

# ANNUAL REPORT 2019/20



ISLE OF MAN  
FINANCIAL SERVICES AUTHORITY

*Lugh-Reill Shirveishyn Argoidil Ellan Vannin*

The Isle of Man has a reputation as a strong and stable jurisdiction that is built on strong foundations. Our main pictures reflect this theme, depicting key locations as they were in history and as they are now.

At the time of our financial year-end all of our staff were working from home due to COVID-19 restrictions. To represent how we continued to operate and communicate, Board and staff pictures in the report are screenshots taken from video conferences.

Front cover: Athol Street 1966 (PG/13633/1/1966/568/1) and 2020

# CONTENTS

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## INDEX

• Chair's Opening Remarks .....	5
• Chief Executive's Report.....	7
• Introduction .....	10
• Our Communication Themes.....	11
• Year at a Glance 2019 - 2020 .....	18
• Our Approach for 2020-2021 .....	20
• Our Response to Extraordinary Events - COVID-19.....	28
• Strategic Performance 2019 – 2020.....	31
• Stakeholder Engagement .....	39
• Our Enterprise Risk Management Framework.....	47
• Day-To-Day Operations .....	48
• Internal Organisation.....	56
• Corporate Social Responsibility .....	58

## APPENDICES

• Appendix A – Our Functions .....	60
• Appendix B – Our Board - Corporate Governance, Meetings and Members' Biographies	61
• Appendix C – Our Organisation Chart.....	66
• Appendix D – Industry Statistics.....	68
• Appendix E – Our Accounts.....	74
• Appendix F – Legislation which came into effect 1/4/2019 to 31/3/2020.....	82
• Appendix G – Consultations Issued 1/4/2019 to 31/3/2020.....	84
• Appendix H – Performance against our Strategic Plan .....	85
<b>GLOSSARY .....</b>	88

The Laxey Wheel late 19th Century (MNH PG/3490) and 2020



# CHAIR'S OPENING REMARKS

**When I wrote my introduction to our Annual Report last year I highlighted how the Authority was facing new challenges and ways of working. No one could have foreseen at that time the extent of the challenges that would be experienced in 2020 and the very many new ways of working that we would all have to encounter in managing our businesses through COVID-19.**

In the Chief Executive's Report Karen has outlined how the Authority has raised the bar from an operational perspective and how all of our staff have embraced change. As Chair of the Authority along with my fellow Board members a key aspect of our role in the COVID-19 crisis has been, like that of Boards in all our regulated firms, to focus on ensuring that our governance is measured, targeted and appropriate for the evolving circumstances in which we have found ourselves.

As a very obvious first step we joined all of the others world-wide who conduct meetings in a virtual form, with the inevitable variety of success with connectivity that so many of us have come to experience in our personal and working lives over the period. However, I am very pleased to say that due to the excellent support from our team in the Authority, we successfully conducted all of our Board, Committee and ancillary meetings online from early March 2020. In addition to our formal and ad hoc Board and Committee meetings, Board members also took the opportunity to virtually meet up with staff members and share experiences.

As always in a crisis, it is easy to be blindsided by the enormity of the events unfolding, but as an Authority we agreed at outset the priority initiatives that needed to be maintained. Our focus remained fixed on providing the necessary guidance, support and services to maintain an effective regulatory environment for the Isle of Man.

We were also conscious that the desire to deal with immediate issues can sometimes distract organisations from being able to look forward. To mitigate this, early on the Board and Executive established a system of additional interventions for both reviewing our governance framework, in particular our risk management systems, and very importantly maintaining an assessment of how colleagues were able to work from home. Having these initiatives in place gave the Board a solid structure from which to respond and provide strategic input and direction. This in turn meant the Authority could continue looking forward to meet the next set of challenges in the remainder of 2020 and beyond.

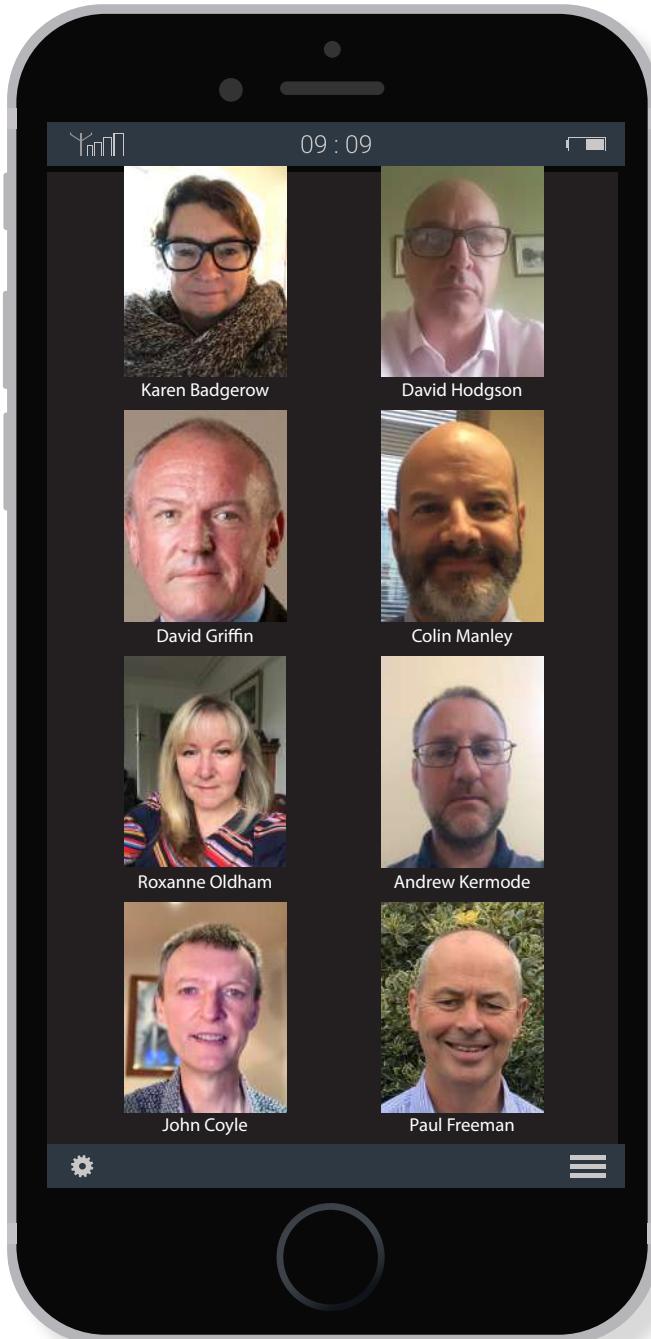
Finally, on a personal note I would like to thank all of the members who have served on the Authority's Board over 2019/20 and all of our colleagues in the wider Authority for their continued commitment and support on the work that we do.

*Lillian Boyle, Chair*



Isle of Man Government Office 1920s  
(MNH PG/13630/2/018) and 2020





# CHIEF EXECUTIVE'S REPORT

**Adaptability, Resilience and Conduct, all very important themes to reflect on as we close off on another fiscal year and look ahead to managing the uncertainties of the next.**

We have all been tested in terms of our adaptability and resilience to something that was very new, without precedent and worldwide. We looked at ways to make sure that we could work with our regulated and registered firms in a near normal manner and where possible we allowed flexibility in some of our requirements. We were open to new ways of doing things and we devised different ways to communicate and share information with our firms. Firms demonstrated their resilience as they continued to service clients, kept on top of the requirements and maintained financial resources to meet unforeseen circumstances. There is no doubt that COVID-19 tested our technology prowess and we joined with others in industry and colleagues across government in finding ways to meet up virtually with the appropriate safeguards.

Conduct and co-operation went hand in hand during this time and this was evident in the manner in which our stakeholders engaged with us. The frequency of our engagement was greatly enhanced and firms worked to provide us with necessary information to give us confidence that things were holding up. Mindful of the need to not add unduly to the asks of firms, we worked to make sure our requests were reasonable and when the time was right we modified or eliminated these to reflect changed circumstances and increased confidence. We undertook business viability assessments, reviewed our impact ratings and fail safe measures to assure ourselves that we were in the ready should further unforeseen events take hold. Through our existing information sharing gateways, we were able to provide important metrics to our colleagues in government so that we could better understand the impact of the pandemic on our economy and our local community.

During this time the world just got a bit smaller as we reached out to our colleagues in other jurisdictions, at times just to check in, and also to understand how their markets were weathering the turmoil. At the same time we joined global forums to understand how other jurisdictions were adapting their practices and took in hand some of the guidance that was being issued by International standard setters on matters that should be considered by regulators during a crisis.

Most importantly, we all shared in equal concern for the welfare of our staff and how they would adapt to the new work environment and indeed our new way of living. The closure of our borders provided us with added security, but with it came a loss of access for many to their loved ones. Indeed our world got a bit smaller.

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**Our staff grasped the challenge and demonstrated their resilience and adaptability in the new environment. At the same time they continued to embody our Core Values - Integrity, Respect and Excellence - in their conduct.**

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Opportunities to gather virtually were a regular feature of the close of our work week and staff took on responsibility for each other to make sure that everyone was okay. Like so many on the Island, members of our staff looked beyond their households to help others and became lifelines to members of their community who were shut in and also provided other means of support. Like everyone else we kept a close eye on the numbers and had a collective sigh of relief when we achieved the significant milestone of no COVID-19. We have been very lucky on the Island but we know that we have not seen the last of this and we remain poised and ready.

We also know that in spite of the world standing still for a bit, the risks and opportunities in the sector remain and we continue our work to understand and respond to these. There will also be those who look for opportunities to find cracks in our system and COVID-19 provided increased opportunity for this to happen. Risks around financial crime increased and as a result our work in these areas took on increased importance. Strong compliance and risk management systems in our firms remain the best defence.

We have returned to our normal place of business and are refocused on what lies ahead. Our face-to-face engagement with our stakeholders has resumed but we continue to practically use remote ways of engaging to accommodate all. We are looking at what we learned during this time and considering what it means for the future of work.

We have also reflected on how we would share our achievements over this last year. Our Annual Report has taken on a different look and feel and will hopefully invite you to read it cover to cover. Inevitably some of the things that we hoped to achieve had to take a back seat to other priorities and we are now refreshing on how we deliver these projects. Some of our priorities will be familiar to you as these have been long term deliverables that have spanned a number of years. Some are coming to their rightful close, others will continue into the coming year.

Our looking forward agenda sets out some of our plans for the coming year. New to this list is the public facing phase of our fee project and the start of an extensive industry engagement program to change the way we are funded. Announced as part of the 2020 Budget, the Authority has been given the mandate to move forward to become predominantly industry funded. This will be no small feat and will not happen without some pinch points for both the Authority and industry. We will be open to your views and will work to assimilate these to achieve a reasonable and sustainable funding model and a fair timeframe for implementation.

It is now nearly five years since the creation of the Authority. For many reasons this is a time of reflection on what is ahead for the Authority and to refresh on what is important and needs to be done. We are considering the next set of priorities for 2021 and beyond and no doubt these will take into account the experiences of these last six months.

In closing, many thanks to our tremendous staff who pulled together and got to the business of keeping things going during the toughest of times and much gratitude to those in the Manx community who worked tirelessly to keep us all safe.

*Karen Badgerow, Chief Executive*

## **Our staff and our Values during the pandemic:**

### **Integrity**

One team, collaborative decision making,  
open to others' views, pulling together

### **Respect**

Think people - staff wellness, being inclusive,  
reaching out, making time, listening

### **Excellence**

Be accountable - sharing information, reporting  
information, being accessible, enhancing our  
governance, using new technology



# INTRODUCTION

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**The Authority is the Isle of Man's financial services regulator which was established as an independent statutory board on 1 November 2015. Details of the Authority's Regulatory Objectives, Functions and Governance Arrangements are set out in Appendix 1 to this report.**

We report annually on our proceedings and activities to the Isle of Man Treasury. The Annual Report includes the Authority's accounts audited in accordance with the Audit Act 2006. This report covers the period 1 April 2019 to 31 March 2020. It also addresses some of the activities we undertook after 31 March 2020 in relation to the COVID-19 pandemic. This report will be laid before Tynwald.

**Our Strategic Plan (2018-21) set out three primary strategic objectives which continue to drive and guide our work:**

- Enhance the Framework to protect consumers and deter financial crime
- Enhance clarity around our regulatory, supervisory and enforcement processes
- Encourage innovation and continuous improvement in all that we do

We are committed to being open and transparent about our approach and activities to enable stakeholders to understand the regulatory framework and regulated and registered firms and individuals appreciate what we expect from them. Effective communication with the regulated and registered sectors is a cornerstone of our work.

**The Authority's Communication Themes are:**



## **Adaptability, Resilience & Conduct**



These themes have been chosen because they are representative of our work and are very much at the forefront of the extraordinary circumstances of the current day. Our approach for 2020-21 and the review of our strategic performance will refer to these themes.

Throughout this report we have linked topics to our ARC themes.

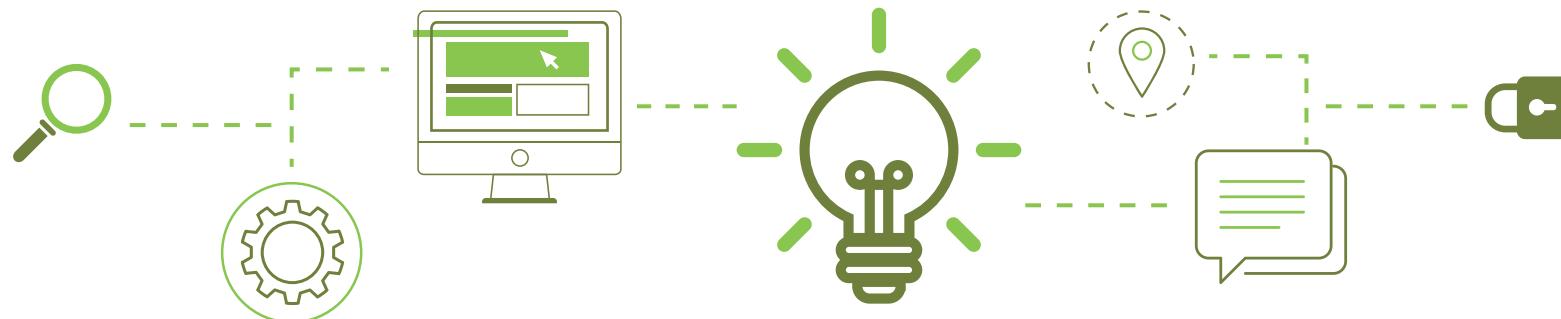


# ADAPTABILITY

# 'The quality of being able to adjust to new conditions'

**Adaptability in our approach is important because the world of financial services is not static. Our practices and processes need to take account of current business methods and we need to be appropriately flexible in how we implement them. It is important to note that adaptation is about managing risk in a different way; it is not about compromising regulatory standards. Areas where adaptability is particularly relevant include:**

- Our approach to **policy and legislative work** – we will take account of the need for adaptability as we respond to the changing market place for financial services.
- **Innovation & technology** – our approach to new technology and innovative business propositions should be proportionate. New ways to achieve regulatory standards may need to be considered including how we supervise and manage climate related risks and 'green' financial products and services.
- **New ways of working** – the COVID-19 pandemic has accelerated moves towards paperless offices and home working for businesses. We will adapt how we interact with our stakeholders and seek to achieve our objectives.
- All of the different and variable considerations we take into account when **making decisions**.
- **Business model viability** – our regulated firms may need to adapt their business models to reflect market changes or to enter new markets. We will work with industry to ensure standards are met and risks managed. This will be important in the economic environment post the COVID-19 pandemic and the UK exit from the European Union.
- **Changing customer needs and allegiances** – new products, services and methods of delivery may need to be developed by the regulated sector.



# RESILIENCE

'The capacity to  
**recover quickly from difficulties;**  
**Toughness'**

'The ability of a substance or object  
**to spring back into shape;**  
**Elasticity'**



Resilience of the financial system and those operating within it is a well understood aim for financial services regulators. We achieve this by setting capital and liquidity requirements for regulated firms, monitoring their financial position, considering the adequacy of their systems and controls and the capacity and capabilities of their resources including staffing. Areas where resilience is particularly relevant to our considerations include:

**Prudential requirements** – ensuring firms have and maintain sufficient funding and reserves to support their operations and developments.

**Business continuity and business resumption** – arrangements to ensure firms can continue to operate in emergency situations. This has been particularly important during the COVID-19 pandemic to ensure that customers continued to be serviced. Of particular importance has been:

- Effective technology solutions for communication
- Home working arrangements

**Arrangements when a firm fails** – firms are required to manage their risks including risk of failure. Regulators do not manage firms and cannot prevent all failures. Where a firm is under stress we can intervene to minimise risk to customers and stakeholders in the event of a failure. We can put in appointees to work with the firm or take control of the firm. If a firm fails, the Island's legislative framework protects customers through Ombudsman Schemes and Compensation Schemes. When the Banking (Recovery and Resolution) Bill 2020 is in force, the Authority will become the Resolution Authority for Banks.



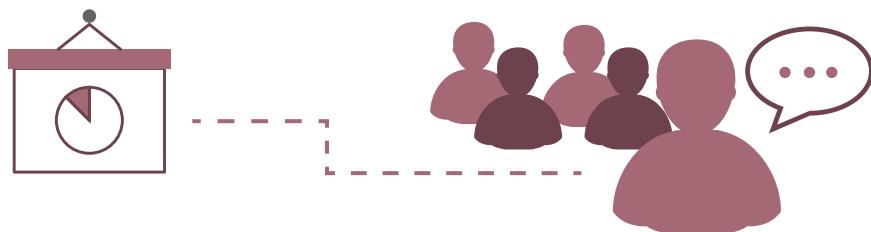
Isle of Man Sea Terminal 1965  
(MNH PG/13633/1/125/1) and 2020



CONDUCT

**'The manner in which a person behaves,  
especially in a particular place or situation'**

**'The manner in which an organisation or activity is managed or directed'**



**When we talk about conduct, we mean far more than meeting the basic rules and regulations from our frameworks. Conduct is about how people and organisations behave towards their customers, the financial markets, their regulator and their stakeholders and staff. Conduct requires an appropriate consistent approach throughout an organisation. Areas where conduct is relevant to our work include:**

#### **Assessing a firm's governance and culture**

- What proactive steps does a firm take to identify conduct risks inherent in its business?
- Are conduct, ethical behaviours and customer outcomes at the centre of board decision making?
- Are individuals encouraged to take responsibility for conduct of business in their area?
- How are staff supported when trying to improve conduct of business and client outcomes?
- How does the board and executive oversee conduct and do findings flow into strategic decision making?
- Does the firm assess whether any activities undermine good conduct?
- Is there a speak-up culture? Is whistleblowing encouraged, are issues acted upon, and are whistleblowers protected?

**Diversity and inclusion** – A firm acting with integrity will have appropriate systems to ensure equality of opportunity and treatment for its customers and staff.

**Taking action for poor personal and corporate conduct** – We have been given powers to take action in the event that requirements are breached or behaviours are unacceptable. Our aim is to ensure the financial system has integrity, customers are protected and poor behaviour is highlighted so it can be an effective means of deterrence.

**Expectations of our staff** – In order to regulate the sectors properly, we employ technical experts and support their professional development; we also expect the highest standards of conduct from our staff. Our staff strive to uphold our core values of Acting with Integrity, Respecting Others and Achieving Excellence.

**Preventing financial crime** – Regulators have a central role in ensuring the financial services sector operates ethically; this includes setting and monitoring requirements to deter and prevent fraud, money laundering, terrorist financing, insider dealing and market manipulation.

# YEAR AT A GLANCE

2019 TO 2020

**This section highlights some of the strategic matters we progressed in the financial year. These are all in addition to the day-to-day work as regulator. All of the items are covered in more detail later in this report.**



## Dear CEO letter

For the first time we published a broad sector outreach using a "Dear CEO letter" approach.



## Consumer Awareness

We continued our outreach work through World Investor Week, developing new consumer information materials and supporting schools on financial education.



## Innovation

We formed an internal Innovation Working Group, developed an Innovation Strategy, worked with the Blockchain Office to prepare draft 'perimeter guidance' for cryptoassets and considered technology in the context of AML/CFT.



## Development of our Technology and Systems

We launched our core back office system 'ATLAS' which enables us to record, monitor and report on all supervision activity from one central point.



## Insurance Core Principle Project

The Insurance (Group Supervision) Regulations 2019 and the Corporate Governance Code of Practice for Designated Insurers were successfully implemented.



## Financial Services (Amendments) Bill

A Discussion Paper was issued and feedback published. The Bill will amend the Financial Services Act 2008, the Insurance Act 2008, the Collective Investment Schemes Act 2008 and the Designated Businesses (Regulation and Oversight) Act 2015.



## Response to the COVID-19 Pandemic

In March we invoked our business continuity plan and moved to all staff working from home.

Despite the unprecedented circumstances the Authority continued to operate effectively and work to support industry.



## Enforcement Decision Making Process (DMP)

We successfully implemented the new [DMP](#). The first two cases to go through the process were successfully settled within the year.



## A framework for Systemically Important Banks

We worked closely with our Domestic Systemically Important Banks (DSIBs) to ensure we understand their business and to assess their risk positions.

We liaised with the lead regulators for banks regulated on the Island who are part of Systemically Important Banking Groups.



## Bank Recovery and Resolution

We worked with Treasury and Industry to develop the Bank Recovery and Resolution Framework. The Bank (Recovery and Resolution) Bill 2020 was introduced into the Branches of Tynwald.



## Supervisory Approach

We continued our work to refine our supervisory approach and inspections processes.



## Anti-Money Laundering and Countering the Financing of Terrorism

We continued our follow-up work on the MONEYVAL report including:

- A full refresh and consolidation of the Island's AML/CFT legislative framework
- Introduction of a civil penalty regime for AML/CFT Code breaches
- Update of our AML/CFT Handbook (including sector guidance)
- Update of the framework for insurance and new insurance sector guidance



## UK Banking Structural Reform and its impact in the Isle of Man

We worked with firms to ensure successful implementation of approved restructuring plans and successfully progressed applications for two court transfer schemes.



## Retirement Benefits Schemes - Regulatory Reform

We started preparing detailed drafting instructions for changes to the Retirement Benefits Schemes Act 2000. We also started work on the necessary secondary legislation, including reviewing the funding requirements for defined benefit pension schemes. We liaised with industry, including an industry update on project progress in October 2019.

# THE AUTHORITY'S APPROACH FOR 2020-21

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## Maintaining and updating our framework and innovation

We maintain and update our legislative frameworks to ensure that they are fit for purpose, meet international standards, are appropriately flexible and support ethical business practices.

Our regime needs to support innovation in financial services whilst maintaining appropriate standards and customer protections. This can mean varying our requirements to accommodate technology driven business models.

**Our approach to innovation includes “development of appropriate regulatory frameworks, enhancing the reputation of the Isle of Man as a jurisdiction of choice for reputable Fintech businesses”**

Source – Strategic Plan 2018-21

The international response to the recent COVID-19 pandemic demonstrated that firms and regulators can successfully work remotely. At the same time we recognise that this new way of working can increase risks in terms of cyber security. The pandemic experience has accelerated moves towards more flexible working arrangements whilst at the same time increasing the focus on technological security and operational issues of home working.

We will continue to work with Global Financial Innovation Network (GFIN), the Digital Agency of the Department for Enterprise (DfE) and industry fora to identify issues and opportunities in new business models and technologies which may impact the regulatory framework.

We will continue to pursue our work efforts with a leading academic authority on Fintech whom we hosted on the Island in late 2019. We will work with industry to identify practical solutions which ensure that our regime remains appropriate for new business models and technologies whilst addressing risk.

Our internal innovation group will continue to meet to consider:

- how we can make better use of technological developments in our work
- how we accommodate licenceholder opportunities through technology whilst addressing attendant risks

**“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”**

Source – Strategic Plan 2018-21

Our framework flows from the legislation which grants our powers and sets out our responsibilities. It is important that our framework is, and remains, appropriate. Our current legislative programme, covered later in this report, includes:

- the Financial Services (Amendments) Bill
- final legislation in the Insurance Core Principles Project
- Retirement Benefits Scheme Regulatory Reform
- the Fees Review

## **AML/CFT**

In recent years our work on Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) has expanded significantly, including more focused review work on regulated firms and registered firms. Currently our work is split between the AML/CFT team in the Enforcement and AML Division and the Supervisory Divisions.

We are creating a centralised team that will lead in the oversight and supervision of all firms subject to our oversight for AML/CFT compliance. This team will have responsibility for the Authority's policy and international work on these matters. Building on the strength of our current resources, the centralised team will expand our breadth of experience, provide increased capacity for horizon scanning and increase our ability for focused networking in our prevention of financial crime work.

The benefits of the new team will include:

- consistency of approach in implementing a risk-based methodology for AML/CFT oversight across all sectors
- one team collecting appropriate data to support our assessment of these risks
- the ability to use all available data to create actionable intelligence

The team will continue to develop revised guidance which will apply to all sectors. This will be supported by sector-specific guidance and best practice guides on key and emerging topics.

## **BANK RESOLUTION**

The Bank (Recovery and Resolution) Bill 2020 is expected to come into force later in 2020. At this time our remit will expand to include responsibility for banking resolution. We will simultaneously be appointed as the Resolution Authority.

The Resolution Authority's purpose is to protect customer deposits and the stability of the wider financial system in the event a bank fails. The Resolution Authority's powers are intended, where appropriate, to protect against the need for immediate winding-up and bank closure.

The Resolution Authority will prepare resolution plans to deal with the possible failure of each banking institution that operates in the Island. Drawing on the experience of other jurisdictions, this will be a complex and time consuming process.

A number of banks operating in the Island are incorporated in other jurisdictions; the Resolution Authority will liaise with its counterparts so that in the event of a failure, matters can be dealt with in an efficient and co-ordinated manner.

## **Supervision**

**Supervisory Approach** - We will continue to develop our Supervisory Approach and how we assess the risk and impact posed by sectors and regulated firms.

**Inspection Methodology** - In tandem with the revised Supervisory Approach we will also revise our inspection methodology for all of the supervised sectors. This framework will take account of different business models, regulatory frameworks and risks attaching to different sectors.

Once implemented, the new inspection methodology will tie in more closely to the revised risk assessments. The new approach will mean we can give feedback across sectors on similar issues. Firms regulated across more than one sector will find the new approach and inspection feedback easier to follow and will be able to apply the feedback across their whole business.

**ATLAS** - Our supervisory work will be supported by the recently developed ATLAS System. This bespoke information management system holds core supervisory information and will provide exception reporting to highlight emerging risk factors and deviation from the expected position of firms and sectors. To facilitate better analysis we will be using the data provided by firms in a more efficient way; we will only ask for information that is necessary for our work and we will consider the administrative burden on the regulated firms. We will seek electronic submission of data where practicable.

**Climate change** impacts us all. For individuals it affects how we live in changing environmental conditions, and for businesses there is a continuing need to consider how to positively interact with the environment and lessen their environmental footprint. At the Authority, we are working to reduce our impact on the environment. We also consider, through our supervisory work, how best to understand how firms approach climate risks and we guard against firms or products holding out as being green without being environmentally friendly (greenwashing).

We will continue to look at how we consider new risks related to climate change. Recently we were granted membership to the Network for Greening the Financial System which will give us access to other global regulators who are considering the impact of climate change on financial system risks.

**Governance** - We will continue to hold the boards of regulated firms accountable for ensuring the firm conducts its affairs in an appropriate manner and meets its regulatory obligations. This includes the adequacy of risk management and compliance resource. It follows that where we identify inappropriate practices, material compliance deficiencies and/ or poor conduct and culture we will hold the firm's board accountable. Where there is poor conduct and compliance which we cannot remediate this may lead to enforcement action.

**"The Authority recognises the importance of having  
one consistent approach to assess risks  
across regulated entities"**

Source – Strategic Plan 2018-21



## **Remediation**

We will work with firms undertaking remediation where this is possible and appropriate. Where a regulated firm demonstrates compliance issues which do not require immediate referral for an enforcement investigation, we work with the firm to see if it can be brought back into a compliant position. We have a number of tools that we can use including additional reporting, focused inspections and directions.

We also make use of external appointments to regulated firms so that we can gain independent assurance as to the strength of controls and the effectiveness of a firm's internal processes. We have experienced good outcomes where advisers, managers and reporting accountants are appointed to firms demonstrating compliance deficiencies.

Appointees report to us on culture and compliance within the firm and having the appointees working within the firm means they can help the firm identify and implement practical changes which could address issues with the firm's culture and compliance arrangements.

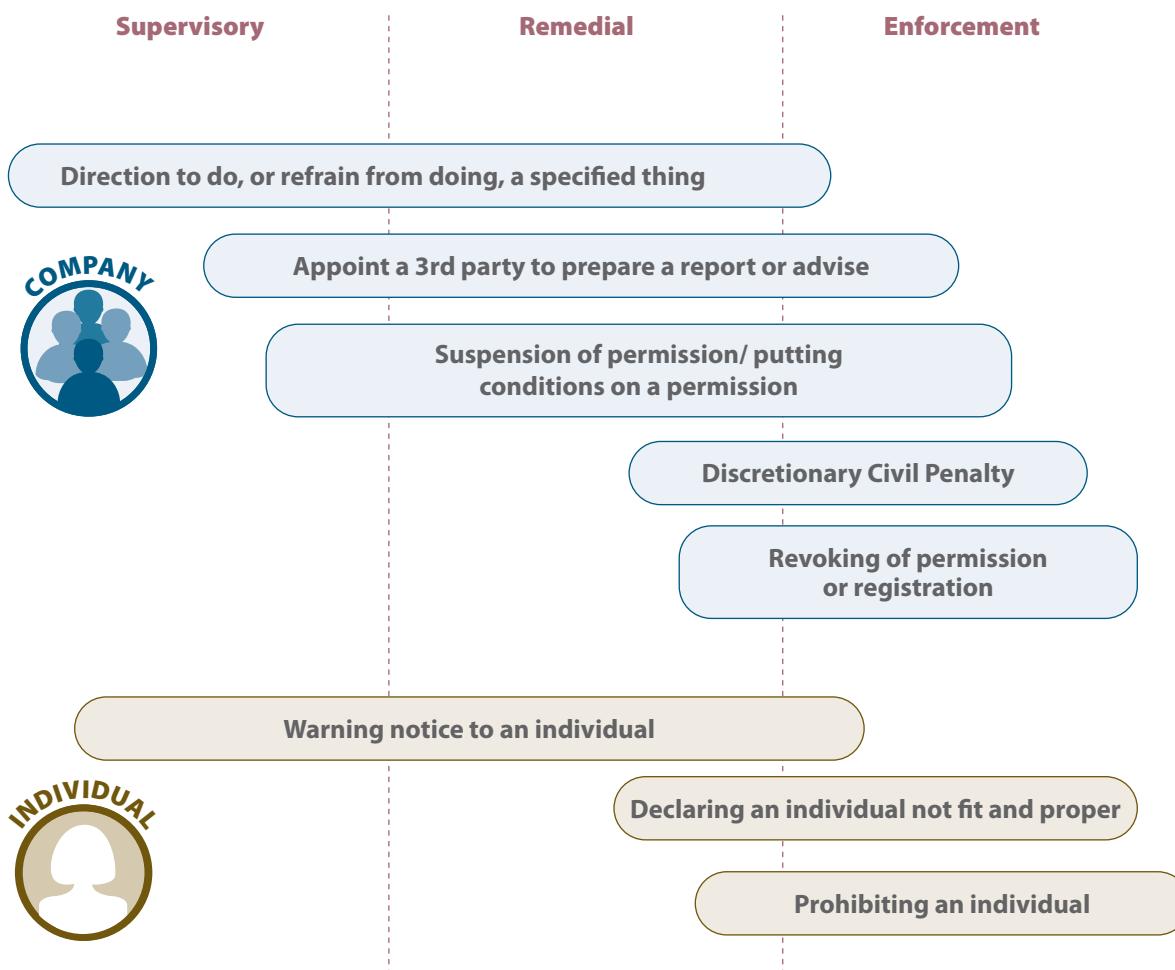
Where a firm addresses identified deficiencies with regulatory requirements both in culture and compliance the appointee can step away. Where a firm does not address such deficiencies then we will consider further action.

We will continue to use appointees to help bring regulated firms back into compliance where it is appropriate and proportionate to do so.

**"We seek to understand, collaborate and follow a reasonable path of remediation to achieve the right outcomes. Enforcement is pursued where remediation is not possible or not appropriate"**

Source – Strategic Plan 2018-21

## Dealing with issues - Key decision making powers of the Authority across its legislation<sup>1</sup>



## Enforcement

We will continue to take enforcement action where this is necessary. Regulation is a continuum and we have a suite of tools available to identify where firms are not being run in an appropriate and compliant manner. We intervene and impose sanctions which are proportionate to the threat, or harm done, to our regulatory objectives.

When intervention is necessary it is important that we use the appropriate tools. Intervention can be viewed as a sliding scale from agreeing remedial action up to revocation of permission and prohibitions and disqualifications. When choosing which tools are appropriate to address an issue we consider many factors. Where there are risks of serious harm the first stage can involve more immediate, intrusive work to prevent or mitigate risk; this could include directions to stop an activity or suspension of a licence whilst the issue is investigated further. When intervening in a firm we will ensure that our actions are necessary, reasonable and proportionate

Our Enforcement Decision Making Process (DMP), introduced in 2019, sets out a process under which we can progress certain enforcement actions. This includes the ability, where appropriate, to enter settlement agreements. In cases where it is appropriate to progress action through the DMP, actions can be streamlined.

We strive to ensure that our enforcement processes are fair, open, transparent and understood by industry, other stakeholders and those involved in cases.

<sup>1</sup>Please note, the powers specified above are for indicative purposes only and are not exhaustive. Powers exercised by another body, such as the High Court, are not detailed. References to permissions includes Authorisation Orders and Licences as applicable.

## Communication

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**“Regulation and regulators are only effective if they are understood; our aim is to not to over complicate matters”**

Source – Strategic Plan 2018-21

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We have a well-established process for consulting and engaging with stakeholders on developments and issues. As a regulator we need to communicate our requirements and expectations clearly. We also need to listen so we can understand the views and needs of our stakeholders.

In our work we have to balance the views of different stakeholders, which are sometimes competing. We endeavour to work with stakeholders to ensure that policies are implemented in a way that is pragmatic, practical and supportive of innovation. In some instances, for example to meet international standards, we may have to introduce measures which are viewed as too onerous by some stakeholders. Wherever possible we will ensure that these requirements are implemented in a manner that is proportionate and considers the nature of business on the Island.

In our communications we will explain our reasons for decisions clearly and transparently, whilst taking account of the statutory controls over release of restricted information.

This year we will focus on tailoring our communication channels and content to ensure that key information is more readily found and appropriately tailored to the differing audiences. We will communicate using additional tools including Webinars, virtual meetings and social media. Further details about our stakeholders and their communication needs are set out later in this report.

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

Source – Strategic Plan 2018-21

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## **CONSUMER PROTECTION**

Our regulatory objectives require us to secure an appropriate degree of protection for customers of regulated firms, including consumers. Our approach to this will continue to be multi-faceted including:

- Monitoring how regulated firms comply with conduct requirements to ensure good customer outcomes and taking action where this is appropriate
- Regular liaison with the Office of Fair Trading and Financial Services and Pensions Ombudsmen Schemes
- Maintaining and adding to the consumer materials on our website
- Using various communication platforms to publicise customer and consumer messages, including the traditional media and social media
- Supporting local schools, where appropriate, on financial literacy qualifications
- Participating in the IOSCO World Investor Week 2020

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**“From bank accounts to loans, savings, insurance, investments and pensions, virtually every adult in the Isle of Man is a consumer of financial services.**

**One of our statutory objectives is to secure an appropriate degree of protection for consumers dealing with firms carrying on regulated financial services activity”**

Source – the Authority's Consumer Website

# OUR RESPONSE TO EXTRAORDINARY EVENTS - COVID-19



## Impact of COVID-19

COVID-19 became a global concern at the beginning of 2020. In March the pandemic affected the Island and we quickly invoked our business continuity plan ("BCP") and moved to all staff working remotely.

We established two distinct BCP teams:

- the Regulated Sector BCP team to consider risks affecting regulated firms and measures we needed to take to support industry and address any concerns
- the Operational BCP team to focus on what we needed to do to protect our staff and maintain effective operations

As the COVID-19 situation developed it became clear that we would be working from home for some time and significant resources were applied to BCP matters.

## The Regulated Sector

**Assess the situation** - The first task of the Regulated Sector BCP Team was to consider the immediate impact of the COVID-19 pandemic on regulated firms including risks relating to financial stresses within firms, cyber-crime, data security, fraud, AML/CFT, staff health and safety and staff capacity.

**Forbearance** - We reviewed our regulatory framework to identify requirements that could cause problems for firms and considered if any forbearance measures were necessary. One immediate issue was the requirement for certain firms to securely submit audited financial statements within four months of their year end. Where auditors had not already completed their on-site audit work we recognised that this could be problematic and we, therefore, extended the submission timeframe to six months.

**Electronic submissions** - We recognised that when staff are working from home it is difficult to receive and circulate paper documents. We therefore asked regulated and registered firms to securely submit all documents to us electronically where possible; this also reduced the potential risk of spreading the COVID-19 virus.

**Monitoring risk** - To enable us to monitor any key risks in firms or sectors we sought relevant additional information from certain regulated firms i.e.

- Forbearance by licensed banks to their borrowers
- Stress tests of prudential balance sheets in the banking and life insurance sectors
- Cash flow forecasts in the investment business and TCSP sectors to understand the potential impacts of market volatility and other factors on their business models

This information has helped us to better understand the resilience of the sectors and their responses to the pandemic.

**Keeping in touch** - Throughout the period we continued to meet regularly with our regulated firms and other stakeholders using digital and audio interfaces.

**Public information** - Information that we disseminated to regulated and registered firms can be found in the [COVID-19](#) area of our website. We also issued a warning notice for [consumers](#) about increased cyber and fraud risks.

## Operational Matters

From the outset, we were conscious that the COVID-19 lockdown and remote home working could have a negative impact on our staff who were used to working in a collaborative, collegiate environment. It was important to ensure that our team dynamic continued and that staff felt supported and remained resilient.

We introduced new working protocols to ensure that our team used the technology in a consistent way and that data security and privacy were protected. Teams 'met' regularly to discuss specific tasks and general matters and line managers held regular 1:1 meetings with their team members.

We held virtual whole staff meetings to give updates on a range of issues including updates from our Virtual Board Meetings.

Throughout the period of working from home our Board continued to meet remotely to progress matters and Board Members met virtually with staff. There were additional meetings of our Board Sub-Committees, the Risk and Control Committee (RACC) and the Human Resources and Compensation Committee (HRCC). This increased engagement reflects the seriousness with which our Board viewed the potential for emerging/changing risk scenarios, operational resilience and staff welfare.

We reached out to staff on well-being issues and took steps to ensure that their home working environment was suitable and workstations were set up correctly.

A 'normal' working environment includes an element of social interaction which helps to create strong team structures. We facilitated regular end of week socials where staff could meet remotely and share experiences. The events were well attended and enjoyed by all and helped us to undertake less formal wellness checks amongst our staff.



# STRATEGIC PERFORMANCE 2019-20

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This section gives details of strategically important work we undertook during the year. This includes priorities flowing from our Strategic Plan published in November 2018. An update of progress against the plan for the period between 1 April 2019 to 31 March 2020 can be found in Appendix H.

## Insurance Core Principles Project (ICP)

Work has continued on the development of the ICP project. This long-term project has encompassed a full review of all requirements under the IA08 against Insurance Core Principles issued by the International Association of Insurance Supervisors (IAIS), the International Standard Setter for insurance regulation. The project has encompassed requirements for Life Assurance Companies, Commercial and Captive Insurers and General Insurance Intermediaries. Work streams have considered requirements for:

- risk-based capital and solvency
- enhanced regulatory reporting
- conduct of business requirements
- corporate governance requirements
- group supervision
- enhanced requirements for general insurance intermediation, and
- public disclosure requirements

During this year the Insurance (Group Supervision) Regulations 2019 and the Corporate Governance Code of Practice for Designated Insurers have been successfully implemented. Significant work has been undertaken on all remaining work streams, much of which will be implemented during the coming year. The [Insurance Framework](#) area of our website contains up-to-date information about the project, its progress and the next steps.

## Financial Services (Amendments) Bill

Changes to primary legislation are needed to clarify and enhance the regulatory framework helping the Island to continue to meet international standards and safeguard its reputation as a well-regulated financial services jurisdiction. The draft Financial Services (Amendments) Bill will amend four pieces of regulatory legislation:

- The Financial Services Act 2008 (FSA08)
- The Insurance Act 2008 (IA08)
- The Collective Investment Schemes Act 2008 (CISA08)
- The Designated Businesses (Regulation and Oversight) Act 2015 (DBROA15)

A [Discussion Paper was issued in August 2019 with feedback published in December 2019](#). Drafting instructions have been issued and we will consult industry on the draft Bill during 2021.

## **Retirement Benefits Schemes - Regulatory Reform**

We will continue our work on modernising and enhancing the regulatory framework for pension schemes and pension providers. Currently the focus of the framework is on individual pension schemes under the Retirement Benefits Schemes Act 2000 ('RBSA00').

Our liaison and consultation in 2018/19 showed industry supported a framework where the schemes remain regulated under the RBSA00, and pension providers are licensed under the FSA08. This approach requires an appropriate regulatory framework to be put in place for pension providers under the FSA08. This includes updating the duties of pension providers and administrators, including requirements around governance and how they manage the conduct of their business as a whole.

This is a long-term project requiring significant and highly technical changes to the current framework.

During the year we started preparing detailed drafting instructions for changes to the RBSA00. We also started work on the necessary secondary legislation under the FSA08 and RBSA00, reviewed the funding requirements for defined benefit pension schemes and liaised with industry, including an industry update on project progress in October 2019. Full consultation on the draft Bill and draft secondary legislation will take place in due course.

## **Fees Review**

We are funded by a combination of fees levied on regulated and registered firms and a subvention from the Isle of Man Government. This funding model is not wholly in line with International Standards which expect industry to cover all or the majority of the costs of their regulation so that the regulator has budgetary independence. In the February 2020 budget the IOM Government announced a plan to move the Authority towards a more predominantly industry-funded model.



## Innovation

Change is inevitable as technology develops and globalisation continues. The COVID-19 pandemic has accelerated the change process with increased working from home becoming more prevalent. Traditional land borders are increasingly less of a barrier to customers seeking solutions to their specific needs for financial services.

Innovation in business models and manner of delivery is also developing at pace and we need sufficient flexibility in our regulatory approach to meet the new challenge without compromising standards or exposing customers of regulated entities to unacceptable risks. The Authority is technology agnostic providing risk is managed, standards are met and business conducted appropriately.

- We continue to research ideas and liaise with other regulators and the Digital Agency of the Department for Enterprise (DfE) on approaches to innovation in the financial services sector. Additionally we are a member of the Global Financial Innovation Network (GFIN), and have a seat on the GFIN's Collaboration Working Group.
- We have worked with the Blockchain Office to prepare 'perimeter guidance' in relation to cryptoassets and regulatory boundaries.
- We have worked with industry groups to develop our AML/CFT guidance on the use of technology, including for customer due diligence.
- We have formed an internal Innovation Working Group which includes staff from all disciplines.

Over the period the Innovation Working Group has developed an Innovation Strategy, and is in the process of exploring various RegTech proposals that may prove beneficial to the Authority and its stakeholders. The ethos underpinning the innovation strategy is to **welcome the financial sector 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 Island.**

We will publish more details about the Innovation Strategy and RegTech initiatives during the year.

## **Anti-Money Laundering and Countering the Financing of Terrorism**

The Authority is just one of the Island's agencies involved in the development and implementation of the Island's AML/CFT framework. The Cabinet Office has central responsibility for co-ordination and international liaison in relation to AML/CFT matters and the Department of Home Affairs (DHA) has responsibility for the overarching AML/CFT legislation, including the AML/CFT Code. Our team provides significant technical and drafting support to both of these departments. We are responsible for additional AML/CFT requirements in our framework, including requirements applicable to regulated firms and registered firms.

We oversee and assess AML/CFT compliance of regulated and registered firms and have responsibility for issuing guidance to those sectors within our remit. We have a range of powers, including the power to issue civil penalties for failure to meet AML/CFT obligations.

In 2016 the Island was evaluated under MONEYVAL's 5th round evaluation process using the FATF 2012 recommendations and the 2013 methodology. The 2013 methodology adopted a new approach by assessing whether the jurisdiction's legal framework was in technical compliance with the FATF 2021 recommendations and whether the framework was implemented effectively. Despite securing good technical ratings, the Island was placed into enhanced follow-up by MONEYVAL due to its performance in certain areas of effectiveness. A significant number of jurisdictions which underwent MONEYVAL's 5th round evaluation process were also placed into enhanced follow-up.

Consequently the Island currently reports progress to MONEYVAL on an annual basis.

We received positive feedback from the MONEYVAL Plenary in July 2019 on the second Enhanced Follow-Up report which confirmed that the Island has one of the strongest technical AML/CFT regimes in the world for countries assessed so far under the new FATF standards.

A third Enhanced Follow-Up report was provided to MONEYVAL in March 2020 for discussion at its Plenary in July 2020. The Island's Enhanced Follow-Up report detailed the further positive steps that have been taken and we look forward to the formal response.

### **During the year other key developments included:**

- A full refresh and consolidation of the Island's AML/CFT framework, in particular a re-draft of the AML/CFT Code which came into force in June 2019.
- Continued work on improving effectiveness ratings, including working with industry to successfully implement additional requirements for introduced business and bringing in a civil penalty regime for AML/CFT Code transgressions.
- Closer working with other government agencies including the Gambling Supervision Commission (GSC), Financial Intelligence Unit (FIU), Economic Crime Unit (ECU) and the Cabinet Office on AML/CFT developments.
- An update to certain parts of the AML/CFT Handbook (including sector guidance) to incorporate changes brought in by the new AML/CFT Code. The Handbook is relevant to all regulated and registered sectors.
- Revising the insurance AML/CFT framework by repealing the Insurance (Anti-Money Laundering) Regulations 2008 and the associated binding guidance. The insurance sector framework is now contained in the AML/CFT Code, the AML/CFT Handbook and new insurance sector guidance, consistent with other sectors. There was significant liaison with the Insurance Industry to bring these changes forward in a practical form.



## **Development of our Technology and Systems**

In November 2019 we launched our core back office system 'ATLAS'. The system enables us to record, monitor and report on all supervision activity from one central point. The system is replacing various other databases and spreadsheets and has already provided significant benefits and efficiencies. Structured management reporting means that we can identify and focus on areas of greater risk.

The next phase of developing our regulatory system will focus upon optimising our data usage from a research, retrieval and reporting perspective.

## **A framework for Systemically Important Banks**

Across the world regulators have an additional focus upon entities which are systemically important internationally and domestically. We are not the lead regulator for any international systemically important banks; where such banks have Isle of Man offices we work with their lead regulator.

During the year our work with Domestic Systemically Important Banks (DSIBs) in the Isle of Man has continued including:

- More regular proactive business meetings

- Enhanced reporting to understand impacts of COVID-19 on the wider economy and the role of DSIBs
- Quarterly surveys focused on outlooks and trends for demand and availability of banking services and products for the domestic economy
- Active participation in regulatory colleges and bilateral engagement

## **UK Banking Structural Reform and its impact in the Isle of Man**

The UK decision to require all retail banking activities to be ring fenced from higher risk investment banking activities has resulted in significant work for our team over the last few years. This year saw institutions move into the implementation phases of their group restructuring plans.

We have worked with various Banking Groups and the UK Prudential Regulatory Authority (PRA) to ensure successful implementation of the approved restructuring plans; this included applications for two court transfer schemes which were successfully completed and implemented. We are pleased to report that the transition work was achieved with minimal impact on customers.

## **Bank Recovery and Resolution**

Internationally, following the global financial crisis, regulators have worked with governments to develop and implement appropriate intervention powers for failing banking institutions. The rationale is that early intervention, before a failure occurs, can improve the outcome for the institution, its customers and the financial system. Appropriate arrangements for bank recovery and resolution are important factors in underpinning confidence in the banking system.

The Island's bank recovery and resolution work is a joint initiative between Treasury and the Authority with the full engagement of the banking industry and their professional advisers.

During the last year the Bank (Recovery and Resolution) Bill 2020 was consulted on by Treasury and passed all stages of debate and scrutiny in the House of Keys and Legislative Council. Royal Assent is anticipated in the near future.

Once the resultant Act is brought into force, the Authority will take on a new responsibility as the Resolution Authority for the Isle of Man.

To manage actual or perceived conflicts of interest, our functions as a regulatory supervisor will be operationally separate from our functions as the Resolution Authority. Work on the specific governance arrangements is underway and will be published on our website once the Act comes into force.

## **Supervisory Approach**

Our supervisory framework aims to identify inherent risks and assess how they are managed, taking into account the particular risks and mitigants within each sector. In order to achieve enhanced consistency in approach we are moving towards grouping sector and firm risks under the following core headings:

- Strategy and business model
- Prudential (including solvency and liquidity)
- Governance and management (including ownership)
- Operational
- Conduct
- Financial Crime (AML/CFT)
- Client assets (including client money)

We continue to work on bringing together impact and risk as part of revising and refining our approach to supervision and intend to provide more information to industry during 2021 to explain this.

## **The Enforcement Decision Making Process**

During the year we successfully implemented our new [Enforcement Decision Making Process \(DMP\)](#). The DMP is an open transparent process which can streamline enforcement actions and allows for settlement. By publishing the DMP we aim to ensure it is understood by industry, stakeholders and those involved in cases. Settlements have already been agreed with firms and individuals under DMP process.

In autumn 2019 a series of industry seminars were held to explain the new process, why it was being introduced and key features and advantages including the new settlement procedure.

The DMP supports our strategic objective of intervening “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 action is pursued where remediation is not possible or not appropriate.”

We see the DMP as a useful mechanism to achieve necessary outcomes efficiently and cost effectively. We will identify and disseminate appropriate learning points for industry in relation to the operation of the DMP and the matters which led us to take action. A light touch review of the DMP will be undertaken in the coming months to ensure ongoing fitness for purpose of the overall process.

## LEARNING POINTS

Regulated firms should be aware, and take account, of the following learning points which have been identified in cases reviewed under the DMP:

- The Board of a regulated firm is responsible for good governance, risk management and compliance within the firm. Boards should establish and encourage diversity and an ethical culture which delivers good customer outcomes and a high standard of regulatory compliance. The effectiveness of risk and compliance functions should be monitored and appropriate action taken to address any weaknesses. Where failures are identified, we will hold the firm's Board accountable.
- Firms should ensure that information and returns provided to us are correct.
- Firms should train their staff about the regulated activity they undertake and the particular requirements of the staff member's role. Training should include consideration of particular risks posed by the nature of business and profile of the customer base.
- Where a regulated firm holds or deals with client money and client assets they must fully comply with the relevant regulatory requirements. Segregation of client money and client assets from those of the firm is a fundamental requirement.
- When risk assessing clients for AML/CFT or general business purposes, firms need to take account of particular risks the client poses; where a client is 'non-standard' it may not be appropriate to apply 'standard' processes and procedures.
- To demonstrate adequate risk management arrangements are in place, firms need to understand their clients. In relation to trust and corporate services firms this includes understanding the investment and operational activities of client companies even when the firm is only providing limited services such as acting as a registered agent.
- Where a client's risk profile is outside a firm's documented risk management framework, the reasons for accepting the client and the enhanced controls being applied, should be clearly documented, evidenced and implemented.
- In relation to contraventions of the AML/CFT Code, where a firm fully co-operates and assists us this may result in a financial, or regulatory sanction, rather than a criminal prosecution.

Port Erin lifeboat 'Ann and Mary' and crew 1890s (MNH PG/4045/1) and Port Erin Bay 2020



# STAKEHOLDER ENGAGEMENT

We consult stakeholders about legislative and policy changes. A list of all consultations during the year is set out in appendix G.

We report to Isle of Man Treasury and are part funded by the Isle of Man Government. Our legislation is scrutinised through the Tynwald process. Our framework is subject to international scrutiny and we need to review and adopt relevant international standards to ensure that Isle of Man firms can operate effectively internationally.

Our registered and regulated firms cover a wide range of services including traditional financial services, trust and corporate services, money service business and designated businesses. Each of those businesses has customers and business relationships on and off the Island. These stakeholders are varied and have different priorities.

We need to assess and balance different views so that our frameworks meet international requirements, are supportive of good business and achieve appropriate protection for customers including consumers and vulnerable persons.

We have undertaken an exercise to categorise our stakeholders so that we can communicate with them effectively on the right topics. Stakeholders have different interests in our various activities and we have different ways of working with them to achieve our objectives. For example:

- Isle of Man Treasury is our sponsor department; in relation to changes to the legislative framework their interest surrounds the potential effect the changes may have on the Financial Services Industry and the Island's reputation. Treasury is the department charged with taking our legislation through Tynwald and as such we will always proactively liaise to ensure that our proposed measures achieve the appropriate outcomes.

- Industry bodies represent the views of their members; we consult with them on proposed changes and meet with them to discuss emerging opportunities and issues. They have a high level of interest in changes which may affect their sector and put forward their industry's view and practical considerations which can assist us in our policy development. Through appropriate interaction we also use them to explain other stakeholder issues that may impact our decisions, such as the effect of changes on other industries and the reputation of the Island.
- Consumers have a less direct relationship with us. The measures we take can affect the financial products available to them, and how regulated firms interact with them. The information we disseminate can help to protect them from inappropriate products, unregulated businesses and fraud. However consumers' level of engagement with us is traditionally low unless they have experienced problems with their financial services arrangements. Our challenge is how to engage with consumers so that important information about protecting themselves from fraud and how to use financial services safely is heard and understood (covered later under consumer awareness).



## The Authority's Objectives, Core Purpose and Core Values

### **Our Regulatory Objectives are:**

- Securing an appropriate degree of protection for customers
- Reducing financial crime, and
- Maintaining confidence in the Island's financial industries through effective regulation, thereby supporting the Island's economy and its development as an international financial centre



**In carrying out the Regulatory Objectives  
our Core Purpose is to uphold:**

- Trust
- Confidence
- Integrity



**The Core Values of our staff are:**

- Acting with integrity
- Respecting others
- Achieving excellence



## The Authority's approach to Communication

### Planned Communications - We regularly communicate with our Stakeholders:

- Annual Report
- Licenceholder Newsletter
- Industry briefings on our key themes and activities
- Consultations on changes to the regulatory framework
- Thematic feedback

### Reactive Communications - We tell our Stakeholders about regulatory issues which may affect the industry or consumers

- Public Warnings
- Notices about disciplinary issues
- Other matters as required

### Listening - We seek feedback from industry, international bodies and other stakeholders and use this to inform our strategy and regulatory framework



## Characteristics of Effective Communication

To achieve the Regulatory Objectives, and meet the Core Purpose and staff Core Values, our planned and reactive communications will be:

Clear	Transparent
Relevant	Accurate
Timely	Accessible
Responsive	At our best
Consistent	

## Our Communications will be:

### Clear

**Principle:** Trust and confidence in financial services and regulation relies on public understanding of how it works.

**Objective:** Ensure consumers and firms understand our role and priorities.

### Timely

**Principle:** To be effective, communications must be issued at the right time.

**Objective:** Ensure our communications are issued at the appropriate time taking into account the needs and priorities of our audiences.

### Consistent

**Principle:** Effective regulation requires clearly defined objectives communicated consistently. Firms need to understand our intentions and expectations; consumers need to understand where our responsibilities end.

**Objective:** Communicate our work, rules and messages consistently, whatever the channel. We make our priorities clear so that firms can focus their resources. We explain to consumers where they can rely on us to intervene and where they must take responsibility for their own decisions.

### Accurate

**Principle:** The public need confidence that our decisions are objective and independent and that the information we publish is fair, accurate and as complete as possible.

**Objective:** To ensure communications are as accurate and clear as possible, based on the information we have at the time. Our communications will not be misleading and we will explain if and why they are incomplete.

### Relevant

**Principle:** Our audience will only engage with a communication if it is meaningful to them.

**Objective:** Identify the audience(s) and ensure that our message is relevant to them.

### Responsive

**Principle:** Effective communication is a two-way process. This requires consulting, listening to and taking account of the priorities of our audiences.

**Objective:** Ensure our communications encourage external feedback to help inform our priorities, policies, standards and interventions. We respond to requests promptly, clearly and relevantly.

### Transparent

**Principle:** The public and firms should understand how we work, the reasons behind our decisions and the results of our actions. This allows firms to know if they are meeting our rules, and consumers to know how they are protected.

**Objective:** Explain our policies and decisions to promote public confidence in our effectiveness. Where confidentiality and legal requirements limit what we can say, we aim to be as open as possible.

### Accessible

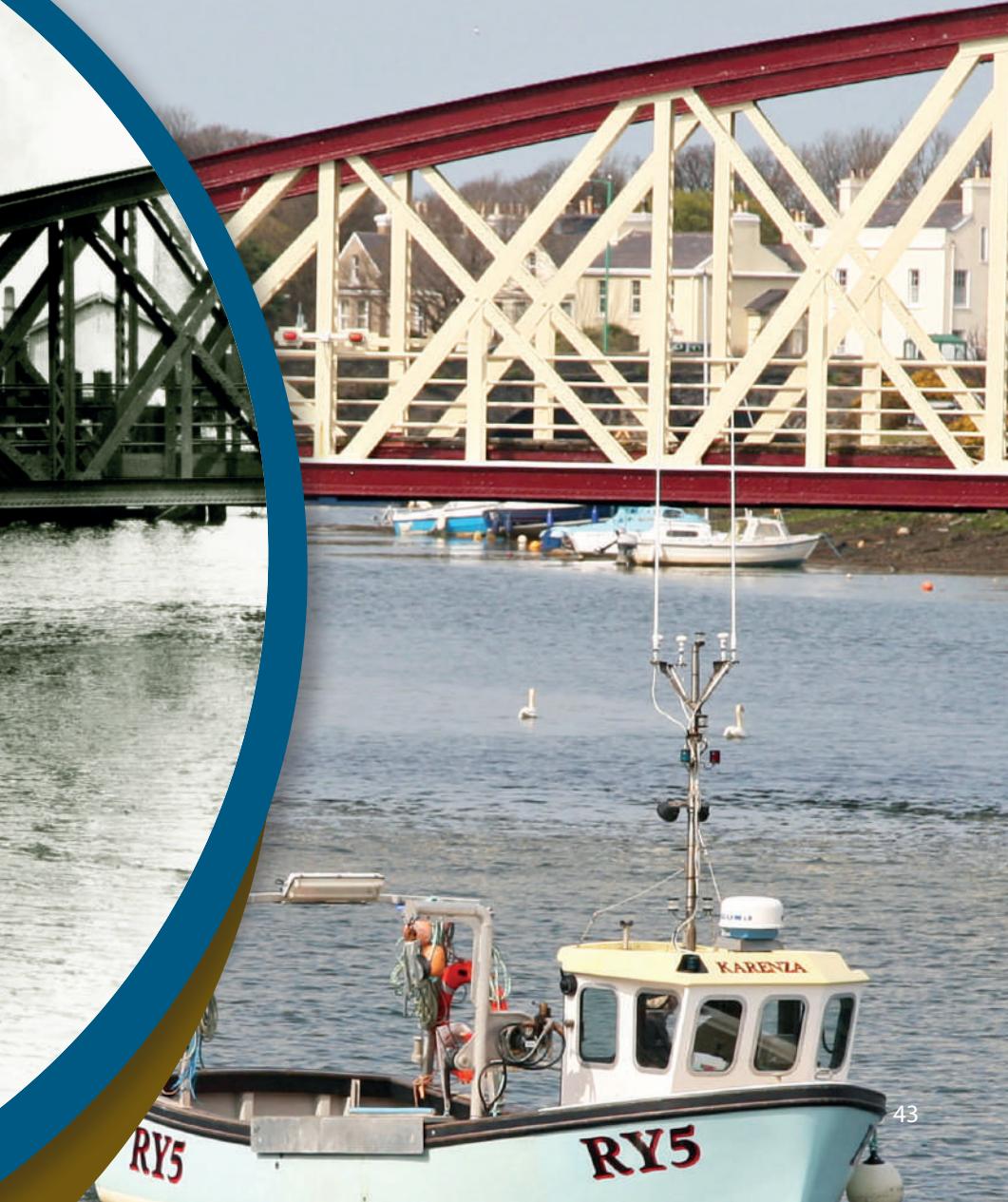
**Principle:** Clear accessible information helps firms and consumers understand, contribute to and act on our regulatory framework.

**Objective:** Communicate clearly, concisely and constructively so that our users understand what we are telling them.

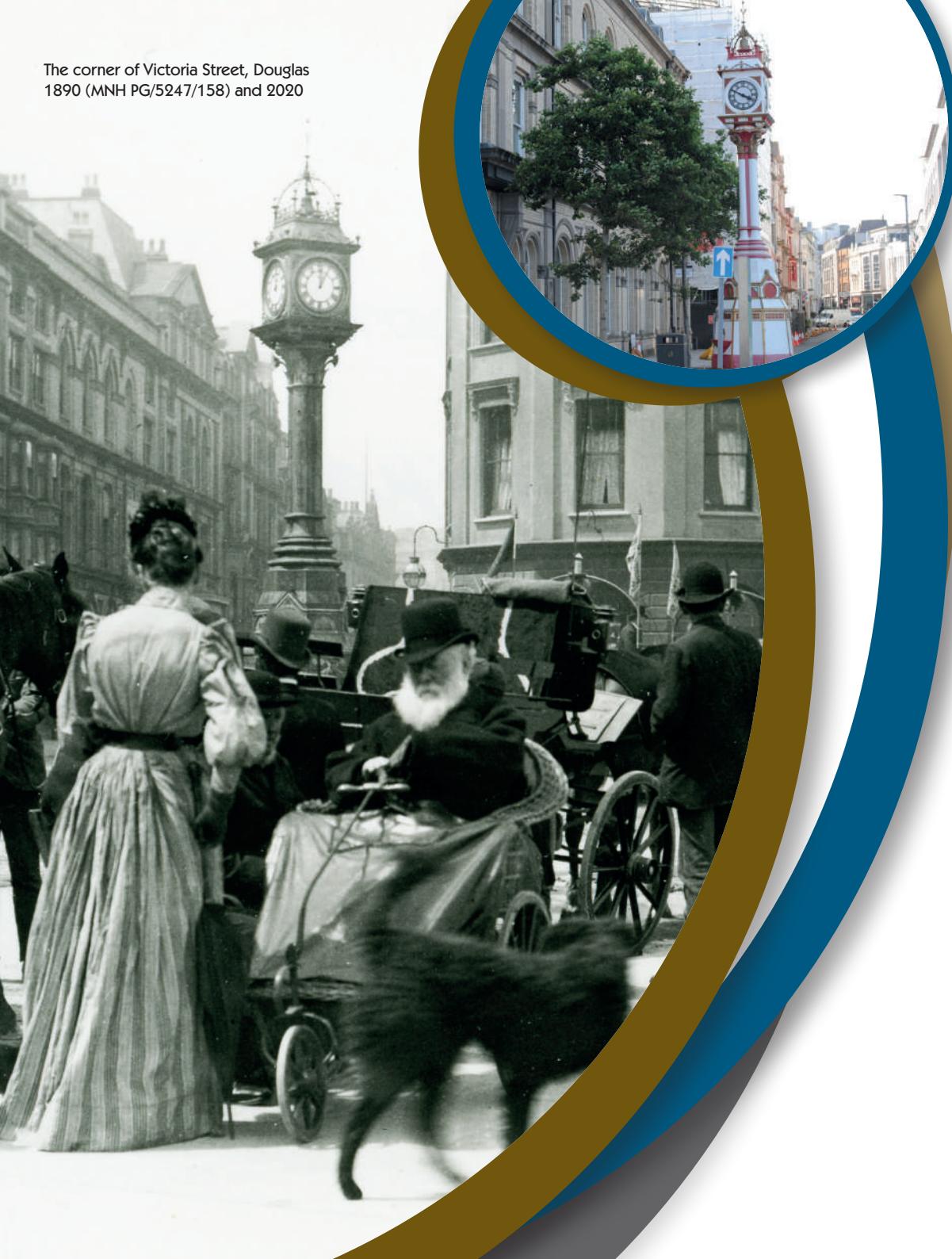
### At our best

**Principle:** Consistently high standards of communication requires expertise, knowledge and ambition.

**Objective:** The Authority aspires to the highest professional standards of communication.



The corner of Victoria Street, Douglas  
1890 (MNH PG/5247/158) and 2020



## Keeping Industry Up-to-Date

Our regulatory framework needs to be clear, transparent and accessible to enable industry to understand the requirements and achieve good levels of compliance. The main resource to help industry stay up-to-date is our website where all general information, consultations, news releases and regulatory frameworks can be accessed.

We provide speakers to industry seminars and hold briefings where appropriate. During the period our staff spoke at industry events on a wide range of topics including:

- Our approach to supervision of regulated firms, including key findings from supervisory work
- The importance of risk management, risk appetite and governance
- Changes to the regulatory framework
- Changes to the Island's AML/CFT requirements
- Key findings from AML/CFT supervisory findings across a range of sectors
- Raising the bar - conduct, culture and professionalism
- Fund governance and the importance of documentation and evidence of decision making
- Vulnerable clients
- The new Enforcement Decision Making Process
- The proposed bank resolution model

We provide feedback on the findings of our thematic work and have for the first time published a broad sector outreach using a "[Dear CEO letter](#)" approach.

In the coming year we will host an active programme of webinars for the regulated sector and others. We believe that this will make our work more accessible to a wider audience and promote a better understanding of the regulatory requirements.

## International Regulators and Standard Setters

We participate in regulatory colleges and bilateral meetings about specific regulated firms or financial services activities. We liaise with the UK Prudential Regulatory Authority ([UK PRA](#)) and the UK Financial Conduct Authority ([UK FCA](#)) on matters of mutual interest including policy and regulated firm matters. We also meet with regulators of the other Crown Dependencies to discuss areas of common interest, for example, AML/CFT matters and Pandemic Planning.

Internationally, we are a member of, and attended meetings with:

- [the International Association of Insurance Supervisors \(IAIS\)](#)
- [the International Organisation of Pension Supervisors \(IOPS\)](#)
- [the International Organisation of Securities Commissions \(IOSCO\)](#)
- [the Group of International Insurance Centre Supervisors \(GIICS\)](#)
- [the Group of International Finance Centre Supervisors \(GIFCS\)](#)
- [the Global Financial Innovation Network \(GFIN\)](#)
- the Enlarged Contact Group for Collective Investment Schemes Supervisors (ECG)

The Island is also a member of [MONEYVAL](#).

Our staff benefit from training and collaboration opportunities provided by the International Bodies.

During the year we became a member of the [International Forum of Insurance Guarantee Funds](#) which facilitates sharing knowledge and experience of operating insurance policyholder compensation schemes.

In July 2020 we joined the [Network for the Greening of the Financial System](#), a network of international regulators which aims to share best practices and contribute to the development of environmental and climate risk management in the financial sector and mobilise mainstream finance to support the transition to a sustainable economy.

## Industry and Professional Bodies

We meet with trade associations and professional bodies across the regulated sectors and participate in working groups to address specific developments. Optimal engagement with these bodies means that key issues can be discussed by both sides and collaborative solutions identified. To be successful, this requires participants who represent the full spectrum of views of a body's membership and who understand the issues.

## Government Agencies

We have regular scheduled meetings with other Isle of Man Government agencies on areas of common interest. These agencies include Treasury, Cabinet Office, the Department of Home Affairs, the Department for Enterprise and its Digital and Finance Agencies, the Office of Fair Trading, the Financial Services Ombudsman, the Pensions Ombudsman, the Gambling Supervision Commission, Customs and Excise, the Economic Crime Unit and the Financial Intelligence Unit (FIU). We are also represented on the AML/CFT Advisory Group, which provides a forum for discussions between Government, regulators and industry.

Where, in the course of our work, we become aware of potential money laundering, terrorist financing or breaches of financial sanctions, these are referred to the FIU for dissemination to the relevant authorities.

We have supported Isle of Man Government in its liaison with the European Parliament's Special Committee on Tax Crimes, Tax Evasion and Tax Avoidance (TAX3) and in meetings with the UK Treasury Select Committee and the Joint Anti-Corruption Unit.

We continue to assist the Isle of Man Government in relation to the UK's exit from the EU on transition issues including Free Trade Agreements.

We have provided Treasury with information to help it understand the economic impacts of COVID-19 on the domestic economy, including the levels of loan forbearance provided by banks, and the levels of mortgage lending in the Island.

We issued guidance to industry setting out factors we consider in relation to [company, business and domain names](#) referred to us by Companies Registry. This guidance is helping applicants understand what is and is not acceptable and thus to avoid applying for inappropriate names.

Top: Claire Whitelegg, John Coyle and Karen Badgerow

Bottom: Adam Owen - President of the Personal Finance Society

## Consumer Awareness

For many consumers, finance and investments are inaccessible topics. We would like to change this perception by signposting information and tools about managing finances and safe investing.

For the past four years we have worked with the London Institute of Banking and Finance, to support the level 3 Certificate in Financial Studies programme in two Isle of Man High Schools. This qualification gives students practical life skills and is an excellent preparation for working in the finance sector. LIBF level 2 and 3 are preferred entry qualifications for certain regulated entities and can lead on to professional level qualifications. We are delighted in the continuing commitment being shown by the community in advancing financial awareness for the next generation and their opportunities in the financial sector.

In autumn 2019 we supported the [IOSCO World Investor Week 2019](#) in collaboration with the Personal Finance Society and London Institute of Banking and Finance and their members. Consumer materials were developed for this and are available in the [Consumer area](#) of our website. On a very wet Saturday, our staff joined the National President of the Personal Finance Society at Tynwald Mills to talk to consumers about money, investments and avoiding fraud.



# OUR ENTERPRISE RISK MANAGEMENT FRAMEWORK

We expect our regulated firms to effectively manage their risks and we recognise that our stakeholders expect the same from us. Our internal risk management framework focuses on risks which affect our ability to achieve our [statutory objectives and goals](#). However those objectives, goals and the statutory matters we have to consider are not linear, which means we need to take a balanced approach to risk.

The entire financial system is based upon risk and return. As such it is not appropriate, possible or feasible to try to eliminate all risks to the financial system and its users. No matter how effectively and efficiently we operate, the financial system and the users of financial services will always face some level of risk. Our aim is to reduce inappropriate risk in the areas that matter most.

In order to identify what is inappropriate risk an organisation must have a clear understanding of its risk appetite. As part of the risk management framework we have developed a Risk Tolerance Statement which overlays the identified risks and helps in the assessment of when a risk has become unacceptable or out of tolerance for the Authority.

We consider the impact on our objectives of risks internal to the Authority, risks posed by the firms that we regulate and external risks. We assess risks on an inherent basis to identify what the impact would be if the risk crystallised and the probability of crystallisation. We then overlay controls in place to mitigate risks and assess impact and probability on a residual basis. This means that we can identify risks that are outside our risk tolerance even after controls have been applied. We use this information to inform our strategic aims and our resource prioritisation and allocation.

## Key Risks

Some of the key risks we have faced during the year have been in the areas of business continuity in the face of the COVID-19 pandemic, cyber-crime, data management, supervision of AML/CFT compliance and being able to demonstrate effectiveness to MONEYVAL and the perceived increased risk appetite of the certain sectors.

We scan for new and emerging risks (Horizon Risks) and we are currently considering among other issues the risks associated with changes to business risks and practices and customer needs flowing from the current economic environment and the impact of climate change for the regulated sector.



# DAY-TO-DAY OPERATIONS

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## Working with the Regulated Sector

### AUTHORISATIONS – REGULATED SECTORS

We process applications for licensing, authorisation or registration under the relevant legislation (*FSA08, IA08, RBSA00 and CISA08*). (*The Authority also processes registrations under the DBRO15 and BOA17 - please refer to the registered firms section for more details about those sectors*).

We are the gatekeeper to the financial regulatory system. To ensure that we meet our regulatory objectives and our regulatory framework complies with international standards, it is important that our regulated firms meet certain requirements. That is to say, applicants must evidence that they are financially sound, have the right systems and controls and staffing in place and that they, and those associated with them, are fit and proper persons to operate in the regulated sector.

Our authorisation process seeks to ascertain whether those entering the financial sector meet minimum regulatory standards. In doing so we strike a balance between prudence and compliance on the one hand, and the encouragement and support of innovation on the other.

[Application for licensing, authorisation or registration](#) of a firm requires consideration of the firm and requirements for its personnel and controllers. Potential applicants are encouraged to contact us at an early stage to discuss their plans; our team can provide support and guidance where appropriate. During the year enquiries ranged from tentative initial queries to formal applications for licensing, authorisation or registration, predominantly from those interested in life and non-life insurance (including insurance intermediaries), trust and corporate service provision, and payment services.

As part of licence, authorisation or registration applications, and on appointment to or within established firms, individuals in specified roles, known as Controlled Functions, are required to be notified to, and accepted by, us. Other specified roles are simply notified to us. [The Regulatory Guidance – Fitness and Propriety](#) (introduced with a new process in 2018) explains the requirements for Controlled Functions. This guidance was updated during the period.

Over the period of this report over 453 'notified and accepted' applications were considered. Many of these resulted from changes within regulated entities as well as from new business applications.

## **SUPERVISION OF REGULATED FIRMS**

Our supervision work is risk-based, pro-active and event driven. We develop our knowledge and understanding of a regulated firm, its activities and the principal risks to which it is exposed, through a combination of desk-based analysis and review of supervisory information (including financial and statistical returns), meetings and discussions with the management of the firm, on-site inspections and thematic reviews. Our assessments are normally reviewed and updated on at least an annual basis.

The focus of our work is built around our key objectives of protecting consumers, reducing financial crime and maintaining confidence in the financial services sector. In order to do this we need to consider risks inherent in firms' business models and operations, and the strength of their governance and control environments.

We supervise regulated firms through two core supervisory divisions consisting of dedicated supervisory teams:

### **The Banking, Funds & Investments Division supervises:**

- Banking and Money Transmission (deposit takers, credit unions, bureaux de change, payment services, cheque cashing and issue of electronic money)
- Fund Services (fund administrators and managers, fund custodians, and collective investment schemes)
- Investment Services (financial advisers, investment and asset managers, stockbrokers, custody (non-fund), investment platforms and crowdfunding platforms)

### **The Insurance, Pensions & Fiduciaries Division supervises:**

- Fiduciary Services (trust and corporate service providers)
- Life Insurance
- Non-Life Insurance (including non-life insurers, insurance managers and general insurance intermediaries)
- Pensions (including retirement benefits schemes)

### **Our Supervisory work includes:**

- Risk assessment of sectors and firms, including for AML/CFT
- Monitoring firms' financial position through review of periodic returns and audit information
- Engaging with certain firms to understand changes to their business models, risks and the impact of current economic environment
- Undertaking enhanced supervision of specific sectors or firms because of their impact or risk profile – this can include targeted or more frequent monitoring, inspections, or remediation programmes
- Undertaking thematic work at sector level, and issue feedback as appropriate
- Processing and considering notifications and requests for supervisory consent from firms

## **CO-OPERATION AND CO-ORDINATION**

Regulators do not operate in isolation. We are members of, and liaise with, international bodies who set the standards for financial services globally, to ensure our frameworks meet current requirements.

One of the benefits of membership is the opportunity to participate in working groups and committees which help to steer the direction of international regulation. It is important that the views of small international financial services centres are heard and factored into developments. Through our participation we are able to develop strong links with key persons at other regulators which we can draw upon where needed.

We also liaise with other regulators bi-laterally to discuss regulatory best practice and to co-operate on particular issues. Where regulated firms are themselves regulated in more than one jurisdiction, or are part of groups spanning different jurisdictions, we co-ordinate with other relevant regulators. We can also co-operate where Island based persons are implicated in transgressions in other jurisdictions and vice versa.

International co-operation is an effective and powerful tool in preventing the abuse of global financial systems by money launderers, terrorist financers and proliferators of weapons of mass destruction. This is particularly important given the international focus of the Island's regulated businesses, together with the significant proportion that are members of groups established or operating elsewhere.

When we provide information to other authorities, we ensure this is done in accordance with our statutory duty of confidentiality. Restricted information can only be disclosed to third parties with the consent of the person providing the information or, if different, the person to whom it relates, or under statutory 'gateways'. These permit us to disclose relevant restricted information to regulators and other specified persons, subject to certain safeguards.

## **MEMORANDA OF UNDERSTANDING (MOUs)**

Our powers to co-operate with other organisations, both domestically and internationally, are supported by a number of MOUs.

MOUs assist the two-way flow of information between supervisory authorities and other organisations. They provide a framework which sets out the basis on which we can be confident that the information we exchange will be treated as confidential, together with the circumstances in which that information may be shared further if it is appropriate to do so.

We are a signatory to three Multi-lateral MOUs (MMOs): the IAIS MMOU, the IOSCO MMOU and the GIFCS MMOU. MMOUs set up a framework where all signatories agree to co-operate with other signatories negating the need for multiple separate MOUs.

## **CONSOLIDATED / GROUP SUPERVISION**

Many regulated firms are subsidiaries or branches of entities regulated in other jurisdictions, and a small number have branch operations in other jurisdictions.

In order to understand fully the nature, scale and complexity of such firms, their activities and the risks to which they may be exposed, we need to understand the intra-group relationships and dependencies that may exist. We liaise with other regulators on areas of common interest including systemic risk, group-wide solvency and group crisis management plans. This can be achieved on a bilateral basis or in some circumstances through a more formal supervisory college.



Castle Rushen 1930 (MNH PG13630/2/069) and 2020



## SUPERVISORY COLLEGES

A supervisory college is a meeting of different regulators to discuss the regulatory approach to a financial services group which is regulated across different jurisdictions. They can enhance information-sharing among supervisors, help the development of a shared agenda for addressing risks and vulnerabilities and provide a platform for communicating key supervisory messages among college members.

Supervisory colleges have been held for many years in relation to banking and insurance groups. More recently supervisory colleges have been held for Trust and Corporate Service Provider Groups.

Normally the group which is being discussed is invited to attend and present to the college members. This is a valuable opportunity for the group to discuss and explain any issues, changes and best practice with their regulators and to influence the supervisory college's conclusions.

## Registered Firms

### DESIGNATED BUSINESSES AND PROFESSIONS

We register and oversee designated businesses AML/CFT compliance arrangements under the DBROA15. We do not oversee their wider business activities or competence.

All designated businesses are subject to periodic inspection of their AML/CFT compliance by the Authority, or a body to whom we have delegated necessary powers. We have delegated oversight powers to the following professional bodies: Institute of Chartered Accountants of England and Wales; Association of Chartered Certified Accountants; Isle of Man Law Society; Institute of Certified Bookkeepers; Institute of Financial Accountants; and International Association of Bookkeepers. These bodies report the findings of their inspections to us. We conduct quality assurance reviews of the work carried out by the professional bodies and retain registration and enforcement powers.

Under the DBROA15 we must refuse to register a designated business if we are not satisfied that the fitness and propriety requirements have been met. During the period we have not refused to register any applicants. We have the power to revoke a registration under certain circumstances; during the period we revoked two registrations.

## CIVIL PENALTIES

During the period of this report 13 civil penalties were issued to 13 designated businesses:

- Nine of these were issued for failure to submit annual returns or failure to pay the annual fee of which eight penalties were paid and one was waived.
- Four penalties were issued for contravention of section 7 of the DBROA15 (prohibition on carrying on designated business if not registered) of which one was paid in full, two reduced and one waived.

## Oversight and Outreach

During the last twelve months the AML team has conducted outreach and education sessions with current and potential designated businesses, as well as with professional advisors to the sectors covered by the legislation.

### BENEFICIAL OWNERSHIP ACT 2017 – OVERSIGHT

Under the BOA17 we are responsible for issuing guidance on certain terms used in the BOA17 and for oversight of compliance with the obligations and requirements of the BOA17.

During the year under review we undertook 77 compliance inspections under the BOA17. During inspections we provided advice and recommendations about the obligations and requirements under the BOA17. No material breaches of obligations or requirements were identified and no nominated officers or companies were reported for breaches of requirements under the BOA17.

### UPDATES TO REQUIREMENTS FOR 'RECOGNISED AUDITORS'

We are responsible for the Recognised Auditors regime on the Island. During the year we met with our counterparts from the other Crown Dependencies and representatives of the UK FRC and ICAEW. One of the key work streams arising was further consultation on, and finalisation of, updates to the Crown Dependencies Audit Rules and Guidance for auditors of UK/EU 'market-traded companies'. These changes came into force in March 2020. The Crown Dependencies are due to consider further updates alongside the FRC and ICAEW in 2020.

## Enforcement Action

Enforcement considerations are a large part of our work. Supervisors will identify issues in respect of regulated firms. If these cannot be appropriately remediated the case may be considered for enforcement action. In other cases we may receive information from third parties or other regulatory or enforcement bodies about the activities of individuals or legal persons. The information below gives a flavour of the issues which could result in action.

### REGULATORY ENFORCEMENT ACTION

In [November 2019](#) and [January 2020](#) we imposed discretionary civil penalties on two regulated firms using the settlement process in the DMP. In each case public statements were issued about the action to highlight learning points which in turn help industry to understand why the sanction was imposed and the nature of mistakes and shortcomings leading to the action.

There are other cases currently progressing through the DMP.

## INTEGRITY

We can take prohibition action, which would prevent the prohibited individuals from working in the financial services industry on the Isle Man. Currently we are progressing action against individuals who have committed dishonesty offences whilst employed by regulated firms. Whilst the current cases involve dishonesty, lack of integrity does not require dishonesty.

A case in Jersey considered the relationship between dishonesty and integrity. [Francis v JFC \[2017\]](#) [JRC 203A](#) “dishonesty and lack of integrity are not the same. Whilst all dishonesty involves a lack of integrity, not all lack of integrity involves dishonesty.” Jersey case law is a persuasive precedent in Isle of Man cases. Therefore, anyone working in the financial services sector who lacks integrity could be subject to prohibition proceedings.

We publish details of [current prohibitions](#) on our website.

## APPOINTMENTS

We have legislative powers under the relevant legislation to appoint a third party, or apply to the High Court for an appointment, to regulated firms. For example, under the FSA08:

- Section 14 Direction
- Section 21 Appointment of a receiver
- Section 22 Appointment of a business manager
- Section 23 Appointment of a reporting accountant

Furthermore, section 5 of the Companies Act 1974 states we can apply to the High Court for the Appointment of an inspector over a company. This power is not restricted to regulated firms.

Appointments can be used as part of remediation work or as part of enforcement action.

During the period a [receiver, a manager, inspectors and latterly liquidators were appointed to a regulated Trust and Company Service Provider.](#)

## ACTION UNDER THE COMPANY OFFICER (DISQUALIFICATIONS) ACT 2009 ("CODA")

We have powers to investigate the conduct of company officers and, if appropriate, to apply to the High Court for their disqualification. This role extends to officers of all companies and not just those regulated by or registered with us.

During the year four people were disqualified by the High Court from acting as company officers including one relating to dishonesty offences. This was the first time we had made an application based on dishonesty. The [current list of disqualified directors](#) is published on our website.

## ACTION UNDER COMPANY LAW

We have powers to apply to the High Court for the winding-up of companies in the public interest. During the period we did not apply to wind up a company in the public interest.

However, in the absence of an Official Receiver for the Isle of Man, we are sometimes required, as a practical measure, to provide financial support to insolvency practitioners appointed for a compulsory winding-up. We provided financial support in five cases, pending the insolvency practitioners reaching a position where funds are available to repay liquidation costs and distribute in accordance with company law.

In 12 other cases where we previously made an application to the High Court, there was no need for advance funding.

## **Assisting with Investigations and Insider Dealing**

The Island co-operates in cross-border enquiries and investigations. Whilst mutual legal assistance in criminal matters is the preserve of the Island's Attorney General's Chambers, we can use our powers of inspection and investigation to obtain local information to assist overseas regulators who are signatories to the IOSCO MMOU or the IAIS MMOU. During the period of this report, nine requests were received from four different jurisdictions and we were able to assist with all requests.

We investigate overseas persons, who falsely claim to have a presence on the Island, to determine whether any criminal or regulatory proceedings are necessary. Where there is no genuine Isle of Man connection, we have power to issue a public warning and publish relevant information in order to protect the public. During the year, we investigated four cases, all of which resulted in the issue of public warnings on our website.

Although the Island does not have a stock exchange, Island based individuals and businesses could be involved in, or hold information about, insider dealing on an exchange elsewhere. We have powers under the Insider Dealing Act 1998 to appoint inspectors to investigate allegations and gather information from resident individuals and businesses. Members of staff were appointed as inspectors to assist with investigations being carried out in overseas jurisdictions twice during the year.

## **Prevention of Money Laundering and Countering the Financing of Terrorism**

### **GUIDANCE**

Guidance in respect of AML/CFT is published in the form of the [AML/CFT Handbook](#) which is a 'living' document subject to regular revision and updating.

Due to the introduction of the revised AML/CFT Code 2019 a number of "stand-alone" guidance documents were issued during the year in response to matters changed by the Code. These documents have been issued to cover the period whilst the Anti-Money Laundering & Countering the Financing of Terrorism Handbook ('the Handbook') is undergoing a full revision. When the new Handbook is published the information contained in the stand-alone documents will be amalgamated into the main body as required.

We also updated guidance to reflect changes made to the FATF country lists.

A number of revised sector specific AML/CFT guidance documents were also issued.

# INTERNAL ORGANISATION

## Finance

During the year we operated within our budgeted expenditure.

Our fee income was negatively affected by the continued consolidation across various industry sectors. Whilst fee income was below budget, we operated without the need for an extension to the agreed Treasury subvention for the period by managing expenditure.

In terms of expenditure, the financial benefit of having in-house Legal Counsel was illustrated in the reduction in professional fees incurred from the use of external legal firms.

During the year, Treasury agreed temporary support for certain additional key roles in order to extend activities in specific areas important to the Island; including additional roles for AML oversight and the ongoing Bank Recovery and Resolution work.

We have continued to use short-term contract appointments as required to cover other temporary increases in activity due to high work volumes or the need to continue to keep pace with international standards.

Work is underway to assess how we will move to a predominantly industry funded model, an objective announced by Treasury in its 2020 Budget.

## Human Resources

We have a permanent staff establishment of 66.5 (full time equivalent) compared to 67.5 for the previous year.\*

During the year staff turnover was approximately 10%; the same level as for the previous year.

We have always actively supported staff development. A comprehensive review of our learning and development strategy, to ensure that we offer appropriate staff development opportunities, is ongoing.

During the year, staff undertook training through the Institute of Leadership and Management courses supported by the Isle of Man Government's Learning, Education and Development team, studied for professional qualifications and participated in focused training by external providers in specialist areas relevant to the functions of supervisory oversight.

Where possible we join with other agencies across Government to engage appropriate external training resources and to share the cost.

## Complaints Against the Authority

No formal complaints against the Authority were lodged during the period of the report.

Our website sets out the procedure for dealing with complaints made against the Authority. If complainants consider that their complaints have not been fully addressed, they can seek a further review by our Board.

\* The staffing figures are lower than the figures reported in the financial statements. This is because the figure in the financial statements includes temporary contracts and secondments.



## Information Technology

Our systems development work continues to focus on the ATLAS project covered elsewhere in the report.

The recent COVID-19 events led to all of our staff working from home from mid-March 2020. The technology we employed, supported by the IOM Government's remote working functionality, meant we moved to off-site work with minimal disruption to our operational capability. In line with the majority of other organisations, adopting suitable video and audio conference solutions has assisted with the remote working arrangements.

We regularly engage with other Government agencies to understand and mitigate data security risks. Our controls include regular training of staff on cyber security risks.

We take our responsibilities under data protection legislation very seriously. A Data Protection Officer and Deputy are in place, and they are also members of our internal Information Governance Group which was formed in summer 2019 and meets monthly to consider data protection, freedom of information, information security and records management issues.

# CORPORATE SOCIAL RESPONSIBILITY

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**We are proud of our staff and the work they do to support community initiatives.**

## **Charity Work**

Every year our staff choose a local charity to support. The chosen charity for 2019 was "Bridge the Gap" which is focused on improving facilities and support for teenagers and young adults with long term health needs. £5,221 was raised through a range of voluntary staff activities including staff participating in the three peaks challenge which saw them climb the highest peaks in Scotland (Ben Nevis), England (Scafell Pike) and Wales (Snowdon) in just 24 hours.

Our staff also contribute to charity in other ways such as periodically collecting for the Isle of Man food banks.

## **The Environment**

The Environmental Team continues to raise awareness of environmental matters across our staff and suggests changes both in the office and outside that may benefit the environment.

### **Activities during the year have included:**

- recycling
- regular 'litter picking' and gardening sessions to keep our outdoor space clean and tidy
- a talk from persons involved in the Island's UNESCO Biosphere initiative
- evening visit for interested parties to the Pulrose Power Station

We also ran a campaign during December (the Green Advent) to encourage staff to do something for wildlife or the environment and reduce, reuse and recycle over the festive period, resulting in many ideas for environmentally friendly gifting, wrapping and celebrations.

We were recently accepted as a UNESCO Biosphere Partner.

# THE UNESCO BIOSPHERE ISLE OF MAN PLEDGE



This signifies that Isle of Man Financial Services Authority pledges to help:

- Protect our natural resources
- Develop our economy in a sustainable way
- Support and promote our cultural heritage
- Make our environmental impact positive wherever possible
- Engage with the local community
- Promote our outstanding living landscape and seascape through active involvement with UNESCO Biosphere Isle of Man

# APPENDIX A

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## Functions of the Financial Services Authority

The functions of the Authority are set out in paragraph 2 of Schedule 1 of the Financial Services Act 2008 and are as follows:

- the regulation and supervision of persons undertaking regulated activities
- the regulation and supervision of persons undertaking regulated insurance activities or regulated pensions activities
- the maintenance and development of the regulatory regime for regulated insurance activities and regulated pensions activities
- the maintenance and development of the regulatory regime for regulated activities
- the conduct of investigations into any potential liability arising from breach of AML/CFT legislation by persons undertaking regulated activities
- the oversight of directors and persons responsible for the management, administration or affairs of commercial entities
- participation in consultative bodies, working groups and other arrangements
- the functions conferred on it under the Financial Services Act 2008
- the regulation and supervision of collective investment schemes within the meaning of the Collective Investment Schemes Act 2008
- the regulation and supervision of retirement benefits schemes within the meaning of the Retirement Benefits Schemes Act 2000
- the functions conferred on it under the Acts specified below, and
- the functions conferred on it under any other statutory provision

**The Acts under which functions are specified are:**

- the Industrial and Building Societies Act 1892
- the Companies Act 1931
- the Income Tax Act 1970
- the Companies Act 1974
- the Companies Act 1982
- the Building Societies Act 1986
- the Insurance Act 2008
- the Retirement Benefits Schemes Act 2000
- the Life Assurance (Insurable Interests) Act 2004
- the Collective Investment Schemes Act 2008
- the Credit Unions Act 1993
- the International Business Act 1994
- the Limited Liability Companies Act 1996
- the Companies (Transfer of Domicile) Act 1998
- the Insider Dealing Act 1998
- the Online Gambling Regulation Act 2001
- the Companies Act 2006
- the Company Officers (Disqualification) Act 2009
- the Terrorism and Other Crime (Financial Restrictions) Act 2014
- the Incorporated Cell Companies Act 2010
- the Foundations Act 2011
- the Payment Services Act 2015
- the Designated Businesses (Registration and Oversight) Act 2015
- the Beneficial Ownership Act 2017

# APPENDIX B

## Our Board - Corporate Governance, Meetings and Members' Biographies

### CORPORATE GOVERNANCE

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

In discharging these responsibilities and reporting to the Board, the CEO and Executive of the Authority are required to put in place adequate arrangements for the governance of the Authority's affairs and the stewardship of resources at its disposal. This is also embraced within the Isle of Man Government's Corporate Governance Principles and Code of Conduct. That code requires there to be in place a framework governing activity and ensuring that:

- decisions are taken properly
- channels of communication are open
- performance is monitored
- standards are upheld

The Authority published its own [Code of Conduct](#) for Board Members in April 2020.

The Authority is required to submit an annual 'Statement on Internal Control' to Government which covers implementation of the above arrangements.

### **The control environment within which the Authority operates includes:**

- adherence to the Government's Financial Regulations
- arrangements for functions and responsibilities delegated by the Board to individual officers via job descriptions and monitored by a regular review process

- a register of interests of Board Members and all other staff
- a staff handbook (including codes of conduct, etc.), and
- an internal reporting mechanism through the senior management team to the CEO and to the Board.

The control environment sets the overall structure for internal control and the exercise of the responsibilities of the Authority's Board Members, CEO, senior management and officers in regard to all matters, including such areas as the:

- accomplishment of established goals and objectives
- appropriate exercise of powers and delegated authorities within the Authority
- compliance with policies, plans, procedures, law and other requirements
- management of conflicts of interests
- reliability and integrity of management information
- economical and efficient use of all resources
- safe-guarding of all assets.

Whilst responsibility and accountability for internal control is vested with the CEO, the Treasury has a role in reviewing the adequacy of the Authority's internal controls through use of internal audit processes. The existing memoranda of understanding with Treasury continue to set out the framework for co-operation between the Treasury and the Authority. The memoranda establish arrangements to ensure that the Authority is accountable to Treasury for its actions and clarify the circumstances in which liaison and dialogue can flow between both parties. The Authority intends to enter into an updated memorandum of understanding with the Treasury in due course.

## **MEETINGS OF THE AUTHORITY**

During the period there were ten scheduled meetings of the Board of the Authority.

There are two sub-committees of the Board, the Human Resource and Compensation Committee and the Risk and Compliance Committee. Each sub-committee met four times during the period.

## **AUTHORITY BOARD MEMBERS AS AT 31 MARCH 2020**

### **Lillian Boyle (Chair)**

Lillian became Chair of the Financial Services Authority in July 2018, having been appointed to the Authority on 1 November 2015. She is a lawyer, a Chartered Fellow of both the Chartered Institute for Securities & Investment and the Chartered Insurance Institute, as well as being a Trust & Estate Practitioner and a Fellow of the Institute of Directors.

She has extensive experience in the wider financial services sector having been Managing Director and Chairman of Isle of Man based International Life Companies and has also held non-executive roles in the investment and fiduciary sectors on the Island as well as in UK life assurance. She was previously a member of the UK Financial Reporting Council's Conduct Committee and has been Chairman of several UK based Audit & Risk Committees as well as local professional and educational bodies.

She is a former UK President of the Chartered Insurance Institute and is now a member of their Professional Standards Committee. Lillian is also a Trustee Director of a UK benevolent fund where she chairs the Nominations Committee and is currently Chair of the IoM Research Ethics Committee.

### **Juan Clarke (Deputy Chair)**

Juan Clarke joined the Board in March 2016 and was appointed as Deputy Chair in July 2018. Prior to this he was Managing Director of the Clerical Medical International (CMI) Group of Companies, part of the Lloyds Banking Group comprising trust, fund management and venture capital investment companies and Scottish Widows offshore insurance arm, CMI Insurance Company Limited. He has over 35 years' experience in financial services since starting his career with Barclaytrust in 1982 and at CMI held a number of senior roles specialising in

insurance, investments and fund management. Juan currently holds non-executive director positions in the Isle of Man and Luxembourg and is a Chartered Fellow of the Chartered Institute for Securities and Investment and holds Chartered Wealth Manager status with the Institute.

### **Karen Badgerow**

Karen Badgerow was appointed to the position of Chief Executive in November 2015. Prior to this she served over 30 years with the Canadian government in senior roles in financial services regulation. Most recently she was Senior Vice-President with the Canada Deposit Insurance Corporation heading up their Insurance and Risk Assessment Division. Before joining CDIC, Karen spent over 25 years with the federal banking and insurance regulator, the Office of the Superintendent of Financial Institutions, and was responsible in her last position for oversight of the federal banking sector. She also represented Canada on a number of international committees including the Senior Supervisors Group and the FSB's Supervisory Intensity and Effectiveness Committee. Karen holds a Bachelor's degree and a Master's degree in Public Administration from Carleton University in Ottawa, Canada.

### **Kevin Garland**

Kevin was appointed in February 2020.

Immediately prior to joining the Authority, Kevin was Chief Information Officer and part of the Senior Leadership team of the Central Bank of Ireland. He had overall responsibility for IT, during his tenure he authored the Bank's data strategy which led to significant investment in information security, regulatory and statistical data management, and the introduction of a comprehensive document management system and framework.

Prior to the Central Bank, Kevin was CIO in Aviva where he reported to the Group CEO of Ireland and had overall responsibility for IT in Aviva's Life and Pensions, General Insurance and Health Insurance and was a member of the senior management team. His responsibilities covered IT change portfolio management, application development, testing, IT operations, infrastructure and communications, business protection and sales distribution and operations technology support.

Prior to joining Aviva, Kevin was with Irish Life Assurance for 20+ years. During this time, he was Head of IT for Irish Life UK and Executive Team member for the establishment of Irish Life International.

#### **Peter Hahn**

Pete was appointed in February 2020.

Pete is a member of the governing council of The Association of Corporate Treasurers and a Non-executive director of Kalgera Limited (UK). He retired as Dean and Professor of Banking at The London Institute of Banking & Finance in 2020 having previously taught at Cass Business School. Pete was Senior Advisor to Bank of England Prudential Regulatory Authority (and its predecessor the UK Financial Services Authority) from 2009-2014. From 1980-2004, he worked in a range of industry roles in North America and Europe spanning consumer to investment banking lastly as Managing Director and Citigroup's Senior Corporate Finance Officer for the United Kingdom. From 2015-2018, he was a non-executive member of Seven Investment Management's Asset Allocation Committee.

Pete received a PhD in Finance from City University of London's Cass Business School, an MBA from New York University's Graduate School of Business Administration, and a BA from Drew University. In addition to teaching qualifications, he completed the US General Securities Representative Exam (NASD/FINRA Registered Representative) and the former UK Corporate Finance (SFA) Qualification.

#### **Jane McAndry**

Jane McAndry was appointed in July 2018. She qualified as a Scottish solicitor and was a lecturer in law before moving to the Isle of Man in 1987. Following a number of years in legal practice, specialising in company and commercial law, she moved in-house as a director of a substantial Isle of Man Corporate and Trust Service Provider before joining the then Financial Supervision Commission in 2000 as Head of Companies, where she was responsible for the licensing of CSPs and later TSPs, and then Head of the Policy and Legal Unit. After seven years with the FSC, Jane moved to asset management group, Charlemagne Capital (now

Fiera Capital) where she held a number of roles, including director and company secretary of AIM quoted Charlemagne Capital Limited and managing director of the group's Isle of Man operations, a role she retired from at the end of 2018. Jane was closely involved in the establishment of the Association of Corporate Service Providers. She was also a Governor of King William's College and The Buchan School for a number of years and is the author of a book on Isle of Man Company Law.

#### **Leam Thompson**

Leam was called to the Bar of England and Wales in 1997. Since 1999, Leam has worked for the United Nations Office on Drugs and Crime, a number of UK Government regulatory and enforcement authorities, global accounting networks and various foreign governments on recovering the Proceeds of Crime.

Leam's working life began with secondments from Chambers to the Securities & Futures Authority (forerunner to the UK's Financial Conduct Authority), before moving on to the Central Confiscation Branch of the Criminal Prosecution Service and the Asset Recovery Unit of HM Revenue & Customs. This was followed by wider public and private sector engagements in Europe and Eastern and Southern Africa. Most recently this has included work in Uganda on the Department for International Development and EU funded Strengthening Uganda's Anti-Corruption and Accountability Regime ("SUGAR") Technical Advisory Facility and the leading of the Facility's asset recovery intervention and back in the UK design work on an Illicit Finance Capability.

#### **Mark Waterhouse**

Mark Waterhouse was appointed in November 2015 and is currently the Chair of the Human Resources and Compensation Committee. He has held a number of key positions in banking including Managing Director of Halifax International (Isle of Man) Limited, Managing Director of Halifax International Limited in Jersey and CEO of Zurich Bank International Limited. He currently holds Non-Executive Director positions on the Island including one with an iGaming company.

Since moving to the Isle of Man in 1997 Mark has been an active member of the Isle of Man Bankers Association of which he was a founding member and has held the position of President on two separate occasions. He is a committee member and immediate past President of the Isle of Man Centre of the London Institute of Banking & Finance (formerly the Chartered Institute of Banking) and is a Fellow of the Institute of Directors and currently serves on the Committee of its local branch in the Isle of Man.

**Paul Wright**

Paul Wright was appointed to the predecessor organisation in May 2012. He spent most of his career with the Bank of England where, among other roles, he had supervisory responsibility for global institutions. He was alternate Executive Director at the IMF in the early 1990s. He worked in the UK FSA for ten years where he oversaw supervision of the major overseas institutions in the UK and subsequently had responsibility for global and EU strategy. Until 2012 he was Senior Director at the Institute of International Finance in Washington DC. Paul was the CSFI/Swiss Re fellow in global insurance issues and currently advises a number of supervisory bodies on supervisory practice internationally.

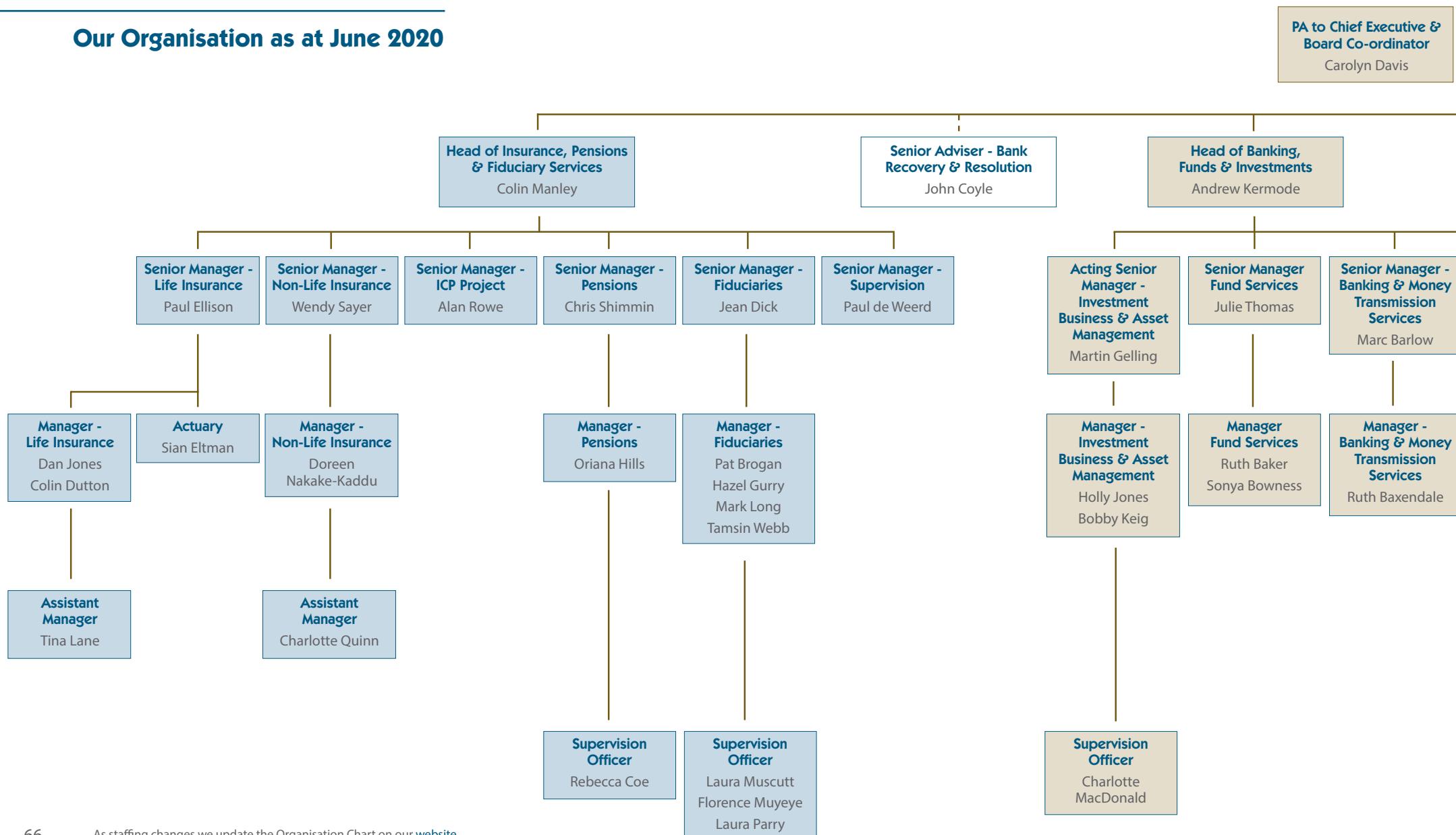
**Tom Maher -  
General Counsel and Head of Corporate Governance**

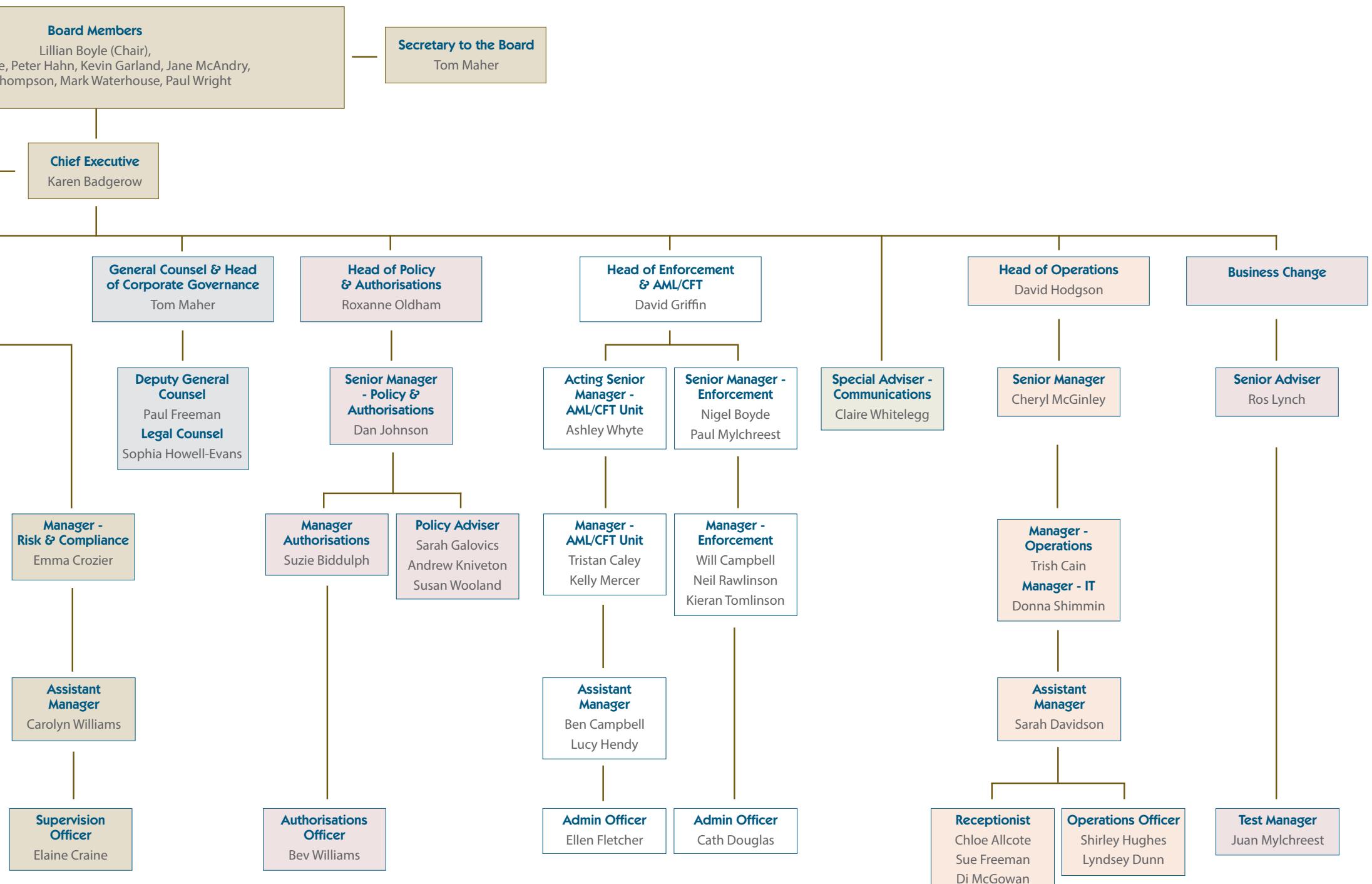
Tom joined the Financial Services Authority in July 2018 in the newly created role of General Counsel and Head of Corporate Governance. Prior to this, Tom was managing partner of a law firm in the Isle of Man where he had a varied practice involving regulatory and commercial matters. Tom retired from the Authority in June 2020 and was replaced by Paul Freeman. The General Counsel is the lead legal advisor to the Board and the Executive of the Authority,



# APPENDIX C

## Our Organisation as at June 2020





# APPENDIX D

## Industry Statistics

The Authority publishes statistics on a regular basis on our website. Where statistics are already published this is indicated and a link is provided to those statistics.

### A - REGULATED FIRMS

#### i) Financial Services Act 2008

The information below is in addition to the published statistics on our [website](#) for firms under the Financial Services Act 2008 and Collective Investment Schemes Act 2008.

<b>Companies, partnerships, foundations and trusts under administration</b>	<b>2019/20</b>	<b>2018/19</b>	<b>Movement</b>
1931 Act Companies	6,675	7,402	-727
2006 Act Companies	9,031	8,572	+459
Isle of Man public limited companies	83	85	-2
Public companies incorporated elsewhere	11	7	+4
Non-public limited companies with more than 50 shareholders	20	18	+2
Overseas companies not registered under the Foreign Companies Act 2014	7,086	9,333	-2,247
Overseas companies registered under the Foreign Companies Act 2014 (a.k.a. 'F-Registered')	444	413	+31
Limited Liability Companies	306	319	-13
Partnerships	350	352	-2
Foundations	200	198	+2
Trusts	14,046	15,030	-984
Private Trust Companies	131	167	-36

<b>Remedial and other regulatory actions – under the FSA08</b>	<b>Year ended 31 March</b>	
	<b>2020</b>	<b>2019</b>
Directions – under sections 14 and 18 of the FSA08	13	18
<b>Civil Penalties</b>		
Fixed penalties relating to late filings	12	7
Discretionary penalties relating to regulatory breaches	2	0
Section 11 - warning notices	1	0
Section 23 - reporting accountant	0	0
Section 22 – successful application to court for the appointment of a business manager	1	0
FSA08 licences (or classes thereof) suspended	0	0
FSA08 licences (or classes thereof) revoked	0	0

## **ii) Collective Investment Schemes Act 2008**

Statistics - published on our [website](#)

Remedial and other regulatory actions – under the CISA08	Year ended 31 March	
	2020	2019
Section 11A – not fit and proper	0	0
Section 11B – prohibitions	0	0
Section 11F - warning notices	0	0
Section 12 - directions	0	1*
Section 13 – appointment of an adviser to a fund	0	0
Section 13 – appointment of a person to assume control of a fund	0	0
Section 15 – application to court granted for winding up and appointment of a liquidator to a fund	0	1
Section 16 – application to court granted for the appointment of an inspector to a fund	0	0
Section 19A – civil penalty	0	0

\*The Authority also issued a ' minded to issue' notice in relation to this power, but the power was not used because the Fund undertook alternative action acceptable to the Authority

### **iii) Insurance Act**

Statistics - published on our [website](#)

Remedial and other regulatory actions under the IA08	Year ended 31 March	
	2020	2019
Section 33 – imposition of requirements	0	2
Section 29 – not fit and proper direction	0	0
Schedule 5 – information request	0	3

### **iv) Retirement Benefit Schemes Act 2000**

Statistics - published on our [website](#)

Remedial and other regulatory actions under the RBSA00	Year ended 31 March	
	2020	2019
Section 19 – not fit and proper direction	0	0

## B - REGISTERED FIRMS

Designated Businesses (Registration and Oversight) Act 2015	Year ended 31 March	
	2020	2019
<b>s.7 – Civil Penalties - carrying on or holding out as carrying on designated business without being registered</b>		
Civil penalties issued	4	2
of which		
Paid	1	1
Reduced	2	0
Waived	1	1
<b>s.13 – Civil Penalties for failure to submit annual returns and / or pay annual oversight fee</b>		
Civil penalties issued	9	68
of which		
Paid	8	61
Waived	1	7
<b>s.15 – Request for information</b>		
Requests issued	7	1
leading to		
Registrations revoked	2	0
Deregistration by request	1	0
Deregistered by the Authority	1	0
Considered for revocation	1	0
Under review	2	0
Resolved registration consideration	0	1

<b>Beneficial Ownership Act 2017 (BOA17)</b>	<b>Year ended 31 March</b>	
	<b>2020</b>	<b>2019</b>
Beneficial Ownership inspections were carried out, resulting in:	77	79
Issues with processes	19	3
of which		
No confirmation of appointment date	1	0
Company shown as pending dissolution	1	0
Information about trust needed adding	1	0
Ultimate Beneficial Owner needed adding	5	3
Required a declaration of no beneficial owner	8	0

#### C - ACTIONS TAKEN UNDER THE COMPANY OFFICERS DISQUALIFICATION ACT 2009

<b>CODA09</b>	<b>Year ended 31 March</b>	
	<b>2020</b>	<b>2019</b>
	4	2

# APPENDIX E

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## Our Accounts

### Income and Expenditure Account For the year ended 31 March 2020

#### 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 in accordance with the requirements of the Audit Act 2006.

The Chief Executive ensures that an income and expenditure account is prepared for each financial period, which meets the requirements of the Accounts and Audit Regulations 2018 made under the Audit Act 2006. In addition, the income and expenditure account is prepared in accordance with the UK Accounting Standards including FRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland as applicable to the Authority, except where indicated in the accounting policies.

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 applicable UK Accounting Standards including FRS102, The Financial Reporting Standard applicable in the UK and Republic of Ireland as applicable to 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.

## **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 Isle of Man Financial Services Authority ("the Authority") for the year ended 31 March 2020 and notes to the Income and Expenditure Account, including a summary of significant accounting policies (the "financial statement"). The financial reporting framework that has been applied in their preparation is applicable law. In our opinion, the accompanying financial statement presents fairly, in all material respects, the income and expenditure of the Authority for the year ended 31 March 2020 in accordance with the income and expenditure basis of accounting described in Note 1(a).

### **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 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(a) to the financial statement, which describes the basis of accounting; and to Note 1(c) which states that expenditure is not accounted for on the accruals basis which does not satisfy the requirements of FRS102. 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.

### **Who we are reporting to**

This report is made solely to the Members of the Authority, including the Chief Executive, in accordance with section 6 of the Audit Act 2006. Our audit work has been undertaken so that we might state to the Members of the Authority including the Chief Executive 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.

### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Executive's use of the going concern basis of accounting in the preparation of the financial statement is not appropriate; or
- the Chief Executive has not disclosed in the financial statement any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statement is authorised for issue.

## **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 79 to 81, 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.

## **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where Section 6(2) of the Audit Act 2006 require us to report to you if, in our opinion we:

- are not satisfied as to any of the matters specified in section 4(1) of the Audit Act 2006;
- consider that any matter specified in section 4(2) of the Audit Act 2006 is contrary to law; or
- consider that the relevant body has failed in any respect mentioned in section 4(3) of the Audit Act 2006.

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 77 the Chief Executive is responsible for 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 relating 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.

## **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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**Grant Thornton Limited**

**Douglas, Isle of Man**

**18 September 2020**

**Income and Expenditure  
Account for the year  
ended 31 March 2020**

	Note	£	2019-20 £	2018-19 £
<b>Income</b>				
Fee Income	1(b), 2		<b>3,101,040</b>	3,181,950
Civil Penalties	2		<b>19,300</b>	17,200
Government Grant	12		<b>3,215,289</b>	2,853,790
Other Income			-	106
Increase to budget at year-end	12		-	215,000
<b>Total Income</b>	1(b)		<b>6,335,629</b>	6,268,046
<b>Expenditure</b>				
Salaries	3,10	<b>5,022,600</b>		4,900,798
Members' Remuneration	4	<b>161,102</b>		159,890
Recruitment		<b>11,532</b>		9,632
Agency Staff		<b>3,649</b>		-
Premises		<b>312,835</b>		313,602
Training	6	<b>52,403</b>		72,892
Travel and Subsistence	6	<b>64,182</b>		51,191
Professional Fees and External Consultancy	5	<b>364,295</b>		653,317
Operating Expenses	6	<b>38,459</b>		59,690
Information Technology		<b>91,475</b>		89,182
Professional Subscriptions	6	<b>88,464</b>		69,775
Other Expenses		<b>12,662</b>		11,017
Loan Charges	7	<b>53,000</b>		35,900
Bad Debts	9	<b>58,971</b>		1,160
Reimbursements (from)/to Internal Funds	12	-		(160,000)
<b>Total Expenditure</b>	1(c)	<b>(6,335,629)</b>		(6,268,046)
<b>Surplus/(deficit) for the year</b>	1(a)	-		-

The notes on pages 79 to 81 form part of the Income and Expenditure Account.

**The income and expenditure account was approved by the Financial Services Authority on the 18 September 2020 and signed on its behalf by Ms Lillian Boyle, Chair and Ms Karen Badgerow, Chief Executive.**

**NOTES TO THE ACCOUNTS FOR THE YEAR  
ENDED 31 MARCH 2020**

**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 and any deficit or surplus 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 Accounts and Audit Regulations 2018, made under the Audit Act 2006. They are also prepared in accordance with UK Accounting Standards including FRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland, as applicable to the Authority. 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. This does not satisfy the requirements of FRS102, which requires that expenditure be accounted for on the accruals basis.

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 3 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, 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.

Civil penalty income reflects income received from administrative civil penalties only. In addition £109,478 was charged in respect of discretionary penalties levied on regulated entities arising from successful enforcement actions or settlement agreements. This is not treated as income of the Authority and is accounted for as credits to the IOM Government's general revenue.

### **3. Salaries**

Included within "Salaries" are employer pension contributions of £449,453.

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

	<b>2020 Number of employees</b>	<b>2019 Number of employees</b>
£0 - £99,999	74	72
£100,000 - £199,999	3	5
£200,000 - £300,000	1	1
<b>Total</b>	<b>78</b>	<b>78</b>

The 78 members of staff equate to a full time equivalent of 68.9 employees (2019: 71.5)

In 2017/18 the Authority was asked by Treasury to take on an additional role for a two year period to determine the Island's approach to Bank Recovery and Resolution. An additional headcount, over and above the Authority's agreed staffing level, was established for this advisory role.

This role was subsequently extended for a further year. Treasury had agreed to cover any overspend in the Authority's staffing budget resulting from the extension to this appointment. In addition, the Authority had obtained Treasury agreement for additional spend within salary costs for 2019/20 in respect of AML-CFT and General Counsel roles.

Associated expenditure is included in the Authority's final salary figure and the drawdown of £156,023 from Treasury funds is reflected in the increase to the Government grant figure at the year end.

### **4. Members' Remuneration**

During the year, one Member retired from the Board and two new Members were appointed. During 2018/19 total membership had reduced from nine to eight, including the Chief Executive. During the current period this has now increased back to nine, also including the Chief Executive. Salary cost in respect of the Chief Executive is included within "Salaries" (note 3).

### **5. Professional Fees and External Consultancy**

Professional fees and external consultancy includes expenditure on actuarial, accountancy, legal and consultancy services procured by the Authority. The reduction of costs in relation to professional fees compared to 2018/19 is in part due to role of the General Counsel which has reduced the Authority's reliance on external legal advice.

### **6. Variances**

Some areas of expenditure show significant variances on the prior year. These are variable costs for which expenditure is directly related to, for example, the annual training programme, attendance at events and overseas' conferences, and events hosted by the Authority.

### **7. 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 - 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 is treated on the same repayment basis.

## **8. 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.

## **9. Bad Debts**

Debts in relation to licenceholders in liquidation, where an expectation of recovery had remained, and for which no provision had been made, were written off at the year end following indication that recovery is now remote.

## **10. 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.

## **11. Related Party Disclosures**

There were no related party transactions requiring disclosure in the Accounts as the Authority is exempt from this disclosure as the Central Government publish their financial statements and disclose the relevant transactions.

Some Members of the Authority's Board may also act as Directors of licenceholders. All licenceholder fees are charged in accordance with the Financial Services (Fees) Order; Insurance (Fees) Regulations; Collective Investment Schemes (Fees) Order; and the Registered Schemes Administrators (Fees) Order. The total fees generated, from entities where Members are directors, were £33,203, which compares to £41,014 for the prior year.

## **12. 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.

A budgetary grant was approved by Tynwald at its February 2019 sitting. This grant secured the provision of up to £3,059,266 to cover any shortfall. The grant figure has been increased by £156,023 which reflects Treasury's agreement to additional

funding of up to £300K in respect of specified salary costs (see note 3). This presentation of budgetary changes is different from that of 2018-19; Treasury made an addition to budget of £215K and a credit to expense of £160K.

## **13. COVID-19 Disclosures**

On March 11 2020, the World Health Organisation (WHO) officially declared COVID-19, the disease caused by novel coronavirus, a pandemic. In the Isle of Man a state of emergency was declared on 16 March 2020, ending on 26 June 2020.

The outbreak and the resulting restrictions has not had a significant impact on the Authority, with the effect to date being restricted to an insignificant increase in costs, revised working practices and some improvement projects being delayed. The Authority has been able to continue to discharge its statutory functions.

Given its role as a regulator any longer term impact on the Authority is likely to be secondary and driven by any changes to the industries and entities it regulates on the Island. The Authority has been able to maintain close contact with its stakeholders within the financial services industry, ensuring that its stakeholders, as well as the Authority itself, have appropriate response plans in place.

The management team continues to liaise closely with the industry to determine any current or potential impacts to business. A high degree of uncertainty remains.

It is expected that the results of the COVID-19 pandemic will have an adverse impact on the economy of the Isle of Man and the revenue of the Isle of Man Government at least in the short term. However it is felt that the nature of the Authority as a Statutory Board and the financial services regulator, determines that the impact of the pandemic is likely to be one of degree and not fundamental to its future viability and its operation as a going concern.

# APPENDIX F

## Legislation which came into effect between 1/4/19 and 31/3/20

All recent Isle of Man legislation is now accessible via: <http://www.legislation.gov.im/cms/en/>

**Secondary legislation made or drafted by the Isle of Man Financial Services Authority:**

**SD no. 2019/0027 effective 'exit day' (i.e. 31 March 2020) – European Union and Trade Act 2019 (Deficiencies) (Treasury) Regulations 2019.**

These Regulations make amendments to various pieces of legislation so as to address deficiencies that arise as a result of the United Kingdom withdrawing from the European Union. In terms of legislation of particular relevance to the Authority, these Regulations amended: the Insurance (Protected Cell Companies) Regulations 2004; the Authorised Collective Investment Scheme Regulations 2010; the Regulated Activities Order 2011; the Financial Services (Exemptions) Regulations 2011; the Payment Services Regulations 2015; and the Financial Services Rule Book 2016.

**SD no. 2019/0030 effective 1 April 2019 – Collective Investment Schemes (Fees) Order 2019.** This Order specifies the application fees and periodical fees payable from 1 April 2019 by schemes under the Collective Investment Schemes Act 2008.

**SD no. 2019/0031 effective 1 April 2019 – Designated Businesses (Fees) Order 2019.** This Order specifies registration and annual fees payable from 1 April 2019 by applicants for registration and registered persons under the Designated Businesses (Registration and Oversight) Act 2015.

**SD no. 2019/0032 effective 1 April 2019 – Financial Services (Fees) Order 2019.** This Order specifies the application fees and annual fees payable from 1 April 2019 in respect of the licensing of regulated activities under the Financial Services Act 2008.

**SD no. 2019/0033 effective 1 April 2019 – Insurance (Fees) Regulations 2019.** These Regulations specify the application fees and annual fees payable from 1 April 2019 in respect of authorisations, permits and registrations under the Insurance Act 2008.

**SD no. 2019/0034 effective 1 April 2019 – Registered Schemes Administrators (Fees) Order 2019.** This Order specifies the application fees and annual fees payable from 1 April 2019 in respect of registered scheme administrators under the Retirement Benefits Schemes Act 2000.

**SD no. 2019/0046 effective 1 April 2019 – Regulated Activities (Credit Unions Etc.) (Amendment) Order 2019.** This Order amends the Regulated Activities Order 2011 by: (a) adding an additional class of regulated activity to cover the operation of a credit union (Class 9); and (b) amending the definition of 'payment service provider' to reflect the United Kingdom's withdrawal from the European Union.

**SD no. 2019/0047 effective 1 April 2019 – Financial Services (Exemptions) (Credit Unions) (Amendment) Regulations 2019.** These Regulations amend the Financial Services (Exemptions) Regulations 2011 by exempting Class 9 licenceholders from the requirement to hold a licence to carry on Class 8(2) (payment services) regulated activities.

**SD no. 2019/0048 effective 1 April 2019 – Financial Services (Fees) (Credit Unions) (Amendment) Order 2019.** This Order amends the Financial Services (Fees) Order 2018 by adding fees for Class 9, which is a new class of regulated activity. The fees for Class 9 are an Application Fee of £500 and an Annual Fee of £250.

**SD no. 2019/0049 effective 1 April 2019 – Financial Services (Credit Unions) (Amendment) Rule Book 2019.** This Rule Book amends the Financial Services Rule Book 2016 to disapply that Rule Book's requirements from Class 9 licenceholders, following the creation of Class 9. Requirements for Class 9 will be imposed as licence conditions under the Financial Services Act 2008 instead.

**SD no. 2019/0050 effective 2 April 2019 – Credit Unions Act 1993 (Loan Interest Rate) (Amendment) Order 2019.** This Order amends section 11 of the Credit Unions Act 1993 to increase the maximum interest rate that may be charged on loans made by a credit union from 1% (one per cent) per month to 3% (three per cent) per month.

**SD no. 2019/0067 effective 1 June 2019 – Regulated Activities (Crowdfunding) (Amendment) Order 2019.** This Order amends the Regulated Activities Order 2011 to expand Class 6(2) activity to allow the operation of a limited secondary market for crowdfunded equities.

**SD no. 2019/0070 effective 19 March 2019 – Credit Unions (Amendment) Act 2018 (Appointed Day) Order 2019.** This Order brings all the provisions of the Credit Unions (Amendment) Act 2018 into operation.

**SD no. 2019/0097 effective 'exit day' (i.e. 31 March 2020) – European Union and Trade Act 2019 (Deficiencies) (Isle of Man Financial Services Authority) Regulations 2019.** To reflect the withdrawal of the United Kingdom from the European Union, these Regulations amend: the Register of Recognised Auditor Regulations 2010; the Accounting (Recognised Auditors) Regulations 2010; the Public Oversight of Recognised Auditors Regulations 2010; and the Collective Investment Schemes (Definition) Order 2017.

**SD no. 2020/0144 effective 11 March 2020 – Insurance (Protected Cell Companies and Limited Partnerships) Amendment Regulations 2020.** These regulations remove the requirement for a protected cell company or limited partnership, which is applying for insurance authorisation under section 6 of the Insurance Act 2008, to obtain certain auditor confirmations in relation to its application business plan.

**SD no. 2019/0199 effective 24 May 2019 – Financial Services (Fees) (Amendment) Order 2019.** This Order amends the Financial Services (Fees) Order 2019 by adding fees for Class 9 (operation of a credit union) regulated activity. This Order revokes the earlier Financial Services (Fees) (Credit Unions) (Amendment) Order 2019.

**SD no. 2019/0201 effective 19 June 2019 – Anti-Money Laundering and Countering the Financing of Terrorism (Civil Penalties) Regulations 2019.** These Regulations specify the circumstances in which the Isle of Man Financial Services Authority may impose a civil penalty on a relevant person for a contravention of the Anti-Money Laundering and Countering the Financing of Terrorism Code 2019.

**SD no. 2019/0203 effective 1 June 2019 – Designated Businesses (Amendment) Order 2019.** This Order replaces Schedule 1 to the Designated Businesses (Registration and Oversight) Act 2015.

**SD no. 2019/0268 effective 1 August 2019 – Credit Unions (Deferred Shares) Order 2019.** This Order prescribes that a credit union may issue deferred shares.

**SD no. 2019/0255 effective 1 July 2019 – Insurance (Group Supervision) Regulations 2019.** These Regulations contain requirements for insurance groups where the Authority has determined that it is the Group Supervisor. Requirements are set out in the areas of fitness and propriety, fair treatment of policyholders, corporate governance, reporting and solvency and are applied to the designated insurer as defined in the Insurance Act 2008.

**SD no. 2019/0480 effective 1 February 2020 – Authorised Collective Investment Schemes (Compensation) (Amendment) Regulations 2019.** These Regulations amend the Authorised Collective Investment Schemes (Compensation) Regulations 2008.

# APPENDIX G

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## Consultations issued 1/4/2019 to 31/3/2020

Consultative Documents Issued Between 1/4/19 and 31/3/20	Date consultation published	Date consultation closed
<a href="#">Credit Unions – Deferred Shares</a>	29 April 2019	27 May 2019
<a href="#">Class 12 Authorisation - Insurance</a>	22 July 2019	13 September 2019
<a href="#">Insurance (Non Long Term Business Valuation and Solvency) Regulations 2020</a>	22 July 2019	13 September 2019
<a href="#">Financial Services (Amendments) Bill – Discussion Paper</a>	30 August 2019	31 October 2019
<a href="#">Auditor Confirmations in Applications for Insurance Authorisation by Protected Cell Companies and Limited Partnerships</a>	15 November 2019	3 January 2020
<a href="#">Fees 2020</a>	15 November 2019	10 January 2020
<a href="#">Regulatory Framework for General Insurance Intermediaries</a>	4 December 2019	28 February 2020
<a href="#">Corporate Governance Code of Practice for Insurers</a>	23 December 2019	14 February 2020

# APPENDIX H

## Performance Against our Strategic Plan

Along with identifying key strategic projects, the [Strategic Plan](#) includes the Authority's key principles which govern how we do our work and interact with our stakeholders.

When we launched the Strategic Plan in November 2018, we committed to assessing its performance each year and providing an update in the annual report.

During the reporting period the Authority enhanced its project management methodology, including more rigorous reporting to its internal project oversight body. These improvements have strengthened the reporting and tracking of project deliverables.

Enhance the framework to protect consumers and deter financial crime	
Introduce improvements to the Retirement Benefit Schemes Act 2000	This project involves changes to primary legislation and as such is a longer-term project which will be ongoing beyond the period of the Strategic Plan. During the year we gave feedback to industry on the response to our discussion paper issued in the previous year and started to prepare drafting instructions for an Amendment Bill. We also commenced work on drafting necessary secondary legislation to sit under the RBSA00 and the FSA08.
Enhanced AML/CFT reporting requirements for industry [annual returns]	2019/20 was the third year that the Authority collected comprehensive AML/CFT data from industry, on a best endeavours basis. We are using this information to inform our supervision of sectors and firms. We are using the information to develop thematic feedback for industry which will be issued in due course.
Update AML/CFT Code	The new AML/CFT Code was implemented in June 2019. During the year we updated our AML/CFT guidance and industry guidance and brought the framework of guidance for Insurance Companies within the AML/CFT Handbook framework for consistency with other regulated and registered sectors. We worked closely with industry on specific technological guidance for all sectors and on the changes in the insurance AML/CFT arena.
Review of Life Assurance Compensation Scheme	The Life Assurance Compensation scheme was first introduced in 1991 and has not been the subject of a comprehensive review since this time. Work on the review will continue during 2020.

Enhance clarity around our regulatory, supervisory and enforcement processes	
Banking reform and Bank Recovery/Resolution	During the year significant progress has been made on this Treasury-led initiative to which the Authority provides support. At the end of the year the Primary Legislation was progressing through the legislative branches. Before the end of the legislative year it completed its progress and now awaits Royal Assent. Work has commenced on the next phase, preparing for Authority to become the Resolution Authority.
Enforcement Decision Making Process	In its Strategic Plan, the Authority committed to further develop our culture of constructive, open and transparent engagement with industry and other key stakeholders. As part of that commitment, the Authority has developed, implemented and published a new enforcement process. The Authority also introduced this new decision making process to industry during a series of seminars. The process document (the “ <b>Published DMP</b> ”), which is available on our website, sets out clearly the staged process which the Authority follows when considering certain enforcement action. The Published DMP also introduces for the first time in a public document the concept of settlement in enforcement cases.
Update of the Supervisory Methodology	The objective of this project is to create a single risk-based supervisory framework across all areas regulated by the Authority. A key element of the methodology is the development of enhanced risk assessments for all firms and the establishment of risk governance panels to ensure a consistent application of the approach to risk assessment. Whilst some progress has been made, in particular in assessment of AML/CFT risk, this remains an ongoing project.
Credit Union secondary legislation	All necessary legislation was implemented in the previous financial year and the credit union framework is now in force.
Implementation of core elements of the ICP Project	During this year the Insurance (Group Supervision) Regulations 2019 and the Corporate Governance Code of Practice for Designated Insurers were successfully implemented. The remaining work streams were progressed. The <a href="#">Insurance Framework</a> area of our website contains up-to-date information about the project, and its progress and the next steps.

<b>Encourage innovation and continuous improvement in all that we do</b>	
General innovation activities	<p>As highlighted earlier in the report, the Authority works closely with the new Digital Isle of Man Agency on innovation matters, is a member of GFIN and has an internal innovation group.</p> <p>We are also seeking to collaborate with a leading academic in the FinTech field.</p> <p>We remain committed to facilitating appropriate innovation through our regulatory framework.</p>
Ongoing development of new regulatory data system	Work on the Authority's new data system continued and the back office system ATLAS was implemented. This is a multi-year project and is a tri-agency undertaking, involving Government Technology Services, the Gambling Supervision Commission and the Authority.
Continued engagement	The Authority continues to focus on effective industry engagement. During the year we consulted on a range of issues (detailed in this report) and launched our new Enforcement Decision Making Process with industry briefings. Please refer to the Stakeholder Engagement section of this report for more details of our engagement activity.
<b>Create an environment that enables staff to fulfil their potential</b>	
Development of structured learning and development programme for staff	The Authority continues to work on enhancing its learning and development programme as well as developing its succession management process.
Continued enhancements suggested in the employee survey	The majority of actions arising from the staff survey have been addressed. A mini survey was planned for spring 2020 to assess the success of the measures implemented to date. This was delayed due to the impact of COVID-19 and will instead be undertaken later in 2020.
Activities targeted at staff engagement in the systems development project	The development process involves IT specialists and developers working closely with representatives from all areas of the organisation. During the year we put in place a project testing office for staff undertaking user acceptance testing and training on the system.

# GLOSSARY

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<b>AML</b>	Anti-Money Laundering	<b>ECG</b>	Enlarged Contact Group for Collective Investment Schemes Supervisors
<b>AML/CFT</b>	Anti-Money Laundering and Countering the Financing of Terrorism	<b>ECU</b>	Economic Crime Unit
<b>AML/CFT Code</b>	Anti-Money Laundering and Countering the Financing of Terrorism Code 2015	<b>EU</b>	European Union
<b>Authority</b>	Isle of Man Financial Services Authority	<b>FATF</b>	Financial Action Task Force
<b>BRRB20</b>	Bank (Recovery and Resolution) Bill 2020	<b>FCA</b>	The UK Financial Conduct Authority
<b>BOA17</b>	Beneficial Ownership Act 2017	<b>FIU</b>	Financial Intelligence Unit
<b>CEO</b>	Chief Executive Officer	<b>FSA</b>	The Isle of Man Financial Services Authority
<b>CFT</b>	Countering the Financing of Terrorism	<b>FSA08</b>	Financial Services Act 2008
<b>CISA08</b>	Collective Investment Schemes Act 2008	<b>GIFCS</b>	Group of International Finance Centre Supervisors
<b>CODA09</b>	Company Officers Disqualification Act 2009	<b>GIICS</b>	Group of International Insurance Centre Supervisors
<b>COVID-19</b>	An infectious disease caused by a newly discovered coronavirus which led to the worldwide pandemic in 2020.	<b>GFIN</b>	Global Financial Innovation Network
<b>DHA</b>	Department of Home Affairs	<b>GSC</b>	Gambling Supervision Commission
<b>DBROA15</b>	Designated Businesses (Registration and Oversight) Act 2015	<b>HRCC</b>	The Authority's Human Resources and Compensation Committee
<b>DfE</b>	Department for Enterprise	<b>IA08</b>	Insurance Act 2008
<b>Designated Businesses</b>	Persons registered with the Authority under the DBROA15	<b>IAIS</b>	International Association of Insurance Supervisors
<b>DNFBPs</b>	Designated Non-Financial Businesses and Professions	<b>ICP</b>	Insurance Core Principles (published by the IAIS)
		<b>ICRG</b>	International Co-operation Review Group
		<b>IOSCO</b>	International Organisation of Securities Commissions
		<b>IOPS</b>	International Organisation of Pension Supervisors
		<b>Island</b>	Isle of Man

<b>IT</b>	Information Technology
<b>MMOU</b>	Multilateral Memorandum of Understanding
<b>MONEYVAL</b>	Committee of Experts on the Evaluation of Anti-money Laundering Measures
<b>MOU</b>	Memorandum of Understanding
<b>POCA08</b>	Proceeds of Crime Act 2008
<b>PRA</b>	the UK Prudential Regulatory Authority
<b>RACC</b>	the Authority's Risk and Control Committee
<b>Registered Firm</b>	For the purpose of this report means a person registered under the DBRO15 or subject to requirements under the BO17
<b>Regulated firm</b>	For the purpose of this report means a person, licensed under the FSA08, authorised or registered under the IA08, subject to regulation under the CISA08 or covered by the RBSA00
<b>RBSA00</b>	Retirement Benefits Schemes Act 2000
<b>Rule Book</b>	Financial Services Rule Book
<b>SNPO</b>	Specified Non-Profit Organisation
<b>TOCFR</b>	Terrorism and Other Financial Crime (Financial Restrictions) Act 2014
<b>UK</b>	United Kingdom

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ISLE OF MAN  
FINANCIAL SERVICES AUTHORITY  
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