Access Order was made.
- Insurance (Civil Penalty) Regulations were made in February 2023 to formalise an existing policy for imposing discretionary civil penalties on regulated entities. The Regulations specify the formulae for calculating such discretionary penalties.
- New Fees Orders and Regulations came into operation in April 2023 for regulated entities, designated businesses and other fee payers as part of the implementation of the Authority's new funding model.
- An annual Bank (Recovery and Resolution) Administrative Levy Order was made on the recommendation of the Resolution Authority and came into operation in July 2022.
- An amendment to the Depositors' Compensation Scheme Regulations in early 2023 revised which specific banks are exempted from the Scheme. This follows two licence surrenders and a wish to clarify the current (2010) Regulations before they are updated in future.

- Register Regulations for auditors that are permitted to audit Isle of Man companies under section 14E of the Companies Act 1982 came into effect in April 2023, setting fees for such auditors for the first time. Section 14E enables the Authority to authorise auditors that would not otherwise meet the criteria to audit Isle of Man companies (not just regulated entities).

Planned 2023/24:

In 2023/24, the Authority intends to consult on two Bills that will amend existing regulatory legislation. Early drafts of both Bills are currently being considered and revised before consultation can take place.

- Retirement Benefits Schemes (Amendment) Bill 2023. This will update the regulatory framework for pension service providers.
- Financial Services (Miscellaneous Provisions) Bill. This will update the Financial Services Act 2008, the Insurance Act 2008, the Collective Investment Schemes Act 2008 and the Designated Businesses (Registration and Oversight) Act 2015.

New and amended secondary legislation is also planned, including:

- New Depositors' Compensation Scheme Regulations to replace the 2010 Regulations.
- Modernisation of the Life Assurance (Compensation of Policyholders) Regulations 1991.

EFFECTIVE REGULATION

A SUSTAINABLE FUNDING MODEL

STRENGTHENING OUR GLOBAL NETWORK

A significant part of our transformation plans saw proposals for the Authority's new funding model finalised ready for implementation on 1 April 2023. The new model lays the foundation for the Authority to be predominantly funded by the firms we regulate and oversee by 2025/26.

The Authority has previously been funded by a mix of fee income and a general subvention from the Isle of Man Government. The Treasury announced plans for the Authority to move to a predominantly industry-funded model in the Isle of Man Budget 2020/21. The intention is to put in place a more sustainable approach to the Authority's funding that aligns with international best practice, while being mindful of the Island's competitive position.

The Authority Funding Model (AFM) Project continued during 2022/23 with the development of the new funding model and fee structure. This involved stakeholder engagement at various stages with two formal consultations and several meetings with the project's industry working group and industry associations throughout the year.

The funding proposals were finalised in January 2023. The published [Authority Funding Model](#) document explains the Authority's approach to funding its activities from 1 April 2023.

The Fees Orders and Regulations to implement the new funding model were approved by Tynwald in March 2023. Key benefits of the new fee structure include:

- Adoption of a more consistent fee structure across all sectors using base fees (based on permissions held) and volume fees (based on impact).
- Annual fees that are more reflective of sector costs as well as the impact of the business on the Authority's regulatory objectives.
- Introduction of new fees for material changes of control, transfers of deposit taking business (banking) and portfolio transfers (life).

Further information on the new fee structure can be found on the [Regulated Sector Fees](#) and [Designated Business Fees](#) pages on the Authority's website.

Work on operationalising the new funding model and fee structure was completed ready for implementation on 1 April 2023.

The Authority wishes to thank all stakeholders who engaged with development of the new funding model and fee structure, responded to consultations and participated in meetings.

Achieved 2022/23:

- The first consultation on the new Authority Funding Model from 1 April 2023 ran from 12 May 2022 to 24 June 2022. Feedback was published on 23 September 2022.
- The report of the third party advisors appointed to assist the Authority with the development of the new funding model was published on 17 October 2022.
- The second consultation on the Fees Orders and Regulations 2023 ran from 18 October 2022 to 29 November 2022. Feedback was published on 3 January 2023.
- The Fees Orders and Regulations were made on 25 January 2023 and approved by Tynwald on 21 March 2023 ready for commencement on 1 April 2023.
- Internal fee calculation and invoicing processes were reviewed and updated prior to 31 March 2023 to ensure the new funding model and fee structure were ready to operationalise in 2023/24.

Planned 2023/24:

- Annual fees will be phased in over the course of three years: Year 1 (2023/24), Year 2 (2024/25) and Year 3 (2025/26).
- No changes to published fees are expected until Year 4 (2026/27). Consultation on any changes to fees from 1 April 2026 will take place in Year 3 (2025/26).
- Work will continue with the intention of including a more detailed breakdown of fee income in the financial statements for the year ended 31 March 2024.
- Enhancements to transparency arrangements are being considered, including the publication of additional metrics, key performance indicators, and service level standards.
- Updates will be made to the calculation methodology for sector costs to reflect the new organisational structure. Sector costs are one of the factors considered when reviewing fee levels to ensure they align with the funding model principles.

The Resolution Authority has been established in the Isle of Man for just over two years and carries out its functions prescribed by the Bank (Recovery and Resolution) Act 2020.

We work closely with all licensed banks and maintain excellent relations with other appropriate jurisdictions and international agencies to ensure we are compliant with applicable international standards.

Our network includes the Financial Stability Board (FSB), International Association of Deposit Insurers (IADI), European Forum of Deposit Insurers (EFDI) and the Affiliation of Micro European States (AMES).

We will continue to strengthen our links with other organisations in order to remain up to date with global developments in an ever-changing landscape.

The team has also engaged with Treasury and the banking industry to review the key features of the current Depositors' Compensation Scheme Regulations 2010, with a view to going out to consultation in 2023.

Achieved 2022/23:

- Resolvability plans in place for branches of UK registered banks.
- The majority of resolution plans in place for locally incorporated banks.
- Extensive training, including completion of Resolution Academy and Bank for International Settlements, International Monetary Fund, International Association of Deposit Insurers resolution course.
- Attended numerous online IADI, EFDI, AMES webinars and meetings, sharing best practice.
- Formed new informal group including Jersey, Gibraltar, Iceland and Liechtenstein.
- Commenced engagement with the banking industry and Treasury in respect of updating depositor compensation legislation.

Planned 2023/24:

- Progress update of depositor compensation legislation, including incorporating a Single Customer View (SCV) mechanism to ensure timely pay out of depositor compensation should the Scheme be invoked. SCV is an aggregated and consistent representation of the data held by an organisation about its customers that can be viewed in one place.
- To have 100% of resolution plans in place.
- Operationalise resolution to include delivering outreach meetings with industry.
- Carry out public and industry campaigns to raise further awareness of the Depositors' Compensation Scheme.
- Maintain pro-active engagement with appropriate jurisdictions and international agencies.

OPERATIONAL HIGHLIGHTS

The Authority recognises the trends affecting the local employment market, including the unusually high rate of inflation and continued competition for talent, creating a challenging environment for both recruitment and retention. However, total headcount saw a net increase during the period from 86 to 89, reflecting the continued effort to strengthen capacity in our AML/CFT Supervision Division.

In response to an increased global threat to cybersecurity, a data security audit was undertaken by a third party in October 2022 to review the control environment in place for the Authority's data and relevant systems against the requirements of the National Institute for Standards and Technology's Cyber Security Framework. The findings showed that the Authority, along with the support provided by Government Technology Services, has formally approved risk management practices in place, has methods in place to respond effectively to changes in cyber risk, and that personnel possess the knowledge and skills to perform their roles.

In terms of funding, our income for the year included fee income of £4.2 million (2022: £3.5 million) and a subvention from Treasury of around £3.5 million (2022: £3.5 million). On 1 April 2023 the Authority introduced the first stage of the transition towards a predominantly industry-funded model.

Achieved 2022/23:

- The Authority's performance management framework was enhanced and a dedicated people development manager recruited to oversee performance management and talent development, with a particular focus on supporting line managers.

- A number of colleagues completed Institute of Leadership and Management, International Compliance Association, and Institute of Risk Management qualifications.
- Wellbeing initiatives have been enhanced to offer additional support to teams through the restructuring process that was necessary as the Authority moved to its risk-based regulatory supervision approach.
- The Authority's chosen charity for 2022/23 was Isle Listen, the mental health support charity. More than £2,900 was raised by staff participating in a range of fundraising activities.
- The Authority continued to operate within the budget agreed by Treasury during 2022/23.

Planned 2023/24:

- Strategic recruitment goals focus on key needs to support continued growth in the AML/CFT Supervision Division and resource requirements in preparation for the upcoming MONEYVAL evaluation, as well as the Authority's efforts to integrate ESG risks into our supervisory approach.
- The Authority's cyber-security awareness plan, developed to further enhance cyber resilience, will be executed throughout the year.
- The Authority's website will be moved on to a new platform, with the aim of improving the digital interface and making information more readily accessible for firms and other stakeholders.
- The Family Library is our chosen charity for 2023/24.

MEETINGS OF THE AUTHORITY

During the reporting period there were eight scheduled meetings of the Board of the Authority.

There are three sub-committees of the Board - the Human Resource and Compensation Committee, the Risk and Compliance Committee and the Resolution Committee.

During the reporting period:

- The Risk and Compliance Committee met four times.
- The Resolution Committee met three times.
- The Human Resource and Compensation Committee met four times.

USEFUL LINKS

- The functions of the Authority are set out in paragraph 2 of Schedule 1 to the [Financial Services Act 2008](#)
- [Biographies of our Board Members](#), the [Code of Conduct for Board Members](#), an overview of our [accountability and corporate governance](#), and details about the [Authority's three standing committees](#) are available on the Authority's website.
- [Consultations](#) issued by the Authority are published on our website.
- [Register Search](#) of current and former regulated entities.
- [Legislation and Guidance](#)
- [Publications and webinars](#)
- [Latest news](#)
- [Careers, rewards package and staff profiles](#)

APPENDIX A

Our Accounts

Statement of responsibilities in respect of the Chief Executive's Report and the Income and Expenditure Account

The Chief Executive is the Accountable Officer for the Isle of Man Financial Services Authority (the Authority) and is responsible for the preparation of both the Chief Executive's Report and this Income and Expenditure Account. The Chief Executive is also responsible under the Isle of Man Government Financial Regulations for assisting the Chief Financial Officer of the Treasury in ensuring that accounting and financial records are maintained.

The Chief Executive ensures that an income and expenditure account is prepared for each financial period. In addition, the income and expenditure account is prepared in accordance with the accounting policies specified. The Isle of Man Financial Services Authority's account forms part of the Isle of Man Government's audited accounts which meet the requirements of the Accounts and Audit Regulations 2018 made under the Audit Act 2006.

In preparing the income and expenditure account, the Chief Executive has:

- ensured that suitable accounting policies have been selected and then applied consistently;
- made judgements and estimates that are reasonable and prudent;
- stated whether the accounting policies specified by the Authority have been followed;
- assessed the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- used the going concern basis of accounting unless the Authority intends to cease operations, or has no realistic alternative but to do so.

The Members of the Authority, including the Chief Executive, are responsible for such internal controls as they determine are necessary to enable the preparation of the income and expenditure account that is free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to prevent and detect fraud and other irregularities.

The Members of the Authority are responsible for approving the income and expenditure account,

and should not approve this unless they are satisfied that it gives a true and fair view of the state of affairs of the Authority and of the income or expenditure of the Authority for that period.

The Members of the Authority are responsible for the maintenance and integrity of the corporate and financial information included on the Authority's website.

Independent Auditor's Report to the Members and Chief Executive of the Isle of Man Financial Services Authority

Opinion

We have audited the Income and Expenditure Account of the Authority for the year ended 31 March 2023 and notes to the Income and Expenditure Account, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the accounting policies set out in note 1.

In our opinion, the financial statement presents fairly in all material respects, the income and expenditure of the Authority for the year ended 31 March 2023 in accordance with the accounting policies set out therein.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statement section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statement in the Isle of Man, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of accounting

We draw attention to note 1 to the financial statement, which describes the basis of accounting. The financial statement is prepared to provide information to the Members and the Isle of Man Government. As a result, the statement may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

In auditing the financial statement, we have concluded that the Chief Executive's use of the going concern basis of accounting in the preparation of the financial statement is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statement is authorised for issue.

Our responsibilities and the responsibilities of the Chief Executive with respect to going concern are described in the relevant sections of this report.

Other information

The Chief Executive is responsible for the other information. The other information comprises the information included in the annual report set out on pages 1 to 35, other than the financial statement and our auditor's report thereon. Our opinion on the financial statement does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statement, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statement, or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statement or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Chief Executive

As explained more fully in the Statement of Responsibilities in respect of the Chief Executive's report and the Income and Expenditure Account set out on page 39, the Chief Executive is responsible for the preparation and fair presentation of the financial statement in accordance with the basis of accounting described in Note 1(a); this includes determining that the basis of accounting is an acceptable basis

for the preparation of the financial statement in the circumstances, and for such internal control as they determine necessary to enable the preparation of a financial statement that is free from material misstatement, whether due to fraud or error.

In preparing the financial statement, the Chief Executive is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority intends to cease operations, or has no realistic alternative but to do so.

The Chief Executive and Members are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statement

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial statement.

A further description of our responsibilities for the audit of the financial statement is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statement may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- The Authority is subject to laws and regulations that directly affect the financial statement including financial reporting legislation. We determined that the following laws and regulations were most significant: the Audit Act 2006, Accounts and Audit Regulations 2018 and FRS102. We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items and have documented our conclusion within our emphasis of matter paragraph in this report.
- We understood how the Authority is complying with those legal and regulatory frameworks by making inquiries to management and those responsible for legal and compliance procedures. We corroborated our inquiries through our review of minutes and documents provided to the audit team.
- We assessed the susceptibility of the Authority's financial statement to material misstatement, including how fraud might occur. Audit procedures performed by the engagement team included:
 - Identifying and assessing the design effectiveness of controls management has in place to prevent and detect fraud;
 - Understanding how those charged with governance considered and addressed the potential for override of controls or other inappropriate influence over the financial reporting process;
 - Challenging assumptions and judgments made by management in its significant accounting estimates; and
 - Identifying and testing journal entries, in particular any unusual journal entries postings.

Use of our report

This report is made solely to the Members of the Authority, including the Chief Executive, in accordance with the terms of our engagement. Our audit work has been undertaken so that we might state to the Members of the Authority 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 Authority as a body, for our audit work, for this report, or for the opinions we have formed.

Grant Thornton Limited Douglas, Isle of Man

Date: 4th October 2023

Income and Expenditure Account

for the year ended 31 March 2023

	Note	2022-23 £	2021-22 £	2020-21 £
Income				
Fee Income	1(b), 2	4,203,748	3,563,887	3,055,560
Civil Penalties	2	32,071	26,629	17,100
Government Grant	14	3,540,492	3,497,973	3,353,494
Resolution Authority – Administrative Levy	3	119,721	-	-
Other Income		288	3,120	2,029
Total Income	1(b)	7,896,320	7,091,609	6,428,183
Expenditure				
Salaries	4, 14	6,517,374	5,534,580	5,093,481
Members' Remuneration	5	238,488	221,776	216,903
Recruitment	4, 7	12,994	109,535	27,516
Agency Staff		-	-	1,688
Premises	9	302,916	293,981	285,236
Training	7	76,062	56,533	25,804
Travel and Subsistence	7	32,818	669	-
Professional Fees and External Consultancy	6	373,088	592,442	518,807
Operating Expenses		33,013	35,283	22,415
Information Technology		165,819	122,038	101,958
Professional Subscriptions		108,625	107,502	113,748
Other Expenses		24,733	5,660	1,680
Loan Charges	8	-	-	49,000
Bad Debts	10	10,390	11,610	18,498
Reimbursements (from)/to Internal Funds	12		-	(48,551)
Total Expenditure	1(c)	(7,896,320)	(7,091,609)	(6,428,183)
Surplus/(deficit) for the year	1(a)	-	-	-

The notes on pages 40 to 42 form part of the Income and Expenditure Account.

Lillian Boyle, Chair
4th October 2023

Bettina Roth, Chief Executive and Member
4th October 2023

Notes to the accounts for the year ended 31 March 2023

1. Accounting Policies

a) Basis of accounting

The Isle of Man Financial Services Authority (the Authority) is constituted under the Transfer of Functions (Isle of Man Financial Services Authority) Order 2015 as a Statutory Board of Tynwald. The income and expenditure account is part of the general revenue account of the Isle of Man Government. Accordingly, any deficit or surplus for the year forms part of general revenue of the Isle of Man Government and is not retained by the Authority. The Isle of Man Government is committed to funding any shortfall of the Authority on an ongoing basis, in accordance with section 52(1) of the Financial Services Act 2008.

The income and expenditure account is prepared in accordance with the accounting policies stated below. The Authority does not produce a balance sheet although it may hold assets or liabilities at any particular point throughout the financial year. Any that are held at the year-end are reported within the financial statements of the Isle of Man Government.

b) Income

Income is recognised when fees are invoiced. Income that remains due and is deemed irrecoverable is written off at the end of the period.

c) Expenditure

Expenditure is accounted for when paid. No prepayments or accruals are recognised by the Authority.

The Authority has elected to include the cost of fixed assets within expenditure, rather than capitalising. Any assets purchased are of immaterial value with limited useful lives and therefore a policy of non-capitalisation is adopted.

d) Pensions

The majority of the Authority's employees are members of the Isle of Man Government Unified Pension Scheme which is administered by the Public Service Pensions Authority.

Employees contribute to the scheme with employer's contributions being funded from the Authority's salaries budget (see note 4 below).

e) Balance sheet

The Authority is a Statutory Board of the Isle of Man Government and all assets and liabilities which may be held by the Authority are reported within the financial statements of the Isle of Man Government. Accordingly, a Balance Sheet is not prepared and does not form part of the Income and Expenditure Account.

2. Fee Income and Civil Penalties

Fee income comprises annual, application and pro-rata fee income in relation to Deposit Taking, Investment Business, Services to Collective Investment Schemes, Corporate Services, Trust Services, E-money and Money Transmission Services, Collective Investment Schemes, Credit Unions, Authorised Insurers, Insurance Permit Holders, Insurance Managers, Insurance Intermediaries and Pensions Scheme Administrators along with registration fees and annual fees from Designated Businesses.

To differentiate between different sources of income, income from administrative civil penalties levied on regulated entities and civil penalties levied on designated businesses is shown separately from fee income.

The increase in fee income, relative to earlier periods, reflects an increase to annual fees for all sectors for 2022/23 as part of the first phase of the Authority's transition to becoming predominantly industry funded. Further stepped increases will be applied over a three year period, starting in 2023/24, to achieve the desired level of industry funding for the Authority. These increases follow an announcement by Treasury, when delivering the 2020/21 Isle of Man Budget that, over the longer term, the Authority is working towards becoming predominantly industry funded.

Civil penalty income reflects administrative civil penalties levied on regulated and registered entities. In addition £307,292 (2022: £472,409) was charged in respect of discretionary penalties levied on regulated entities arising from successful enforcement actions or settlement agreements. The discretionary penalty receipts are not treated as income of the Authority, and are therefore not reflected in the Authority's income and expenditure account, and are accounted for as credits to the IOM Government's general revenue.

3. Resolution Authority – Administrative Levy

Under the Bank (Recovery and Resolution) Act 2020 which came into force on 4 January 2021, the Authority was given a new mandate as the Resolution Authority for the Island. Two new roles were created as additional headcount for staffing of the Resolution unit. In 2020/21 Treasury approved the addition of £140K in 2021/22 and £200K in 2022/23 (with the £60K uplift in respect of the second role) to the Authority's employee costs budget in respect of the estimated operational cost of the Resolution Authority. The Resolution Authority's operational costs are recovered annually, in arrears, by means of a levy on the banking industry. In 2022/23 a total of £119,721 was recovered in respect of the Resolution Authority's 2021/22 operational costs.

4. Salaries (continued)

Included within "Salaries" are employer pension contributions of £683,616 (2022: £584,839) and employer's national insurance contributions of £581,310 (2022: £493,214).

Annual remuneration of the employees of the Authority, net of employer pension contributions, was payable within the following bands:

	2023 Number of employees	2022 Number of employees
£0 - £49,999	40	41
£50,000 - £99,999	40	39
£100,000 - £149,999	8	5
£150,000 - £199,999	0	0
£200,000+	1	1
Total	89	86

The 89 members of staff equate to a full time equivalent of 86.03 employees (2022: 83.78). In addition, three staff members are employed on zero hours' contracts. Further to Treasury's approval for an increase to the Authority's expenditure budget from 2020/21 to create eight permanent new roles, recruitment to all of the new roles was completed early in 2022/23. The increase in employees within the £100,000 - £149,999 in the above table reflects the movement of staff between pay bands.

5. Members' Remuneration

Members' remuneration includes employer's national insurance contributions. There have been no changes to the Board membership during the year. As at 31 March 2023 membership of the Board remains at nine, including the Chief Executive. Salary cost in respect of the Chief Executive is included within "Salaries" (note 4).

6. Professional Fees and External Consultancy

Professional fees and external consultancy includes expenditure on actuarial, accountancy, legal and consultancy services procured by the Authority. The decrease in costs in relation to professional fees compared to 2021/22 is attributed to the reduction in legal fee expenditure in 2022/23; legal fee costs had been incurred in 2021/22 in relation to enforcement case costs.

In addition, during 2021/22, short-term expenditure was incurred in relation to the cost of a third party adviser engaged to provide independent advice and guidance on the development of the Authority Funding Model and associated fee structure linked

to the aim for the Authority to become predominantly industry funded. Treasury had approved a one-off addition to the Authority's 2021/22 budget to offset the cost of this third party adviser.

7. Variances

Some areas of expenditure show significant variances on the prior years. These variable costs can be affected by external events and include the annual training programme, attendance at events and overseas' conferences, and events hosted by the Authority. The COVID-19 pandemic had an impact on a number of costs, for example travel and training, notably during 2020/21 resulting in a lower spend in these areas during that year. The continued increase in travel and training related costs in 2022/23 is a reflection of the return to expected levels of expenditure in these areas, pre-pandemic. Travel costs in relation to off-Island Members is reported within Other Expenses; the increased expenditure in 2022/23 is also reflective of a return to normal travel and Members' in-person attendance at Board meetings following the pandemic. The significant decrease in recruitment costs in 2022/23 relates to the higher level of recruitment in 2021/22 in respect of eight newly created roles (see also note 4).

8. Loan Charge

At the end of 2015/16, an amount of £200K was ring-fenced within Government's central funding for future expenditure in respect of merger related costs. It was agreed with Treasury that this would be on a repayment basis in line with its standard approach for capital expenditure - to be repaid over a period of 10 years with interest to be paid at a rate of 1.5% for 17/18, uplifted to 2% for 18/19 onwards.

Subsequently, due to Treasury restructure of its internal funds, an additional £350K, committed to the Authority, was added to the initial £200K; this additional amount was to be treated on the same repayment basis.

These ring-fenced funds have funded the development of the Authority's Atlas data system and the funding is due to be fully spent within 2023/24 with the implementation of an integrated data management system. The costs of this development work are not reflected within the Income and Expenditure account.

The absence of a loan charge in 2021/22 and 2022/23 follows Treasury's move in 2021/22 to an alternative method of funding capital projects. No loan repayment charges, or equivalent, will appear in the Authority's income and expenditure account in future years; there are no other impacts on the Authority's income and expenditure for 2022/23, or for future years, as a result of this change of method.

9. Operating Commitments

The Authority pays an annual fee to the Isle of Man Government for the use of the building on a non-lease basis. This fee is included within the cost of Premises.

10. Bad Debts

Debts totalling £10,390 (2022: £11,610) reflect outstanding fee payments for 2022/23, where there is little or no expectation of recovery, and were written off at the year end.

11. Segmental Reporting

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

12. Reimbursements from or to Internal Funds

There are no reimbursements from or to internal funds in 2022/23.

During 2020/21 the Authority received Treasury approval for expenditure of up to £100,000 in relation to specific enforcement activities, to be drawn from the Isle of Man Government's Seized Assets Fund (SAF). In 2020/21 the Authority incurred costs in this respect of £48,551 and this amount was reimbursed by Treasury at that year end. For 2021/22 the Authority received Treasury approval for an additional £400K of funding from the SAF for the funding of specific ongoing enforcement activity. The Authority has incurred costs during 2021/22 and 2022/23 in relation to this enforcement work, however a reimbursement is generally only applied by Treasury if there is a year-end deficit position.

13. Related Party Disclosures

There were no related party transactions requiring disclosure in the Accounts. The Authority is exempt from such disclosures with any qualifying transactions required to be published in the Central Government financial statements.

Some Members of the Authority's Board may also act as Directors of registered and regulated entities. All registered and regulated entity fees are charged in accordance with the Financial Services (Fees) Order; Insurance (Fees) Regulations; Collective Investment Schemes (Fees) Order; the Registered Schemes Administrators (Fees) Order, and the Designated Businesses (Fees) Order. For 2022/23, there were no fees generated (2021/22: none) from entities where Members are Directors of registered and regulated entities.

14. Government Grant

As per note 1(a), any deficit or surplus generated by the Authority during the financial year forms part of the general revenue and, accordingly, is not retained by the Authority. The Isle of Man Government is committed to funding any shortfall of the Authority on an on-going basis, in accordance with section 52(1) of the Financial Services Act 2008. As reported at note 2, the Authority is working towards becoming predominantly industry funded with stepped increases being applied to fees in the three year period to (and including) 2025/26. As a consequence, the level of Government funding will be reduced over this period.

A budgetary grant for 2022/23 was approved by Tynwald at its February 2022 sitting. This grant secured the provision of up to £3,584,616 (2021/22: £4,135,363) to cover any shortfall.

15. Other work carried out by Grant Thornton Limited

Grant Thornton Limited, under appointment by the Isle of Man Courts, is currently undertaking liquidation work where the Authority has exercised its power to apply for "winding-up in the public interest". To allow the Authority to exercise this power, the funding for the fees and disbursements of the liquidator is underwritten by the Treasury of the Isle of Man Government. To mitigate any potential issue with independence, this work is carried out and reviewed by a different Grant Thornton team than that involved in the audit.

During the year, the Grant Thornton Limited Advisory team was appointed to carry out a project for the Authority. The project was carried out by a team independent of the audit.

