2018

Guernsey Financial Services Commission

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2018

"Confidence in the Bailiwick: securing good regulatory outcomes with integrity, proportionality and professional excellence."

Guernsey Financial Services Commission

Appendix

This report, including the financial statements as required by section 18 of the Financial Services Commission (Bailiwick of Guernsey) Law, 1987 as amended (the Commission Law), is made in pursuance of section 6 of the Commission Law to the States Policy and Resources Committee and submitted for consideration by the States of Guernsey.

Note: Throughout this report the Guernsey Financial Services Commission is referred to as "the Commission". The Chairman and other members are referred to collectively as "the Commissioners" or "the Board".

CHAIRMAN'S STATEMENT

Living with uncertainty

In March 1973, I was an economics student in Amsterdam and I correctly 'predicted' the outcome of a Europa Cup football match between Arsenal 0 and Ajax 1. From the proceeds of that lucky sweepstake, I bought a copy of the Report of the 'Club of Rome'. Since then, from reading that report, I have been fascinated by the efforts made by scientists, central bankers and others, all trying to predict the future. The Club of Rome was particularly interested in population growth and the finite resources available to underpin increases of worldwide GDP per head. This involved the development of interacting models by the Massachusetts Institute of Technology (MIT) that were used to forecast the growth of many variables including crop yields which would allow the world's population to be fed. Inevitably, they could not include the many 'unknown unknowns' and there have been many. Concerns about the availability of chromium and silver, which were important for cars and the photographic industry, were extensively addressed in the report. The outcomes of all economic models depend substantially on the assumptions made. Those models were tested, but of course, only against the past and in the financial services industry we have all learned that the past is not necessarily a good indicator for the future.

Mankind has always had to live with uncertainty and in doing so we have been trying to give ourselves improved chances of coping with that uncertainty - sometimes clinging to obscure predictions made in the Middle Ages (Nostradamus) and in more recent times using models and computer power to try to predict the future as evidenced by the Club of Rome. Another example would be Central Banks issuing 'forward guidance' although that can often be defeated by developments in the real world. There is, however, one sector of the economy that should benefit more than most from uncertainty and that is financial services, an economic sector in which the Bailiwick excels. In particular, the insurance and pensions sectors should do well out of this.

Providing peace of mind in uncertain times is the hallmark of the industry. Financial services thrives on uncertainty as it provides products and solutions that help to address and/or minimise the financial consequences of uncertainty or mishap for its clients.

I do not intend to try to predict the future, but I am convinced that the following trends will continue in our financial services world, which need to be taken into account when preparing for the future:

- risks will continue to increase in size, impact and severity;
- in a low yield environment, increasingly complex structures are being designed to make the most of what returns there are;
- continued demand for further regulation and not just in financial services;
- good connectivity will be even more important; and
- the rate of change will not show any sign of abating.

All of these trends form part of the Commission's and the Bailiwick's reality, requiring an ever-increasing alertness and attention from the Commission's staff. Some years ago, the Commission introduced its own risk assessment tool known as PRISM. This and other tools now used by the Commission allow us to do our job in a more cost-effective manner. At the same time, the change in the pensions obligations of the Commission has enabled Commissioners to decide to forego fee increases for this year and the next.

The Bailiwick finds itself, as a result of history and local endeavour, in a good place, with c.50% of the Bailiwick's GDP directly linked to financial services, assisted by language, time zone, a highly skilled workforce, good technical infrastructure and our Law.

The Commission will continue to play a role in facilitating new opportunities through the use of innovative and proportionate regulatory approaches that allow the Bailiwick to prosper such as the introduction in the past year of the Guernsey Green Fund initiative. As part of that approach, the Commission has been putting substantial effort into the revision of the Bailiwick's financial services laws which has been designed to enable the Bailiwick to continue to be a desirable place in which to do good business. Many years of regulatory and legal developments has led to a multi-layered patchwork which needs simplification and that, in large part, is what the "Revision of Laws" project is intended to achieve. The project is now on the home straight and when it becomes law, we expect that it will enhance the Bailiwick's reputation as a preferred place to do business.

One of the Commission's aims has been to make life easier for our licensees, although it may not always feel that way. We will continue to be a thoughtful regulator working with the Government and the business community to make the most of the future. I believe we now have a workforce at the Commission that can stand comparison with any regulator anywhere who seek to protect investors and citizens whilst providing responsible and responsive services to our licensees and I thank them for their sustained effort. The Commission will continue to assist the Bailiwick in fulfilling its international regulatory obligations as a responsible jurisdiction on the global stage and I believe we are well placed to do that.

Uncertainty is not all bad; let's make the most of it.

Cees Schrauwers
Chairman

DIRECTOR GENERAL'S STATEMENT

As I write this review of 2018 in early January, it is unusually difficult to forecast what the year ahead may hold for a small jurisdiction which is part of the Sterling zone. From a global perspective, we can perhaps conclude that risks are increasing as the Chinese deal with the considerable levels of private sector debt in their economy, perhaps due in part to quantitative easing undertaken by the People's Bank of China over the last few years. The US economy continues to advance without quantitative easing although the Federal budget deficit is eye catching. Then, turning to the Euro area, we see the end of the European Central Bank's quantitative easing programme combined with weak economic growth. Taken as a whole, it strikes me that 2019 is likely to be a year in which prudential risks rise. I hope that the now largely implemented Basel III capital requirements will help international banks in such an environment but my expectations are that, after a few years in which prudential matters took a back seat relative to conduct and financial crime issues, they are worthy of further consideration by all financial services participants in 2019 as the global economic cycle cools.

Then of course there is Brexit. By the time this report is published we will probably know to some degree what has happened or not happened so I'm not going to speculate in early January. Suffice it to say that through 2018 we have had extensive liaison with HM Treasury (in conjunction with the States of Guernsey and our Jersey counterparts), the Bank of England and the Financial Conduct Authority and we are comfortable that, from a financial services perspective, Guernsey is well prepared to continue to work closely with the UK to handle whatever sort of Brexit is executed. It is worth repeating that, unlike the UK, Guernsey has never been part of the EU's Single Market for financial services and thus the UK's exit from the EU has little direct impact on Guernsey's terms of trade in financial services with European Union member states.

Authorisations

2018 was a buoyant year for Guernsey in terms of new financial services business coming to the island. This saw our Authorisations team working at full capacity for much of the year. The investment sector particularly saw an uplift in the latter part of the year with nearly 50% of its total applications submitted between September to December. 14 open-ended fund applications were received compared to three in 2017 and open-ended sub-funds numbers continued to increase from 85 applications in 2017 to 100 in 2018. Closed-ended fund applications exceeded the 2017 level of 45 with 53 in 2018. The number of Private Investment Fund (PIF) applications received, together with their associated managers, doubled from 13 in 2017 to 27 in 2018, this included four open-ended schemes the rest being closed-ended. Insurance Linked Securities (ILS) structures continued to form the majority of the insurance sector applications with 69 new Category 6 Special Purpose Insurer (SPI) cells compared to 65 in 2017. Protected Cell/Incorporated Cell Companies (PCC/ICCs) dropped by almost half from 32 to 18 in 2018. Whilst the majority of the business coming to the island was repeat business, there was a good flow of new business too, including some business relocating from other jurisdictions.

Policy

Some of that buoyancy may perhaps be due to some of the product innovation which the Commission has led in conjunction with others in Guernsey in recent years. Our ILS rules have, in their second year of operation, again proved their worth whilst the ILS structures written under our rules have been tested by various weather events and have been proven to function well in terms of paying claims to underlying policyholders.

Our PIF rules, particularly after refinements we made to the undertakings in March 2018 in response to feedback, have proved increasingly popular whilst we are delighted that the first part of Guernsey's Green Finance programme, the Guernsey Green Fund which we were pleased to develop and launch in the summer, has been so well received. We published a Discussion Paper on Green Insurance late in 2018 and will look forward to seeing how the feedback from that paper can inform our approach to prudential insurance regulation going forward.

Other policy projects have continued to advance over the course of the year. We were delighted to see the States of Guernsey pass revised financial crime legislation in late 2018 which enabled us to publish the new Handbook on anti-money laundering and countering the financing of terrorism in November. This Handbook, the result of several years' work by the Commission, implements the 2012 Financial Action Task Force (FATF) requirements and, importantly, makes electronic customer due diligence, with all the labour saving that promises across industry, pari passu with the more old fashioned paper based authentication methods. We also hope that industry will find it clearer than previous versions of the Handbook as it is not just a mildly amended version of the existing version but a comprehensively redrafted document designed to ensure that the Bailiwick continues to be a beacon of good practice in fighting financial crime.

Other policy projects which consumed Commission energy during 2018 include the long running programme to upgrade our regulatory laws to meet the post-crisis standards of the Basel Committee, the International Association of Insurance Supervisors (IAIS) and the International Organisation of Securities

Commissions (IOSCO), colloquially known as, "Revision of Laws". In 2018, the Law Officers of the Crown and the Commission made very significant progress with the black letter drafting and fatal flaws consultations on the proposed new texts with a range of actors. Our hope, as I write, is that the States of Guernsey will pass the final legislative package (the original Policy Letter having been approved in late 2015) during 2019 with Privy Council consent being sought before the end of the year.

The States of Guernsey is also due to consider the Policy Letter emanating from the Commission's work developing proposals for a new lending, credit and finance law in the first part of 2019. We will look forward to working with the States to help progress this legislation to the statute book as it should provide enhanced consumer protection for vulnerable borrowers, an ability to provide assurance about the standing of electronic due diligence providers to the financial services sector and a regulatory regime well adjusted to the needs of innovative FinTech businesses which do not, on occasion, fit well into the existing architecture of regulatory laws.

On the insurance front, we made a number of reforms to our insurance rules following consultation to ensure they continued to match the international expectations set out in the Insurance Core Principles[1]. In making these reforms, we drew upon the recommendations of the 2017 Tower Report conducted by Ian Tower[2], a report which will continue to inform our technical reform of regulations to meet international standards.

Supervision and Enforcement

As usual, much of the work of the Commission involved direct supervision of financial services firms. Here we continued to employ the PRISM risk-based supervision methodology with a number of bespoke upgrades being made to the PRISM software over the course of the year to enhance its functionality with our five year service and maintenance contract with the original developers (d-Fine Gmbh) being renewed. We have also had our first full year of operation as a pensions regulator and continue to work with industry participants in the sector as it adapts to the requirements associated with being regulated.

We encountered a range of issues across all our types of firms in relation to operational risk, governance, business strategy, conduct towards consumers and financial crime controls which we dealt with, for the most part, through risk mitigation programme actions asking the entities to improve and report on the improvements to us. We issued 266 of these actions over the course of 2018 with a further 288 actions being satisfactorily concluded. These numbers should be seen in the context of the 4,686 legal entities covered by our regulation.

Unfortunately, some of the issues we uncovered as a result of our supervisory activities did not lend themselves to firm-led remedial action either because of their severity or breadth, our perspective on the competence of the management at the firms in question or because they involved repetitive law breaking. For this reason, supervisors referred seven firms or individuals to our Enforcement Division for investigation prior to the consideration of whether formal sanctions for law breaking should be applied. During the course of the year the Enforcement Division concluded six cases which, taking into account the number of cases that stretch over more than one year, means that it had 13 cases outstanding at the end of the year. A number of the cases have been unusually contested or complex which accounts, to a great extent, for the considerable increase in our expenditure on lawyers shown in the accounts. Whilst we have a small number of very capable in-house lawyers, we are not resourced to pursue all enforcement cases using internal legal staff and we will continue to outsource the legal support of some major cases to external lawyers to ensure that the public interest is as well represented as those against whom the enforcement action is being taken.

On a more positive note, we have continued with our regulatory self-assurance events with various sectors. We believe that these provide us with an opportunity to help firms which want to comply properly with the law to understand our expectations as to what such compliance should look like. In such a way we can help firms' officers avoid gold plating our requirements as well as ensuring that the law is not broken through ignorance. A highlight was undoubtedly the 500+ individuals who attended our briefing sessions on the new financial crime Handbook – evidence of the degree to which Guernsey is a jurisdiction of substance were any to be required.

Finances

2018 was a strong year for the Commission in terms of income, partly driven by the fact that some firms did not surrender their licences prior to the end of 2017 as we had anticipated and partly because of strong authorisations revenue as business levels in the Bailiwick, both in terms of mergers and new business, showed a pleasing robustness. This level of business alongside our reserve levels allowed us to agree with the States that we would forego like for like fee increases for regulated firms in both 2019 and 2020.

[1] Published by the International Association of Insurance Supervisors.
[2] Formerly a senior IMF inspector who led the 2010 IMF review of Guernsey. The Tower Report's score was agreed by the Commission with the States of Guernsey in 2017 and its results provided reassurance to the Board of the Commission and the States about the Commission's approach to regulation.

Director General's Statement *(continued)*

The director responsible for finance provides more detail on our financial outturn in her section of the annual report. Our expenditure increases were largely caused by us commencing a number of significant one-off projects to equip us with the right systems for the future[3] and by the need to retain external counsel to pursue a number of long drawn out enforcement cases against well-resourced opponents. As we have noted in the past, we will not let our enforcement team be out-lawyered as, sadly, were we to accept such a situation, the guilty would tend to walk free. That said, economical purchasing and light manning in other areas ensured the above expenditures were offset relative to budget, resulting in a healthy operating surplus of over £500,000. Whilst it is our intention to run a deficit budget for the next two to three years as we undertake a cycle of investment using our own resources, our financial health should make industry confident that we do not require significant fee increases to finance our planned technological renewal.

Staff

As the Commission Secretary[4] sets out in his section of the annual report, we continued to provide considerable staff training – both practical and theoretical – through 2018. This training and the nurturing environment of the Commission appears to make our staff remarkably attractive to other employers in what was a buoyant employment market in 2018 and we had rather more staff leaving than we would have wished for. This has led us to examine aspects of our employment offer with more flexible working for all grades of staff being offered from the beginning of 2019 as a result of our review. We appreciate that it is inevitable, given our inability to grow the senior staff numbers, that some talented staff will wish to leave at a certain point so they can grow to reach their full potential elsewhere but we aim to ensure that our overall employment offer is reasonably competitive in terms of salary, pecuniary and non-pecuniary benefits and attractive to talented individuals at all stages of their life.

We implemented our most substantial restructuring for four years in the autumn with the merger of our investment and fiduciary divisions and the creation of a new Authorisations and Innovation Division. We have also restructured our support functions. In making these changes we have sought natural synergies (for example a number of firms have both investment and fiduciary licences so common supervision makes sense) whilst taking advantage of the strengths of different directors and deputy directors.

In terms of those who have left, I would particularly like to identify Stephen Cole who has decided to return to England after four and a half years as our Chief Operating Officer, Andy Sloan who has taken up a leadership role at Guernsey Finance and Mark Le Page who has decided to explore an enticing private sector opportunity. I have much enjoyed working closely with all of them over the last few years and would like to thank them for their endeavours on behalf of the Bailiwick during their time with us.

William Mason
Director General

[3] As part of our three-year business plan, discussed later in this report.
[4] The Commission Secretary is the director responsible for Human Resources.

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INVESTMENT, FIDUCIARY AND PENSION DIVISION

Introduction

Over the past year, we have merged the Investment and Fiduciary Supervision and Policy Divisions and increased our emphasis on the pension sector, resulting in the renamed Investment, Fiduciary and Pension Division.

We recognised the notable overlap between Investment and Fiduciary firms, many with dual licences, and the duplication and inefficiency this created for both licensees and us as a regulator. In merging the divisions, we have an increased depth of knowledgeable resource, can provide regulatory staff with broader opportunities and seek to reduce the scope for any inconsistency in our approach to regulation between different sectors. We intend to supervise some of our largest licensees as 'groups' (as opposed to solo entity reviews) and in time dividends should be realised in policy development, particularly in some grey areas such as where a 'fund' ends and 'fiduciary' activity commences.

We are still in the early stages of pension regulation, both policy development and supervision of providers. The transition period for the initial pension rules ended on 30 September 2018 and we are continuing to engage with local firms and industry bodies to develop our framework.

We are conscious of our role as domestic regulators within a global regulatory framework. As part of this understanding, we participate in, and keep up-to-date with international bodies such as the International Organisation of Securities Commissions (IOSCO), the International Organisation of Pension Supervisors (IOPS) and the Group of International Finance Centre Supervisors (GIFCS). We focus resource particularly on areas that we consider to be in the Bailiwick's interest. Over the past year we have participated in supervisory colleges, discussions on sustainability and technological developments (FinTech, SupTech and RegTech). Having a seat at these tables continues to enable us to keep abreast of global developments but also to have influence over international policy for the benefit of the Bailiwick.

Supervision

During 2018, we undertook 51 onsite visits:

- Seven Firm Risk Assessments (FRA) and 10 Engagement visits to Investment licensees;
- Eight FRAs and six Engagement visits to Fiduciary licensees; and
- 20 thematic visits in conjunction with the Financial Crime Division regarding the Beneficial Ownership of Guernsey and Alderney legal persons.

Supervisory onsite and desk-based work broadly covered similar risk areas as in previous years, which included: a focus on governance, specifically the role of dominant directors and the effectiveness of other board directors in providing sufficient challenge; a continued focus on operational risk, particularly for firms acquiring other businesses and underestimating the integration challenges presented by such transactions; and ensuring that local licensees hold adequate and appropriate professional indemnity insurance for their business. We also identified additional risks associated with increased use of IT - for example licensees relying on IT to generate an alert and being blind to that alert being manually turned off, or relying on ineffective coding. Further, we pursued unregulated business, an activity we call "policing the perimeter", both in terms of ensuring a level playing field for those who play by the rules but also in issuing guidance on the provision of registered office services with the objective of raising awareness and standards.

A total of 51 Risk Mitigation Programme (RMP) items were imposed on Fiduciary firms during 2018 and 32 on Investment firms. One item can cover a number of different risks; the 83 RMPs covered a total of 161 risks spread over the 11 risk categories considered under PRISM. Governance, operational and financial crime risk continue to be the major risks managed by the RMPs.

Investment, Fiduciary and Pension Division *(continued)*

The Beneficial Ownership thematic also involved sending 192 thematic questionnaires to full and personal fiduciary licensees and reviewing 381 onsite files. As commented upon in the Financial Crime Division's section of this Annual Report, preliminary findings appear to show the high standards the fiduciary sector applies to ensuring that accurate and current beneficial ownership information on trust and corporate clients is held and maintained.

Thematic assessments continue to be a key part of our supervisory approach, identifying a key theme or issue and exploring it across a wide range of licensees (in terms of size, ownership, and business model).

Early in 2018, we published our thematic entitled "Pension Arrangements in the Bailiwick". The purpose of this thematic review was to enable the Commission to gather information regarding pension providers, assess current practices, understand the challenges facing firms and to discuss known issues within the sector. It enabled the Division to reflect on crystallised risk experienced in the sector, to support the development of the pension rules and to guide our supervisory approach to local pension providers. The report is available on the Commission's website.

Investment and Fiduciary licensees were also actively involved in the Commission-wide cyber security thematic. 38 questionnaires were sent to Investment licensees and 37 to Fiduciary licensees. 14 licensees across both sectors will receive an onsite cyber thematic visit in 2019. The Commission continues to identify cyber security as a key risk for all our licensees, and encourages continued vigilance and preparedness amongst all.

The subject for our initial 2019 thematic will be demonstrating director duties when utilising a corporate director, targeted at the Fiduciary sector; with a further Investment sector focused, thematic planned for later in 2019.

Policy

During 2018, we were pleased to develop the Guernsey Green Fund rules. The launch of the first regulated green fund rules contributes to the Bailiwick's Green Finance initiative and is designed to give enhanced certainty to those wishing to make high quality green investments.

Changes were implemented to the Prospectus Rules, Registered Collective Investment Scheme Rules and Private Investment Fund Rules during 2018.

The Fiduciary Financial Resources Rules came into operation in early 2018, clarifying and strengthening the liquidity and capital requirements for licensed fiduciaries and thereby contributing to the overall sound financial position and confidence in the sector. Later in the year, we also issued the Code of Market Conduct, the aim of which is to contribute to the maintenance of market confidence and integrity.

We had an open window of feedback regarding the Pension Rules and this, together with proposals to ensure we meet International Fiduciary Standards (GIFCS Standard), will form the heart of our early 2019 policy work.

Risk Outlook

New regulations came into operation at the start of 2019 requiring companies that are tax resident in Guernsey and undertaking specific activities, to demonstrate that they have sufficient substance in the Bailiwick. These regulations reinforce the Bailiwick's position as home to a substantial financial services sector and will contribute to ongoing discussions with the European Commission's Code Group with the aim of ensuring that the Bailiwick continues to be viewed internationally as a co-operative tax jurisdiction. Domestically, it is important, however, that licensees assess the impact of the new regulations on their business models and clients and address any challenges identified.

The impact of climate change presents an emerging risk for licensees potentially physically, through investment returns from a lower-carbon economy and through evolving investor/ beneficiary expectations regarding environmental, social and governance considerations. Once previously seen as a niche area of focus, this issue has now moved firmly into the mainstream.

2018 presented a period of heightened volatility in markets and uncertainty will likely continue into 2019 with some market observers warning of the risk of a potential downturn with relevant factors including weak growth in the EU and China, political risk in the United States and, at the time of writing, uncertainty around the outcome of the Brexit process.

As mentioned elsewhere in this report and in previous years, cyber security threats are increasing and it is accepted that we are now in an era of 'when' rather than 'if' a cyber or data attack will occur and we expect licensees to be prepared.

Investment:

International attention continues to be gripped by FinTech developments, whether these be crypto currencies, distributed ledger technology or Initial Coin Offerings (ICOs). The Commission issued an updated risk appetite on this subject in 2018 and has identified areas of opportunities and strengths within the Bailiwick, but would also remind licensees of the importance of considering the adequacy of their understanding and assessment of any associated risks before commencing significant new initiatives.

Technological factors are also a contributory factor in the broader trend of the disintermediation of financial markets. In addition to technological development easing access to capital markets, the ongoing growth in passive management, including Exchange Traded Funds, impacts actively managed vehicles. Another side to this trend is the growth of private family office investment structures replacing third party management. This evolution presents challenges to certain existing models but also opportunities for many market participants.

Fiduciary:

The provision of banking services for fiduciaries continues to be a challenge as global banks seek to manage down their risk appetite. Banks have become more selective and price sensitive about their fiduciary customers especially those with less robust anti-money laundering practices or higher risk structures.

Scrutiny of tax related matters continues to increase and in particular with the transition from "requirement to correct" to "failure to correct", licensees should be cognisant of their tax obligations.

The first unexplained wealth orders were issued by the National Crime Agency in the UK in 2018 and licensees should be mindful of the risks of handling unexplained wealth orders received.

As consolidation continues within the sector, firms seeking to acquire other businesses should take care to conduct sufficient due diligence to understand the resourcing required to integrate the business being acquired.

Pensions:

The introduction of regulation of pension providers looks to be having a positive impact on business development in the sector. A further development of the tax legislation in Guernsey has provided a new tax exemption for international savings plans. This change in legislation aligns the tax law with the supervisory position allowing providers in Guernsey to offer a statutory tax exempt international savings plan on a regulated basis.

Gillian Browning
Director

INSURANCE DIVISION

Supervision

In terms of global events, the main pressure on Guernsey insurers was the continued impact of catastrophe weather events in 2017-8. This was due to Guernsey's status as a centre of alternative reinsurance. As a consequence, several Guernsey vehicles continued to settle insurer claims. However, new business continued through a steady flow of new Insurance Linked Securities (ILS) vehicles.

Other than in this area, global events had limited general impact on Guernsey insurance business. Given that global interest rates did not rise dramatically, any re-adjustment around the risk profile of historic life business was muted. Guernsey's specialised general insurance business continued to be robust.

Nevertheless, global events had an impact in specific areas. The collapse of a large non-insurance UK firm was followed by that of its Guernsey reinsurance captive, given that the latter lent to its parent. The captive was a pure reinsurer. A Danish general insurer with some non-admitted policyholders in Guernsey also failed. Meanwhile the largest Guernsey life company accepted a bid from a non-local firm, as part of the shareholder's global disinvestment strategy.

In 2018, six insurers and one insurance manager underwent a Full Risk Assessment. In addition, there were 83 engagement tasks with some firms being in close periodic contact with the Commission. Key issues varied from firm to firm. However, in so far as there was one general theme, it was the weakness of local governance in the context of some insurers that have strong links outside the Bailiwick. Whilst such firms are allowed to outsource operational work, there were cases where such group outsourcing was only lightly controlled by the Guernsey board. Although this issue was highlighted in the 2017 Annual Report, it continues to be a vulnerability.

In 2018, the Commission undertook a thematic around the quality of regulatory reporting and its assurance by external auditors. Insurance managers, who are often mandated by insurance companies to produce these returns, are key to this process. The thematic found a general weakness in the quality of both reporting and assurance. The Commission accordingly expects, and has taken measures to encourage, higher standards.

2018 aggregate figures are unavailable, given that many insurers have an end-December year-end and do not report until the end of the first quarter of 2019. Nevertheless, in 2017 gross assets stood at £28.3bn (hardly moved from £28.8bn in 2016), net worth at £12.9bn (same as in 2015), and premiums at £5.1bn (down from £5.5bn in 2015). The largest sectoral component of premiums was the captive sector at 27%.

International insurer licences increased from 820 in 2017 (restated due to updated calculation method) to 955 in 2018. This reflects the fact that many ILS cells remained open in 2018 to facilitate payouts following several weather-related events in 2018. This in turn required new ILS cells to be set up for new business.

Policy

As highlighted in the 2017 Annual Report, the Commission undertook a gap analysis in 2017 of the Commission's policies against the Insurance Core Principles as set out by the International Association of Insurance Supervisors (IAIS). Having identified certain policy gaps, the Commission in 2018 issued an omnibus Consultation Paper. This resulted in a number of policy developments. Principally these were:

- a requirement for certain firms to publish their accounts subject to certain exemptions;
- guidance on the use of reinsurance;
- new Conduct of Business Rules for insurers;
- a requirement for more firms to produce full Own Risk Solvency Assessments (ORSAs);
- increased regulatory reporting for certain firms;
- tighter requirements around the sponsorship of Special Purpose Vehicles; and
- revised notifications requirements around a change in majority control.

In 2018, and as part of a wider initiative around green finance, the Commission joined the United Nations (UN)/IAIS Sustainable Insurance Forum – a body of some 20 insurance regulators. As a contribution to the debate, the Commission also issued a Discussion Paper on Green Insurance. This paper considered various ways in which the regulatory framework in Guernsey might be used to facilitate either the reduction or the mitigation of climate change.

The Commission continued in 2018 its international commitments around insurance. The Commission chairs the Group of International Insurance Centre Supervisions (GIICS); a body comprising 19 International Finance Centres with insurance sectors. In 2018, GIICS held its annual meeting where several issues were discussed such as captive regulation, cyber-risk, and cross-border co-operation. GIICS is also the elective body for the IAIS Offshore region. The Commission's Director General continues to act as one of its representatives on IAIS's Executive Committee. The Director General also chaired the Risk and Audit Committee of IAIS until November 2018 and its Standards Assessment Working Group. In 2017 and 2018, GIICS supported IAIS initiatives to develop IAIS' assessment capability of its Insurance Core Principles, not least given that the International Monetary Fund (IMF) and World Bank have scaled back this activity for smaller jurisdictions. The Commission also sits on the IAIS Policy Development Committee in its own right. A main theme for the latter committee in 2018 was the draft International Insurance Capital Standard which may be finalised over the next few years.

Risk Outlook

Last year, the Commission highlighted Base Erosion of Profit Shifting (BEPS) as a material risk. So far, Guernsey firms, not least captives, appear to be addressing this risk well. Similarly, as long as interest rates do not undergo a sudden rise, the risk profiles of life companies would appear to be within the risk appetite of stakeholders. Cyber-risk continues to be a material threat to insurers not least because of the sensitivity around personal data.

Although ILS is performing well in difficult circumstances, attention still needs to be paid to the treatment of payouts. General insurers need to avoid inadvertent exposure to cyber liabilities through routine policies.

Risk also comes from increasingly higher international regulatory standards. The local industry needs to acknowledge explicitly and mitigate this risk.

Jeremy Quick
Director

Supervision

As at October 2018, the International Monetary Fund (IMF) estimated global GDP growth for 2018 at 3.7% - a strong and broadly based outturn. UK growth is estimated to have been more subdued at 1.4%. IMF projections for 2019 are 3.7% (again) and 1.5%. These figures are relatively strong though the IMF identify increasingly strong headwinds around, for example, dollar indebtedness of developing country sovereigns.

As at the end of December 2018, total liabilities of Guernsey banks stood at £120bn, unchanged from a year earlier. Third party deposits, that is deposits other than from banks, as at end December 2018, stood at £42bn compared to £41bn a year previously.

No licences were surrendered in 2018 so the number of banks in Guernsey remained at 23 at end-year. Full time equivalent staff was more-or-less static at 1,487 at end-2018.

The Commission completed four Full Risk Assessments for banks in 2018 and 82 engagement tasks.

In 2018, several topics from 2017 fell more to the background. The supply of mortgage finance in Guernsey picked up as the retail banks in Guernsey engaged more fully with this sector. The operational aspects of the ring-fencing of large UK banks are being gradually and relatively smoothly rolled out in Guernsey. Open Banking for the moment appears of limited interest to local banks.

However, key current issues are around the potential impact of Brexit (albeit seen locally to be limited); and the continuing challenge around financial crime compliance. The latter in particular relates to the need to ensure systems and people work together effectively. Public and regulatory expectations for high conduct standards are increasingly recognised by local banks.

Governance remains another key challenge – and one that periodically emerges during regulatory visits. Governance has particular challenges in a host International Finance Centre. These being the need, on the one hand, to align local business with group strategy and to utilise group resources, and, on the other hand, to meet local compliance standards, not least around independence. Banks sometimes struggle to achieve an appropriate balance between these two requirements.

Policy

No additional regulatory policies were issued in Guernsey in 2018 after our work on implementing Basel III in 2017. However, in 2019/20, the Commission intends to issue an omnibus Consultation Paper that will seek to bring the Bailiwick fully up-to-date with the policy suite currently issued by the Basel Committee. Among other topics, this paper is likely to touch on disclosure, large exposures and liquidity.

In 2018, the Commission continued to be active internationally; attending regulatory colleges and meetings of the Group of International Finance Centre Supervisors (GIFCS).

Risk Outlook

Banks should seek to mitigate the following key risks:

- a material downturn in central London houses prices (though such exposures are usually collateralised):
- the threat from cyber-crime;
- parental upstreaming; and
- financial crime.

The best mitigation against the above continues to be effective governance.

Jeremy Quick
Director

CONDUCT UNIT

The Conduct Unit supports the Commission's approach to retail consumer issues with particular reference to local insurance intermediaries, insurers and banks with retail customers. The Conduct Unit is the prime liaison point within the Commission for the Channel Islands Financial Ombudsman and bodies such as Citizens Advice Guernsey. In 2018, the role of the Conduct Unit continued to expand as the management of conduct issues became increasingly key to the Commission's role.

Supervision

In 2018, the Commission undertook a thematic on local general insurance intermediaries on the theme of whether customers are being treated fairly. This thematic followed prior work undertaken by the Commission on add-ons and the issuance by the Commission of a new Code of Conduct for Authorised Insurance Representatives (AIRs).

The thematic accessed several sources to build up a picture of on-the-ground practice in the Bailiwick. These sources included a public survey, an industry survey, an industry website review and onsite visits.

The thematic touched on several topics amongst which were:

- prior year premium disclosure;
- add-ons;
- remuneration;
- the treatment of vulnerable customers;
- renewal procedures; and
- complaints handling.

Overall, the findings of the thematic were encouraging with most firms making a genuine attempt at compliance and, in most cases, succeeding. Having said that, the thematic made a series of recommendations as to how standards might be further improved; as well as highlighting instances of current best practice. The Commission intends to use the thematic as the basis for presentations to the local industry in 2019.

The one area where the thematic results were disappointing was around non-authorised insurance intermediation practices. Here the public survey revealed some dissatisfaction.

There were 36 licensed insurance intermediaries as at end- 2018 (unchanged from 2017) and 21 insurance managers (20 in 2017).

Policy

In 2017, the Commission issued a Consultation Paper on the regulation of credit in Guernsey. In February 2018, the Commission issued a feedback paper. This paper reflected widespread support for the principle. It is anticipated that the Committee for Economic Development and the Policy and Resources Committee will soon consider a Policy Letter to be presented to the States of Guernsey seeking authority for the necessary legislation to be prepared.

Risk Outlook

Whilst standards around life intermediation have improved significantly in recent years, intermediaries should continue to aim for the high standards set out by the Commission and the States in the Guernsey Financial Advice Standards. Further refinement, as set out in the thematic paper, is still required around general insurance intermediation though standards in this area are reasonably high.

Most intermediaries continue to interact with their customers through personal contact of one kind or another. There is therefore a business risk from the internet through disintermediation; not least, as more and more customers prefer to avoid human contact – especially around general insurance. Cyber-risk is a material risk, given the amount of personal data held by intermediaries.

Intermediaries need to continue to train staff, especially as they are competing in a tight local labour market. They also need to have an open culture where complaints are viewed as an opportunity to improve service.

Jeremy Quick
Director

Supervision

During 2018, the Financial Crime Division undertook 47 onsite visits, 20 of which were carried out in conjunction with the Investment, Fiduciary and Pension Division as part of the thematic review of the Beneficial Ownership of Guernsey and Alderney legal persons - a joint report is due to be published in the first half of 2019. Preliminary findings continue to demonstrate the generally high standards the fiduciary sector applies to ensure that accurate and current beneficial ownership information on trust and corporate clients is held.

Whilst the thematic review included testing the beneficial ownership records of hundreds of Guernsey companies and other legal persons administered by licensed fiduciaries, the sampling of beneficial ownership records remains a core test we undertake as part of our onsite visits to all firms across the sectors. Findings from all visits undertaken in 2018 show that all sectors are committed to ensuring that beneficial owners have been accurately identified.

The Commission's risk-based financial crime supervision is driven by the inherent financial crime risks calculated from data all firms submit together with open and closed information sources. Inevitably, with a focus on firms which present higher risks, there were a few firms where we considered the deficiencies in their Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) controls identified over 2017 and 2018 to be sufficiently serious to warrant last year: (1) referring two firms to the Enforcement Division for further investigation; (2) requiring another two firms as part of their risk mitigation programmes to appoint third party experts to review their remediation; and (3) imposing licence conditions on a further three firms restricting certain of their activities to mitigate risks while deficiencies were being remediated.

Among this small cohort of firms, the principal concerns we had were: inadequate assessments of the financial crime risk posed by their clients; defective controls for managing and mitigating high-risk relationships, including ill-equipped teams undertaking periodic reviews and taking insufficient measures to establish the source of funds and the sources of wealth. As an example, with one high-risk relationship involving a significant high value complex structure for a beneficial owner resident in a jurisdiction associated with high corruption risk, the firm had not identified that the total value within the structure was significantly greater than the client's cumulative income which was reportedly the origin of their wealth. Firms would be wise to apply a sense check when considering whether they are satisfied that they have sufficiently established the source of funds and wealth of a client.

Policy

Industry engagement on revisions to the AML/CFT Handbook, which continued to be the Division's key policy project in 2018, remained high, culminating in two "sell-out" presentations in November attended by 500 representatives from industry.

Following on from the large number of responses to the joint consultation with the Policy and Resources Committee in 2017 on revisions to the Proceeds of Crime legislation and the associated rules and guidance, we had a number of discussion groups with other parties in the first half of 2018. Firstly, on a proposed mechanism for declassifying, on grounds of risk, certain types of relationships with former Politically Exposed Persons (PEPs), and secondly, on proposals addressing two recommendations made by Moneyval[5] regarding the application of enhanced measures to a wider range of customers and on the use of intermediaries in Guernsey authorised and registered collective investment schemes.

The final draft version of the AML/CFT Handbook was published on 12th November 2018 accompanying the draft Schedule 3 to the Criminal Justice (Proceeds of Crime) (Bailiwick of Guernsey) Law, which was subsequently approved by the States of Guernsey on 12th December 2018. Education and outreach on the revised

[5] The Council of Europe's unit for inspecting jurisdictions compliance with Financial Action Task Force Anti-Money Laundering and Countering the Financing of Terrorism standards.

framework, which becomes effective on 31st March 2019, continues into this year with regulatory self-assurance workshops on the Handbook being organised by the Commission for all sectors.

As work on the Handbook drew to a close, our input into the government–led National Risk Assessment (NRA) increased in the second half of the year, including two focussed surveys for the banking and fiduciary sectors respectively. The NRA is due to be finalised by the middle of 2019 and is likely to provide good opportunities for us to again engage with industry, this time to discuss the interplay the NRA will have with firms' money laundering and terrorist financing business risk assessments.

During 2018, we continued to provide significant input to the assessment by the Global Forum on Transparency & Exchange of Information for Tax Purposes of Guernsey's compliance with international tax standards on the exchange of information upon request, which culminated in an overall rating of "Compliant" for the Bailiwick. Our input related to our supervisory experience on how well banks and fiduciaries understand, and effectively implement, AML/CFT measures to ensure the accuracy and availability of beneficial ownership information on trusts, companies and other types of legal entity.

We also contributed our experience and expertise as an AML/CFT supervisor of the fiduciary sector to a joint report published in July 2018 by the Financial Action Task Force (FATF)and the Egmont Group of Financial Intelligence Units on the concealment of beneficial ownership which found that:-

"Some countries, particularly low-tax jurisdictions, have well-established and regulated Trust and Company Service Providers (TCSP) sectors, and have implemented a range of measures to enhance the AML/CFT regulation of TCSPs, including integrity, competence, and financial soundness tests. These measures are a good means of professionalising the TCSP sector, and countries with TCSP sectors that are not as well-defined should consider implementing similar measures domestically."

Through the Commission's membership of the Group of International Finance Centre Supervisors ("GIFCS"), we are representing GIFCS in a FATF group drafting three updated guidance papers on the risk-based approach for lawyers, accountants and TCSPs, which are due to be published later this year. Both FATF projects present opportunities to show how effective AML/CFT supervision of the sector is in the Bailiwick.

Risk Outlook

The effective date for the revised legislation and AML/CFT Handbook of 31st March 2019 will be a significant milestone in the preparations for Guernsey's next evaluation by Moneyval. How well industry implements revisions, such as the application of enhanced measures to a wider range of customers, managing and mitigating the risks posed by politically exposed persons and how well a firm understands, assesses and manages both its money laundering and terrorist financing risks, are likely to be key areas of focus for the assessors who will be measuring how effectively the financial services sector is applying risk-based AML/CFT controls.

It is imperative that Boards are supportive and seen by their staff to be supporting their compliance teams when revised policies and procedures are rolled out early next year. Getting this wrong now risks costly remediation as well as potentially damaging the reputation of the Bailiwick as a good place to do business when the Bailiwick faces its next evaluation.

Fiona Crocker
Director

ENFORCEMENT DIVISION

General

2018 saw the number, complexity and size of cases increasing. At the beginning of 2018, the Division had 12 active investigations ongoing. During the year we took on a further seven investigations and completed six investigations. This resulted in 13 active investigations remaining at the end of 2018. One case was appealed before the Royal Court and the judgment is now subject to further appeal before the Court of Appeal.

Whilst the Enforcement Division strives to deal with investigations in an expeditious manner, 2018 saw a further rise in the number of firms having their cases heard before one of our Senior Decision Makers. This inevitably increases the time taken to conclude matters.

During the course of 2018, the Division conducted 30 interviews over 120 non-continuous hours with various directors, senior managers, and controllers. Our investigations involved firms and individuals from across the full range of financial services businesses and some of these cases are ongoing. It is often the case that during the open and frank discussions that take place during these interviews, the Commission gains a better understanding of the events that have occurred within that business. On occasion, this has alleviated some of the concerns that we had regarding those events.

In addition, we have served 41 statutory Notices under the various Regulatory Laws for either provision of material, and invitations or compulsion to attend the Commission for interview. As a result of information received across the various investigations, we have received approximately 2 million documents and have used our e-discovery platform to review and identify key documents using defined search terms to secure material that we may wish to rely upon. We have also used our powers to appoint inspectors during 2018. These powers are used sparingly, but we will consider using them where we have found either firms who are repeat offenders or the breaches identified are systemic and serious in nature, or there is an unwillingness to comply with the regulatory framework.

During the year, we continued to receive a steady flow of referrals from the supervisory divisions. We always liaise closely with our supervisory colleagues in an effort to understand their findings and concerns which then enables the Enforcement Division to conduct a more focussed investigation. This can sometimes lead to a case being dropped; it remains a myth that just because a matter has been referred to the Enforcement Division sanctions will inevitably follow.

Those cases concluded in 2018 are detailed below. They provide evidence of the Commission's commitment to addressing serious or repeat regulatory failings or misconduct. Further details of the cases against regulated entities are to be found in the public statements on our website where we endeavour to provide as much information as possible to explain clearly the serious failings we have uncovered and the consequences for those involved.

I continue to represent the Commission on Committee 4 for the International Organisation of Securities Commissions ("IOSCO"). There is clear focus within the Committee on the global threat of Initial Coin Offerings ("ICOs"). There has also been much work around credible sanctions used to deter wrongdoing. This has produced interesting debates on a global perspective and the Bailiwick is at the heart of these debates where efforts are made to seek a consensus around what 'good practice' looks like as responsible jurisdictions seek to afford investors the best protection possible from those that wish to undermine the financial markets.

Cases reported

Of the six completed cases, three resulted in sanctions being imposed (although one is the subject of extended appeal proceedings before the courts). No further action was taken in the other three completed cases apart from a private reprimand being issued to one individual. One case was referred to Law Enforcement during the year because of the Division uncovering, what we considered to be information deemed serious enough to be referred for a criminal investigation.

One individual was prohibited last year from all regulated activity as they did not fulfil the requirements for the minimum criteria for licensing. Failings were found in relation to probity, competence and soundness of judgment with regard to the way in which they handled their clients and their dealings with a Politically Exposed Person.

A Trust company was also sanctioned by way of a financial penalty last year although considerable mitigation was given as a consequence of the firm's directors and staff working cooperatively with the Commission to rectify the serious failings that had been identified and to move the firm into a position where they were meeting their regulatory requirements.

Of the cases referred to the Division, some involved suspected unauthorised business. It is important that we protect the public and those that are licensed against individuals seeking to act without an appropriate licence to do so. These cases can lead to serious reputational damage to the Bailiwick particularly where investors/clients suffer losses or serious Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) failings are identified.

Outreach to Industry

We have attended many industry events during 2018 to provide information and answer questions about our enforcement processes, how we deal with matters and some of the investigations we have conducted and the associated outcomes, albeit we often do this in an anonymised format. In one particular presentation we provided, we decided to talk about the cases that have been investigated and were either referred back to the supervisory divisions or were ceased after the Enforcement Division had completed its own investigations. We did this to reassure those in the industry that just because a matter may have been referred to the Enforcement Division it does not necessarily mean that sanctions will follow, and I will reiterate that year on year, as these rumours still persist.

We also aimed to provide those in attendance with a better understanding of what the Commission's staff look for in terms of the level of co-operation and the provision of material we expect which then allows us to make a more informed assessment of the suspected failings. Unfortunately, on some occasions we have come across licensees who wish to stall matters or fail to co-operate fully with requests for information. This not only delays the process but can also raise questions about the real extent of the issues within their respective businesses. Principle 10 of the Principles of Conduct of Finance Business requires a licensee to be open and co-operative with the Commission when dealing with it.

We already have a number of regulatory assurance events lined up for 2019 which we hope will be helpful to industry in an effort to ensure that as many licensed entities as possible are aware of our activities and how potential pitfalls and problems can be avoided.

Simon Gaudion
Director

SENIOR DECISION MAKERS

This is my fourth Report as President of the Panel of Senior Decision Makers which was established by the Commission in late 2014. The Panel originally consisted of seven Members, together with myself as President, but, as reported in the Annual Report for 2017, by the end of 2017 the number of Members had been reduced to four only, that is:

- Glen Davis QC (England and Wales);
- Kirsty Hood QC (Scotland);
- Terence Mowschenson QC (England and Wales); and
- Leigh-Ann Mulcahy QC (England and Wales and the Republic of Ireland).

Mr Richard Millett QC (England and Wales) remains a member of the Panel, but is unavailable to sit since he is still occupied as Counsel to the Tribunal of Inquiry looking into the Grenfell Tower fire.

I also mentioned in the 2017 Report that a competition for further appointments was to be held in early 2018 and that fresh appointments had been made by 18 April 2018. 23 applications were received, 20 of which were from England and Wales and three from Scotland. The four successful candidates were:

- Catherine Gibaud QC (England and Wales);
- Ben Hubble QC (England and Wales);
- Richard Jones QC (England and Wales), and
- Alison Potter (a senior junior in England and Wales).

I am most grateful to these four for joining the Panel, the active membership of which now consists of all eight of the names above. There are six Queen's Counsel from England and Wales (one of whom is also a qualified actuary; and one of whom is also qualified in the Republic of Ireland), one Queens' Counsel from Scotland and one junior Barrister from England and Wales. Four of the active members are female and four are male.

The Commission and I believe that the Panel as so constituted should be able to operate for some years from now without further reinforcement.

During the calendar year 2018, four cases were before a Senior Decision Maker, each of which was assigned to one of the four established Senior Decision Makers. As yet, none of the four new appointees has been called upon to take on a case, but that should change in the course of the new year of 2019.

Two of these four cases were the subject of determinations made in the year, but only one outcome currently appears in an announcement on the Commission's website. That completed case involved the activities of a director of a number of licensed and unlicensed companies carrying on business in the Bailiwick, which led to a financial penalty, a prohibition and a public statement, dated 31 May 2018. The second case was determined by the Senior Decision Maker in the summer of 2018, but was immediately made the subject of an appeal to the Royal Court. The outcome of that appeal is discussed further below, but means that the case before the Senior Decision Maker is not yet completed.

The other two cases were also still in progress at the year end. I understand that one of these cases has required further submissions to be made regarding the potential implications for that case of the appellate decision of the Royal Court mentioned above.

During 2018 there was one set of proceedings in the Royal Court relating to the work of the Panel. This is the case of Y v. The Chairman of the Guernsey Financial Services Commission, where the Judgment of the Deputy Bailiff was handed down on 29 November 2018. Whilst the judgment supported the Senior Decision Maker's conclusion that Y was capable of being found not to be fit and proper, two notable aspects of the decision were a finding that the Commission lacks the power to issue a prohibition order that is limited in time and a remittal to the Commission of the proposed Public Notice on the footing that it contained more detail than the relevant statutory power permitted. I understand that the Commission is appealing some aspects of the ruling.

Two training days were organised for the Panel in October 2018. One of these was an introductory session for the four new appointees and the other, attended by all eight active members of the Panel, was a review of the present state of play in terms of casework, practice and legislation. The agenda included issues of practice and procedure arising out of the current case load, a discussion of certain aspects of the case mentioned above then pending before the Royal Court, and information on the proposed legislative changes as relevant to matters of interest to the Panel. The new Guidance on Decision Making Process, adopted by the Commission on 26 Oct 2017 after the training day in September 2017 and available on the Commission's website, was also considered in some detail.

Michael Blair QC
President of the Panel of Senior Decision Makers

Risk Unit

The Risk Unit within the Commission provides, as all good risk units should, an internal voice of challenge to our supervisors as well as an independent view on the Risk Mitigation Programme (RMPs) actions set for the firms we regulate. This has helped to ensure that the 266 actions set for firms from 35 Firm Risk Assessment visits and over 55 further engagements with firms in 2018 are consistent, proportionate and risk focused.

As in previous years, we continue to see RMP actions set over a number of key risk areas with our main areas of concern being governance, operational, financial crime and conduct risks. In the large majority of cases it is the firm which is asked to take action to mitigate the risk we have identified and, in the most part, our firms respond appropriately with 288 RMP actions closed during 2018. Actions are closed when a firm has undertaken relevant work and demonstrated to the Commission that the risk has now been mitigated appropriately. It is rare that we identify similar issues following completed RMP actions but when we do, this is taken very seriously by our supervision teams as it throws into question what reliance, if any, can be placed on the senior management at the firm. In these circumstances we could look to use an external party to assess the actions a firm has taken and we have, in 2018, done so in a limited number of cases. The objective is generally to return a firm to a position where we can be confident that the senior management are doing an effective job of managing and mitigating the risks that their firm poses to customers, companies and the reputation of the Bailiwick.

In line with our PRISM methodology, the main focus of our proactive supervision, in the form of Firm Risk Assessments, is our higher impact firms i.e. those that would have the greatest impact on the Bailiwick should they fail. Nevertheless, each supervisory division also undertakes thematic reviews where a particular risk area has been identified for further investigation. This ensures that a number of our lower impact firms are visited each year to discuss a particular topic. Previously these thematics have covered risk areas such as client money, sales processes of insurance intermediaries, governance and financial crime risks and controls in individual sectors. In 2018 we undertook two crosscutting thematics, one on the Beneficial Ownership Register and the second on cyber security.

Thematics

2018 saw the launch of Guernsey's Beneficial Ownership Register. For firms that are regulated by the Commission, it is our responsibility to assess whether the information submitted for inclusion on this register is accurate and complete. A number of firms participated in our thematic looking at this area, which was led by our Financial Crime and Investment, Fiduciary and Pension Divisions. The results of this thematic should be published in the first half of 2019.

The Commission, along with others, has identified the growing risk of cyber attacks, not only internally, but also to the firms that we supervise. Globally, there is daily evidence of the necessity for robust systems and controls surrounding data and operations, not to mention the need to be prepared for the worst-case scenario should an event occur. To measure how well our financial services firms are dealing with this risk, towards the end of 2018 we initiated a cyber security thematic covering every firm that we regulate, including our Prescribed Businesses and Personal Fiduciary Licensees. A sample of firms received a questionnaire to complete on their cyber security controls. After publishing this on our website we also saw some firms which had not been included in the sample responding by deciding to complete the questionnaire. The Commission would wish to thank each of the firms for taking the time to complete the questionnaire, the results of which are being analysed before we carry out follow up visits to individual firms. Our aim is to use the insights we gain to refine our policies for financial services firms and our expectations with respect to cyber security systems and controls. At the same time as launching the questionnaire, we highlighted to firms a range of guidance and resources to help deal with cyber security threats and to build the governance required for this risk area. We would encourage all firms, boards and directors to review this information on our website and to consider whether their firm has taken all the necessary steps to be confident in their systems and controls for this key risk area.

PRISM and Fintech

PRISM is not only our methodology for risk-based supervision but also our internal system for recording information and the outcomes of our visits to firms. As with any system, there are ways of improving it and over the last year the Risk Unit has been working closely with our supervisory divisions to identify key areas for development. Some of these are in relation to new areas of responsibility, such as pension regulation in 2017, but others are making sure we are using the information we hold effectively. Towards the end of 2018 we updated the system to ensure it can better retain key historical information about a firm, its impact and its risks. As this information builds over time, it will facilitate greater analysis of trends by our supervisors, enabling them to identify more risks before they crystallise although, as has been repeatedly emphasised, we are not a zero-failure regulator given the context of the free market economy in which we operate with firms responsible for their actions.

Financial Stability

As noted within the Director General's report, our ability to predict the outcome of Brexit at the time of drafting this report is severely limited - even the football predicting octopus would be having trouble. However, the Commission believes that the Bailiwick of Guernsey is in a strong position to be able to deal with any challenges it faces.

As highlighted within the States of Guernsey's Economic and Financial Stability Overview issued in December 2018, the financial services sector continued to grow in 2017 and the States' expectation is that this will continue into 2018, though perhaps at a lower level. If we consider our authorisation statistics at the end of 2018, we saw a higher number of authorisations in December than we had in any of the previous two years and across the full year we saw an increased number of authorisations in the insurance and investment sectors taken together.

We continue to see challenges for our firms in identifying the right skills and talented individuals for the roles they have available, something which we have also experienced through our own recruitment process and whilst this is difficult in itself, it could lead to increasing wage growth as firms try to retain or acquire the key skill sets they need. Linked to this is a gentle trend in consolidation across the fiduciary sector and a reduction in captives within insurance. It suggests that areas which have seen significant growth in previous years are now re-evaluating and tailoring their offering to specific areas. This may mean that those firms remaining are more robust and therefore better able to deal with the twists and turns of Brexit and cope with other changes such as the reforms made by the States to the Bailiwick's substance regime in late 2018.

International Policy

Accompanying Brexit is likely to be a range of opportunities for the financial services sector in the Bailiwick. The draft Statutory Instruments issued by the UK in the event of a 'no-deal' Brexit demonstrate an awareness that European funds would need to be able to sell/operate in the UK post-Brexit if UK customers are not to have their investment opportunities restricted. Any amendments to the UK's processes in this area will not just benefit EU funds but would also benefit funds located in other reputable third country jurisdictions such as the Bailiwick. As a jurisdiction which has not joined the EU's Single Market, the Bailiwick's financial services industry is less affected by Brexit than the City of London and as our Chairman points out is well placed to be a haven of stability in times such as these.

The Commission also participates in the States of Guernsey's Financial Stability Committee. This focuses on the financial stability issues relevant to the Bailiwick and has resulted in the publication of regular reports on financial stability by the States, the most recent of which was published in December 2018 and is available on the States website.

The Commission continues to engage with other regulators and international bodies so that we remain abreast of developing international policies and their potential impact on the Bailiwick. This awareness is what led to our participation in the Global Financial Innovation Network (GFIN) and ensures that we have a voice on bodies such as Moneyval and hence are able to demonstrate our robust approach to AML/CFT threats.

During 2018 the Commission attended meetings of a number of international regulatory bodies. Our banking interactions tend to be on a firm-by-firm basis with individual regulators. Our continuing participation in these international bodies allows us to monitor and assess regulatory developments.

We continue to monitor developments within the EU with regard to the European Supervisory Authorities and their views on, for example, the subject of Alternative Investment Fund Managers Directive (AIFMD) equivalence. As this could also impact the use of the National Private Placement Regimes (NPPRs), this is an area where we are keeping a close watching brief although we do not believe there will be changes in the immediate future.

Katherine Jane
Director

AUTHORISATIONS AND INNOVATION DIVISION

2018 brought with it a range of changes for the Division not least the transformation in September of what was previously a unit into a division with, at the same time, the merger of innovation into the Division. Further change arose with the loss, albeit for good reason (retirement, relocation and career change), of some experienced members of the Division. As much of this personnel change was known in advance, we were able to plan for it and where necessary replacements were found with relevant experience and skills. That said, there is always a learning curve where a number of new entrants are introduced into a team and efforts in the final quarter of 2018 were focussed on providing appropriate training across the Division to ensure smooth transitions and a cross-fertilisation of skills. Finally, heading into the last quarter of the year there was a significant change in the volume of the workload being handled by the Division, with nearly 50% of the total investment applications for the year being received between September and December.

Bringing Authorisations and Innovation together has proven to make for a good fit and although still relatively early days in its new configuration, the general acceptance, both internally and externally of the Commission, is proof of that. Whilst the marriage is a successful one, it is still sensible for the purposes of this report, which covers the transition period, to focus on each area as an 'individual' in its own right.

Authorisations

2018 proved to be another year of contrasts with a range of workflows and continued diversity of applications passing across the desks and screens of the members of the Division. We continued to adopt a risk-based approach to our assessment of application submissions and in the majority of applications this allowed for straight through processing by the Division. Where necessary though, the Division continued to work closely with colleagues in all of the supervisory divisions and utilised their specialist knowledge during the review of complex or technical submissions. We referred in our 2017 report to the use of Authorisation Review Panels (ARPS) which were described as the application equivalent of RGPs under PRISM. Their use continued into 2018. ARPs can be called ad-hoc and at short notice and they have only been used in a very small percentage of the overall total of applications received. The use of the ARPS allows for consistent and fair decision-making.

As well as the applications and one-off fees reflected in the statistics tables in the back of this report, the Division was responsible for a range of other tasks including the processing of surrenders across all sectors and changes of control for entities in those sectors where a fee is currently not chargeable.

The Investment sector continued to see in 2018 the uplift it had started to experience in the latter stages of 2017 resulting in the last quarter of 2018 in a high number of applications. In particular, new applications for both open-ended and closed-ended funds, including Registered Funds and Private Investment Funds (PIFs), exceeded levels seen in the previous year. 2018 saw the registration of two Guernsey Green Funds, one being a conversion of an existing fund and the other being a new fund launch. There continues to be strong interest in the Guernsey Green Fund with a number of other applications in the pipeline. 2018 also saw the introduction of a fee for a change of controller for investment licensees and 33 such applications were processed during the year.

The trend of 2017 in the increase in Insurance Linked Securities (ILS) structures continued into 2018 for the Insurance sector with new Category 6 Special Purpose Insurer (SPI) cells exceeding the level for 2017. Our engagement with this sector over the application process for such structures also continued.

Overall levels of fiduciary applications were down in 2018 compared to 2017 and full licence applications fell by 50% from 49 in 2017 to 22 in 2018. The vast majority of applications for the Fiduciary sector throughout 2018 continued to be for discretionary exemptions, although the levels were slightly down on those seen for 2017.

Our assessment turnaround times are dependent on the standard of the applications received and it is pleasing to note that once again only a small number of applications submitted did not proceed

Authorisations and Innovation Division *(continued)*

to the approval stage during 2018. In 2017 over 95% of the applications submitted were approved, in 2018 this figure rose to 98%. All of the applications which did not receive approval were either withdrawn by the applicant or lapsed. However, there was a need on a few occasions to return applications that were felt to be of poor quality, a reflection of the completeness of the submission documentation as opposed to the quality of the business itself. Whilst disappointing, we have in those cases taken the time to provide feedback to the entities involved to help ensure that this is not repeated and indeed we were able, in a couple of instances, to accept revised application submissions.

In that vein of assisting applicants in understanding our requirements, in October 2018 we issued guidance to assist individuals in prescribed positions to meet the Fit and Proper standard set out in the relevant Minimum Criteria for Licensing in the Regulatory Laws. This guidance is for individuals who are holding, or intending to hold, one of these positions or the entities looking to employ them.

In addition, members of the Division continued to meet with potential and existing licensees to discuss proposed and ongoing applications. On the whole the quality of applications continues to be high and early communication ensures the authorisation process remains as effective and efficient as possible.

The levels for online submissions and for online PQs are detailed in the graphs in the section entitled "Statistical Data". The Division continued to staff the online services Helpdesk and handled a range of queries from new users as well as from those more familiar with the system who were experiencing technical issues. As far as possible, the enquiries are handled by the Helpdesk and where more IT-related technical support is required they are passed over to the Commission's IT team.

Innovation

The Commission's innovation hub, the Innovation Soundbox, continued to welcome all conversations and engagement during 2018. The Commission, recognising though that the Innovation Soundbox had been in place for a couple of years, reflected on how we could reaffirm its purpose and demonstrate the Commission's continuing commitment to supporting innovation within the Bailiwick's financial services industry.

As a result, the Commission hosted a one-day event on 22 June 2018 – the Soundbox Sprint. The Soundbox Sprint provided an exciting opportunity for the participating teams to develop digital solutions to address one or more of three pre-set challenges including how technology could be used to:

1. optimise efficient and effective client due diligence (and hence reduce costs for Bailiwick businesses);
2. improve administration; and
3. help the financially excluded.

The event was a considerable success with entries submitted by 10 teams which included representatives of 35 Guernsey businesses including banks and other financial institutions, accountants, lawyers and technology companies. Those participating were ableto share and discuss how to unlock the potential of FinTech for the benefit of the Bailiwick and to highlight the capability of local firms in this important and growing area.

The entries were considered by six judges drawn from across the financial services sector including the Commission's Chairman. Each entrant had the opportunity to pre-book a surgery with subject matter experts, such as regulators, politicians, accountants and lawyers, to enhance their solutions. The day concluded with the presentation of prizes, including The Bailiwick Innovation Awards (Gold, Silver & Bronze) and The SoundBox Sprint Support Awards, (Gold, Silver & Bronze), to teams from PwC, Midshore Consulting, Barclays, C5 Alliance, The ID Register and Guernsey Community Savings with the last being the overall winner with a community savings concept.

Feedback from the Soundbox Sprint was particularly positive about the roundtable discussions held as part of the day's proceedings. We have therefore decided to follow up on the Soundbox Sprint by holding further roundtables – Soundbox Dashes - throughout 2019 focusing upon specific financial innovation subjects commencing with the first one that was held on 18 January 2019 on the topic of the Global Financial Innovation Network (GFIN).

The Commission, in collaboration with 11 financial regulators and related organisations, on 7 August 2018 announced the establishment of GFIN, building on a proposal earlier in the year to create a 'global sandbox'.

Authorisations and Innovation Division *(continued)*

The network will seek to provide a more efficient way for innovative firms to interact with regulators, helping them navigate between countries as they look to scale new ideas. It will also create a new framework for co-operation between financial services regulators on innovation related topics, sharing different experiences and approaches.

GFIN will have three main functions:

- act as a network of regulators to collaborate and share experience of innovation in respective markets, including emerging technologies and business models;
- provide a forum for joint policy work and discussions; and
- provide firms with an environment in which to trial cross-border solutions.

The Commission is one of the founding members of GFIN and sits on the Coordination Group. We are also one of the jurisdictions willing to participate in the cross-border trials.

Finally, the Division has represented the Commission on Guernsey Finance's FinTech Strategy group since inception, contributing to the development of the strategy by providing regulatory insight. Our involvement extended to participation in the seminar on FinTech held on 19 January 2019 in London where we spoke on the topic of the permissiveness of the new Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) handbook for the deployment of technology in the processing of client due diligence.

Emma Bailey
Director

THE COMMISSION'S THREE-YEAR BUSINESS PLAN

Recent international regulatory standards suggest that an independent regulator should seek to set out in a public fashion its intentions for a period of time in excess of a year. This evolution in standards has coincided with the removal of States Pension related liabilities from our balance sheet - resulting in an improvement in our financial position which gave the Commission capacity to consider longer term development plans. These events led our Board to ask the Executive to develop a three-year business plan in the first half of 2018. The business plan development work was undertaken over a number of months and involved rigorous sifting of proposals to identify those which were most essential with c. half of all projects proposed being deprioritised after critical discussion as to the value they would add and our capacity to execute them alongside other activities. The Plan was formally adopted by Commissioners on 13 April 2018.

This section of the annual report sets out key elements of the business plan we have developed to operate from 2018 through to the end of 2021. It is not set in stone, nor should it be as it is important that the Commission retains flexibility to react to external events. It should be read alongside other key Commission documents which set out our approach to our statutory duties - Our Regulatory Framework and Risk Based Supervision in Guernsey. In drafting this version of our three-year business plan we are cognisant of the strategy document published by Guernsey Finance, Guernsey's promotional agency in late 2018, which sets out certain ambitions for the financial services sector. We have taken note of it to the degree it is appropriate for us to do so given that we have finite resources, an independent board appointed by the States and clear statutory duties which focus on regulatory and financial stability matters rather than sectoral promotion.

Getting the Basics Right

In the first instance, it is important to note that much of what we do is intended to remain constant under our three-year business plan. Our organisational structure may undergo some organic change over the next three years as the right people are matched to the right roles, but we have no intention of radically changing how we operate, because we think having the right people, properly motivated doing the right things is far more important than any particular organisational design, all of which have their merits and disadvantages. We intend to continue to:

- provide a high quality and responsive authorisations regime;
- offer support on regulatory matters to innovative financial services businesses;
- provide educational events to help firms with regulatory self-assurance;
- apply a risk-based supervisory regime; and
- take enforcement action against serious malefactors.

Further to this, we intend to continue to invest in our staff, to remain roughly the same size in terms of permanent headcount and to spend the public money we raise through fees levied on the financial services sector in a sensible and careful manner.

We will also continue to interact with key UK and EU stakeholders including the Bank of England, HM Treasury (alongside the States of Guernsey), the Financial Conduct Authority, the European Supervisory Authorities and the European Central Bank. Further, we will continue to participate in key international regulatory organisations including the International Association of Insurance Supervisors (IAIS), the Financial Action Task Force (FATF), the International Organisation of Securities Commissions (IOSCO), the International Organisation of Pensions Supervisors (IOPS) and emerging regulatory organisations of benefit to the Bailiwick such as the Sustainable Insurance Forum and the Global Financial Innovation Network (GFIN) of which we are a founder member. During this period, properly preparing for the likely visit of the Council of Europe's Moneyval inspectors who will assess how well the jurisdiction as a whole complies with the 2012 FATF standards when they visit in the early 2020s, will be a key activity.

Policy Work

Much policy work takes place over a period considerably longer than a calendar year and we have found the preparation of a three-year business plan helpful in examining what we can do and what we cannot do over a multi-year period. Some of our policy work is, to some degree, voluntary in the sense that we are not compelled to do it by international standards. Recent examples of this type of work include the Guernsey Green Fund rules which we were pleased to develop in conjunction with a number of interested parties. Over the course of the three-year business plan we would intend to continue this workstream looking to enhance Guernsey's sustainable development credentials from a regulatory perspective, making clear that we are, "long-term greedy" when it comes to providing an environment which nurtures sustainable finance because by doing so we can help nurture our much-threatened global environment.

Some policy work is less voluntary in so much that it is based on ensuring the Bailiwick's continued compliance with international expectations. A recent example of this would be the Bailiwick's new Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Handbook discussed in the Director General's Report. In December 2018 we were subject to an international inspection by IAIS which assessed us against international Insurance Core Principles. It is likely that the report on that inspection will make a number of recommendations which we will need to consider alongside the recommendations made by Ian Tower in his 2017 report which we commissioned in conjunction with the States of Guernsey. Whilst we are not, a priori, going to commit ourselves to implementing all the recommendations made by both inspection reports, we are certainly committed to, alongside other stakeholders, giving them serious consideration and implementing them to the extent we consider them sensible in a Guernsey context. Not to do so would threaten our reputation as a well regulated jurisdiction, a reputation on which so much of our financial services sector success depends, as it requires access to other countries' markets to prosper.

Some of our policy work is contingent on the legislation which we hope will be passed by the States of Guernsey over the coming year. To the extent it passes the Revision of Laws legal text as well as the Lending, Credit and Finance Policy Letter and the Policy Letter providing for Bank Resolution Powers in 2019, it will create implementation and drafting work relating to those laws and Policy Letters for us. Our current understanding is that senior politicians intend to present all this legislation to the States of Guernsey during the autumn of 2019. To the extent it is proper for us to anticipate the will of the legislature, our three-year business plan provides for us to have sufficient resource to implement these new laws or to support their evolution to the next stage in the legislative process.

Big Data, Information Systems and Machine Learning

Alongside ongoing policy development, the other key area of the three-year business plan is our intention to invest in technology involving consideration and implementation of enhanced information systems for the Commission designed to allow it to better and more effectively regulate firms using new data-driven technology. The Commission already has fairly sophisticated systems able to undertake automated analysis of key information provided to it electronically in financial returns but we are conscious that big data and the use of augmented intelligence is evolving fast in the regulatory world as regulators struggle to understand and appropriately regulate FinTech firms which exploit data in novel ways to offer heretofore impractical services which may have benign or malign effects on consumers and market stability.

To take the example of general insurance, the increased availability of data by general insurers allows them to micro-segment the market and use highly personal data to risk assess customers. Those insurers who fail to follow the lead of the most aggressive are likely to face financial losses as they end up with the high risk customers who suffer from the risk assessed machine learning employed by the leading FinTech insurers. What use of data constitutes appropriate conduct in a freedom loving, democratic society which seeks to look after the less fortunate will become a more, rather than a less, pressing issue for all Western regulators.

Major international financial centre regulators such as the Singapore Monetary Authority are putting considerable resources into developing Supervisory Technology (SupTech) to help them cope and keep up with this new and very different financial services universe. As part of the three-year business plan, we are entering into partnerships with academic experts interested in this field to ensure that we remain abreast of developments and have a capacity to undertake some controlled experiments with our current data to better understand the art of the possible at a modest cost. In this way, we intend that Guernsey's regulation will not fall behind evolving international norms whilst remaining appropriate to the specialisms of Guernsey as an International Finance Centre (IFC). It is too soon to predict whether SupTech developments will be labour saving in the longer term but they certainly promise a world in which the supervisory role is less routine as machines undertake much of the analysis for the supervisor, where inspections become more targeted, where good firms see less of the regulator while poor quality firms see more of the regulator, assuming resources remain constant.

In addition to SupTech, we will also be making a substantial investment in Regulatory Technology (RegTech) to upgrade the reporting infrastructure with which our licensed firms have to interact. Whereas SupTech generally denotes the internal use of technology by a regulator to do its job better, RegTech is more commonly associated with the regular reporting of data by firms to the regulator. Here the Commission has identified a need to substantially upgrade its current systems as software evolves and we will be implementing a project to achieve this within the next three-year business plan cycle. Our current intention is that the "front end" used by industry should remain mostly similar to that which firms see now with the current login and authentication architecture remaining valid. Behind the scenes, the facts of the matter are that our underlying reporting software needs to undergo radical change if firms are not to have to revert to using pen and ink to communicate with us. Delivering this new reporting system for industry is a key objective of the three-year plan. This investment will happen alongside continued upgrades to our PRISM technology which will, for example, see financial crime supervision activity fully integrated into PRISM over the course of 2019 as PRISM functionality is improved. This will enhance

The Commission's Three-Year Business Plan *(continued)*

the ability of different supervisors in the Commission to work alongside each other benefiting from a common understanding built on a common supervisory system.

We also envisage supporting other technology projects in the data management, human resources and finance areas. Our financial control systems, whilst very proper, are largely manual. We intend, for example, to improve our systems so that we can undertake e-billing whilst at the same time improving our HR software through implementing an improved "off the shelf" system.

In the realm of data, we are conscious that making improvements to our current approach to data storage is attractive to enhance our ability to find and analyse all relevant documents swiftly and easily. For some time now, our Enforcement Division has been making use of a piece of software which is particularly adept at document retrieval and analysis and one of our current projects will see the Commission adapt the lessons learnt by Enforcement from a number of large scale investigations to improve our data architecture.

Funding and Resourcing the Three-Year Plan

We have wanted to undertake a number of these projects for several years to improve our efficiency and effectiveness but to date, we have lacked the financial resources to do so. We are keen to make the necessary investments in good time to ensure that our financial regulatory technology remains current and functional. The good news for the financial services sector is that the arrangement reached with the States of Guernsey in the latter part of 2017 with regard to the States Pension Scheme liabilities, has put us in a position to finance our policy and technology development projects from reserves.

Thus, whilst we are not moving away from our ambition to run a balanced budget in the medium term, for the three-year business plan cycle we plan to run a deficit budget, reducing reserves whilst maintaining our long-term minima of liquid reserves equal to six months expenditure. The extra expenditure is being used to buy assets (such as new software) and to employ technical specialists (such as IT developers and legal draftsmen) on short term contracts designed to conclude at the end of the three-year business plan cycle thus helping restore the Commission's budget to balance.

Human Resources

We experienced a challenging year in 2018 on the recruitment and retention front, which saw a number of well-regarded staff leave to take up roles in the industry. While this inevitably results in some short-term issues for the Commission, not least in securing good replacements in what seemed to us to be a tight employment market, nevertheless, we see longer-term benefits for the industry and the Bailiwick when our staff move on. They leave us as highly motivated individuals who have been well trained, possess a good degree of experience relevant to the industry and hence are able to make important contributions in their future careers.

The Commission employed 108 permanent staff at 31 December 2018. Our organisational aim is to facilitate intelligent and co-ordinated delivery of all learning, training and development opportunities.

To give a flavour of our approach to training and development, during 2018 the Commission supported 24 staff in studying towards a professional qualification - these included the Investment Management Certificate, CIPD Certificate in HR Practice, CFA Levels I-III, CISI Risk in Financial Services, STEP Certificates, ICA Certificates and Diplomas and the MSC in Corporate Governance. We also organised over 100 internal training sessions covering matters as diverse as corporate governance, analysing business models, conducting interviews, chairing and participating effectively in Risk Governance Panels (used for internal quality assurance purposes), cyber security and data protection. Our staff also attended an extensive number of external training courses including STEP lectures, IOSCO seminars, RegTech conventions, FinTech conferences, AML and Financial Crime seminars, Cybercrime conferences and IOD courses. We also continued to offer our Graduate Development Programme which has been very successful since its inception in 2014. 16 graduates have been employed on the scheme to date with seven promoted to Analyst and five promoted to Senior Analyst over that period with more recent entrants continuing on the scheme for now.

Of course, we look to support our staff in other ways. For example, during 2018 we continued to provide wellness and educational support which included delivering 10 Technology, Entertainment and Design Talks (TED Talks). The subjects of these talks included Mental Health in the Workplace, Demystifying Liquidation, Leveraging the Universal Law of Reciprocity, the Benefits of Mindfulness, an overview of Companies, Trusts and Partnerships, in Guernsey and ILS Structures. We also continued to provide new staff with internal mentors, appointed a Chaplain to provide general support and advice to staff irrespective of faith and we now have four staff who are qualified Adult Mental Health First Aiders. In addition, we have a very active Sports and Social Club.

We are also constantly looking for new ideas to assist in our recruitment and retention of staff at all levels. Our latest initiative has seen the introduction of a 9-day fortnight which we hope will provide us with a competitive edge as, put simply, we are unable to compete with industry on our basic salary package offering. The 9-day fortnight gives our staff the option of building up sufficient additional hours during those 9 days to enable them to take off one Friday every two weeks as paid leave. At the time of preparing this report, 49 staff have opted into the Scheme and a number of new joiners have already commented positively about this initiative during the recruitment process.

Dale Holmes
Commission Secretary

Financial Information

As noted in our 2017 annual report and accounts, due to the conclusion of the actuarial account arrangement within the States Public Sector Pension Scheme, the resultant settlement removed the net pension liability from the Commission's balance sheet. From 2018 onwards, our balance sheet will reflect the more straightforward business model of the Commission with income being received as fees from our licensees which are then used, through our operational costs, to carry out efficient and effective supervision of financial sector firms within the Bailiwick.

The removal of this liability has shown a balance sheet in a strong financial position and this is one of the reasons why, despite the inherent uncertainty in today's financial markets, the Commission's Chairman was able to inform the States of Guernsey and industry that, absent any significant unforeseen and adverse event, we would not be seeking an increase in licence fees or charges during 2019 or 2020.

The Commission continues to maintain a position that we believe, in line with good prudential management, maintains an adequate buffer of reserves and liquidity with cash, short-term deposits and investments of £11.7m at the 31 December 2018.

During the period when we were subject to extensive fluctuations in the valuation of our pension liabilities, it would have been inherently imprudent to invest heavily in developing our IT or other processes. However, as discussed in the three-year business plan section of this report, following the removal of this uncertainty, we have taken the opportunity to reassess our requirements and to make essential and long overdue investment in our IT systems as well as in other areas. From a financial perspective, this has temporarily increased our overall expenditure on a year on year basis. With the removal of the temporary additional costs relating to the three-year business plan, our overall expenditure for 2018 would be £13.5m which is only a small percentage increase (4%) compared to our 2017 position. This increase reflects an ongoing investment in our staff, their training and development along with a material increase in legal costs (52%) associated with undertaking a number of significant enforcement cases.

With respect to the three-year business plan, as the projects progress we will capitalise a large proportion of the expenditure made in our IT systems, however, at this time our total fixed assets have decreased as this new investment has not yet overtaken the depreciation of our current fixed assets.

Overall we have seen a positive outcome for the year (£546,000) which is due not only to tight control of our expenditure, but also due to a higher income flow. This income was not only due to a number of surrenders and mergers occurring within 2018 not, as expected in 2017, but also to a higher than expected application income with a favourable variance relative to our forecasts of c.£171,000 and total income from applications for the year coming in just under £1 million. To add a note of caution, a large proportion of this income related to one-off fees such as Insurance Linked Securities or Discretionary Exemptions within the fiduciary sector, although there was a growth in income from new investment business.

Katherine Jane
Director

Information Technology (IT)

The day-to-day work of supervision and regulation could not occur without a stable operating platform and robust IT systems, including online systems, that work in an efficient manner. The Commission is able to achieve this through the hard work and dedication of our able IT staff. Over the years, we have built a core structure of IT systems to enable the Commission's staff to undertake their work efficiently and effectively. However, all systems have to be maintained, updated and eventually changed when they become unsupported.

Over the course of 2018, we had to face the normal challenges of IT with increasing usage of email and online systems, numerous cyber-attacks (all defended), phishing scams, increasing amounts of junk mail and the usual peaks in system demand at the end of April and October when a large number of regulatory returns are due. All of these were dealt with by our IT team with minimal service disruption. At the same time, we have maintained our focus on cyber security and recovery of systems with a war-gaming exercise that took place towards the end of the year, with external support used to check how our systems would work in extreme circumstances.

As discussed further in the three-year business plan section, during 2018 we developed a comprehensive three-year business plan to ensure that the Commission is in the best possible place to continue to provide efficient and effective supervision to the Bailiwick. It is rare these days to have a policy development or process improvement which doesn't touch on IT and there are two major IT projects, which form part of our three-year business plan, which have already commenced.

The first of these is an updating and upgrading of our data management systems. As noted previously, we are seeing greater use of our online services and an increasing number of submissions being sent to us electronically. Indeed, with the cost of storage on the island and the limitations on office space, this is preferable but it does place a greater emphasis on ensuring that this data and information is stored safely and in a logical location where it can be easily retrieved. In addition, the work we did in 2018 to ensure compliance with our data protection responsibilities has highlighted that in a number of instances deleting this information can be a manual and resource-intensive task. Improvements in those systems will mean more time and effort can be spent on added-value tasks.

Secondly, in 2017, a large amount of time and effort was spent on improving our online portal for Online Personal Questionnaires, appointments and resignations. In 2018, as part of our regular review and discussions with our service providers, we identified that in the future one aspect of our system would become unsupported within the foreseeable future. In line with our guidance to regulated entities, we do not believe it is appropriate or secure to run unsupported software and therefore the second project is a back office update and restructure of our online submissions portal. This should not impact upon our regulated entities as we plan to continue to use a 'Single Sign On' process. However, it should improve our ability to flex the capacity of our systems at key times of demand, such as April and October, as well as enabling a less labour intensive approach to the creation of forms and information requests.

Katherine Jane
Director

INDEPENDENT AUDITORS' REPORT

Opinion

We have audited the financial statements of the Guernsey Financial Services Commission (the 'Commission') for the year ended 31 December 2018, which comprise the Statement of Comprehensive Income, the Statement of Reserves, the Balance Sheet, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including Financial Reporting Standard 102; 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Commission's affairs as at 31 December 2018 and of its surplus for the year then ended;
- are in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Financial Services Commission (Bailiwick of Guernsey) Law, 1987.

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 statements' section of our report. We are independent of the Commission in accordance with the ethical requirements that are relevant to our audit of the financial statements in Guernsey, 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.

Who we are reporting to

This report is made solely to the Commissioners, as a body, in accordance with our Terms of Engagement as detailed in our letter dated 26 March 2018. Our audit work has been undertaken so that we might state to the Commissioners those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Commission and the Commissioners, 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 information in the annual report, in relation to which the ISAs (UK) require us to report to you where:

- the Commission's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Commission has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Commission'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 statements are authorised for issue.

Other information

The Commission is responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements 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 statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements 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 statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Commissioners for the financial statements

As explained more fully above, the Commissioners are responsible for the preparation of the financial statements which give a true and fair view, and for such internal control as the Commissioners determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Commissioners are responsible for assessing the Commission's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is inappropriate to presume that the Commission will continue to operate.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are 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 these financial statements.

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

For and on behalf of Grant Thornton Limited
Chartered Accountants
St Peter Port
Guernsey

3rd May 2019

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018	2017
		£	£
Income			
Fees receivable		13,943,269	13,147,710
Financial penalties imposed	13	108,500	136,500
Bad debts recovered	13	40,288	34,748
Interest receivable and similar income		105,065	83,673
Net change in investments measured at fair value through profit or loss	11	-	107,921
		14,197,122	13,510,552
Expenses			
Salaries, pension costs, staff recruitment and training		(9,314,173)	(8,911,156)
Commissioners' fees		(275,345)	(273,654)
Legal and professional fees		(820,725)	(536,824)
Premises and equipment, including depreciation and dilapidations		(1,838,964)	(1,817,448)
Other operating expenses		(1,220,892)	(1,282,658)
Bad debt provision expense	13	(72,134)	(101,636)
Net change in investments measured at fair value through profit or loss	11	(100,027)	-
Auditor's remuneration		(8,500)	(8,250)
		(13,650,760)	(12,931,626)
Surplus before net gain on pension scheme		546,362	578,926
Other pension costs	7(a)	-	(137,856)
Gain on settlement of defined benefit pension scheme	7(a)	-	14,172,606
Surplus for the financial year		546,362	14,613,676
Other comprehensive income			
Re-measurement of net defined benefit liability	7(b)	-	761,080
Total comprehensive income for the year		546,362	15,374,756

The notes on pages 39 to 48 form an integral part of these financial statements.

STATEMENT OF RESERVES

For the year ended 31 December 2018

	Note	2018	2017
		£	£
Opening reserves		13,079,883	(2,294,873)
Total comprehensive income for the year		546,362	15,374,756
Balance at 31 December 2018		13,626,245	13,079,883

The notes on pages 39 to 48 form an integral part of these financial statements.

BALANCE SHEET

As at 31 December 2018

	Note	2018	2017
		£	£
Fixed assets			
Tangible assets	4	2,837,811	2,891,857
Current assets			
Debtors and prepayments	5	721,638	603,494
Short-term deposits	10	7,565,894	6,759,004
Investments	11	3,198,867	3,298,894
Cash at bank and in hand	10	976,559	1,532,839
		12,462,958	12,194,231
Current liabilities			
Creditors – amounts falling due within one year	6	(1,400,068)	(1,770,236)
Net current assets		11,062,890	10,423,995
Non-current liabilities			
Provisions for liabilities	14	(274,456)	(235,969)
Net assets		13,626,245	13,079,883
Total reserves		13,626,245	13,079,883

The Financial Statements on pages 35 to 48 have been approved by the Commissioners and signed on their behalf on 3rd May 2019 by:-

C Schrauwers
Chairman

R Moore
Vice-Chairman

W Mason
Director General

The notes on pages 39 to 48 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018	2017
		£	£
Cash flows from operating activities			
Surplus for the financial year		546,362	14,613,676
Adjustments for:			
Defined benefit pension scheme:			
Gain on settlement of pension scheme	7(a)	-	(14,172,606)
Contributions to pension scheme	7(d)	-	(122,159)
Pension scheme administration costs	7(d)	-	1,333
Other pension costs	7(a)	-	137,856
Depreciation of tangible fixed assets	4	747,772	764,480
Loss on disposal of tangible fixed assets	4	13,180	8,461
Interest receivable		(105,065)	(83,673)
Unrealised loss / (gain) on investment portfolio	11	100,027	(107,921)
(Increase) / decrease in debtors and prepayments		(118,144)	76,196
(Decrease)/increase in creditors		(370,168)	645,938
Increase in provisions for liabilities	14	38,487	37,873
Net cash generated from operating activities		852,451	1,799,454
Cash flows from investing activities			
Purchases of tangible fixed assets	4	(706,906)	(360,816)
Interest received		105,065	83,673
Purchase of short-term deposits	10	(806,890)	(648,531)
Net cash from investing activities		(1,408,731)	(925,674)
Net (decrease) / increase in cash at bank and in hand	10	(556,280)	873,780
Cash at bank and in hand at the beginning of the year		1,532,839	659,059
Cash at bank and in hand at end of the year		976,559	1,532,839

The notes on pages 39 to 48 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

The Guernsey Financial Services Commission ("the Commission") is a Public Benefit Entity whose primary objective is to regulate the finance industry in the Bailiwick of Guernsey. The reserves support the primary objectives of the Commission.

1. Accounting policies

The financial statements of the Commission have been prepared in accordance with FRS 102, the financial reporting standard applicable in the United Kingdom and the Republic of Ireland.

i. Presentation and functional currency

The financial statements are presented in pounds sterling. The Commission's functional currency is also pounds sterling.

ii. Legal status

The Commission is a body corporate established under The Financial Services Commission (Bailiwick of Guernsey) Law, 1987. The Commission's operations are conducted from offices at Glategny Court in Guernsey. The Commission had placed a member of staff in the Guernsey Finance office in Hong Kong.

iii. Preparation

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. These financial statements have been prepared on a going concern basis. The principal accounting policies which the Commissioners have adopted within that convention are set out below. They have been applied consistently in dealing with items which are considered material to the financial statements of the Commission.

iv. Going concern

The Commission continues to meet its day-to-day working capital requirements through its bank balances and short-term deposits.

The following significant accounting policies have been consistently applied:

(a) Fees receivable

Fees are a combination of annual licence fees, application fees and late filing fees. Fees payable by licensees and registrants are enshrined in law and set out on the Commission's website, split by sector. Annual licence fees receivable are accounted for on an accruals basis. Income received prior to the 1 January invoice date for annual licence fees are treated as Fees in Advance, as part of creditors. A breakdown is shown in note 6.

(b) Financial penalties imposed

The Commission imposed financial penalties during the year under Section 11D (1) of the Financial Services Commission (Bailiwick of Guernsey) Law, 1987 as amended. Financial penalties are recognised as income receivable when the decision is made and the public statement is placed on the Commission's website. When the circumstances of a debtor give rise to concerns over settlement, and/or payment is not made within 7 days of the financial penalty being imposed, consideration is given to raising a provision.

(c) Interest receivable

Bank interest is accounted for on an accruals basis. Interest income received from fixed and notice deposits and certificates of deposit are also accounted for on an accruals basis.

(d) Investigation and litigation

Costs arising from investigation and litigation are accounted for as expenditure as incurred, whether or not it had been billed at the balance sheet date. Such costs recovered from third parties are recognised in the year in which they are received. No provision is made for expenditure or recoveries which may arise in future years.

(e) Tangible fixed assets and depreciation

Tangible fixed assets are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition for it to be capable of operating in the manner intended by management. Depreciation on tangible fixed assets is calculated, using the straight-line method to allocate the cost of assets, less their residual value, over their estimated useful economic lives, at the following annual rates:

Leasehold improvements	over the shorter of the term of the lease and the estimated useful economic life of the assets
Office equipment	25% straight-line
Furniture and fittings	over the shorter of 10 years and the estimated useful economic life of the assets
Computer equipment:	
Hardware	$33^{1}/_{3}$ % straight-line
Software	over the shorter of 10 years and the estimated useful economic life of the assets

(f) Financial instruments (financial assets and financial liabilities)

i. Recognition

All financial assets and financial liabilities are recognised when the Commission becomes party to the contractual provisions of the instrument. The financial assets and financial liabilities comprise of the following basic financial instruments: cash at bank; short-term deposits, including fixed maturity deposits and accounts where notice of withdrawal is required; certificates of deposit; current asset investments in a portfolio of equities, bonds and funds; other debtors and expense creditors.

ii. Initial measurement and subsequent measurement

All financial assets and liabilities are initially measured at transaction price. Financial assets subsequently measured at fair value through profit or loss comprise the current asset investments in a portfolio of equities, bonds and funds. Financial assets subsequently measured at amortised cost comprise cash at bank, short-term deposits and other debtors. Financial liabilities measured at amortised cost comprise expense creditors.

iii. De-recognition

Financial assets are de-recognised when the contractual rights to the cash flows from the financial asset are settled. Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

(g) Cash at bank and in hand

Cash at bank and in hand includes cash, deposits held at call with banks, with a maturity date of less than three months.

(h) Short-term deposits

Fixed and notice deposits, with original maturities of between three and twelve months, are included as current assets. Other short-term deposits, represented by a portfolio of certificates of deposit are managed by an investment manager.

(i) Investments

A portfolio comprising equities, bonds and funds, held in listed companies, which are traded on a regular basis, is managed by an investment manager. Investments are accounted for at fair value and gains or losses on fair value are included in the Statement of Comprehensive Income.

(j) Leases

Rental payments made in relation to office accommodation are treated as operating leases and are charged to the Statement of Comprehensive Income account on a straight-line basis over the lease term. Provisions are maintained for dilapidations, including redecoration, to cover future liabilities under the terms of the lease.

(k) Employee benefits

i. Short term benefits

A liability is recognised to the extent of any unused holiday pay entitlement which has accrued at the balance sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement and accrued at the balance sheet date.

ii. Defined benefit scheme

Following closure of the defined benefit scheme to future service accrual on 30 June 2014, employees had the option to transfer out their pension or become deferred members of the scheme. Following this date, the Commission's actuarial account was kept open to accurately calculate and pay what became either deferred or pensioner members. The actuarial account was closed as at 30 April 2017 following the agreement by the States of Guernsey to assume responsibility for all historic and future liabilities.

Upon closure of the actuarial account, a net settlement gain was recognised within the 2017 Statement of Comprehensive Income.

The net interest cost was calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost was recognised in the Statement of Comprehensive Income for 2017 as 'Other pension costs' and was calculated as at 30 April 2017.

Actuarial gains and losses arising from experience adjustments and changes to actuarial assumptions were charged or credited to other comprehensive income, within the Statement of Comprehensive Income. These amounts together with the return on plan assets, less amounts included in net interest, were disclosed as 'Re-measurement of net defined benefit liability'. All such disclosures were calculated at 30 April 2017, prior to the closure of the actuarial account.

iii. Defined contribution schemes

Employees who joined the Commission after 31 December 2007 up until 30 June 2014 were generally eligible to be members of the Island Trust Plan ("the DC Plan"). With effect from 1 July 2014, members of the DC Plan, deferred members of the defined benefit scheme and new employees were offered a choice of pension offerings. The options consist of the DC plan, a multi-member Group RATs scheme or a personal approved pension plan. Contributions by employees are no longer a mandatory requirement.

The contributions are recognised as an expense when they are due.

2. Judgements in applying significant accounting policies and key sources of estimation uncertainty

i. Tangible fixed assets (see note 4)

Tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives and residual value, factors such as technical innovation, product life cycles and the remaining life of the asset are taken into account.

ii. Lease classification (see note 8)

The Commission established a lease with the landlord of its Glategny Court office accommodation in September 2010. This is classed as a non-cancellable operating lease.

iii. Investments (see note 11)

The most critical estimates, assumptions and judgements relate to the determination of the carrying value of investments measured at fair value through profit or loss. In determining this amount, the Commission has applied the concept that fair value is the amount for which an asset can be exchanged between knowledgeable willing parties in an arm's length transaction. Investments, comprising equities, bonds and funds, are valued at the reporting date at the quoted bid price.

iv. Bad debt provision (see note 13)

The recoverability of debts is assessed and where appropriate a provision is raised in line with the approved internal policies. Debtors comprise entities or individuals who, given their circumstances, are unlikely to be able to settle the debt, in part or in full. Primarily, but not exclusively, the debt arises as a result of the imposition of a financial penalty under Section 11D (1) of the Financial Services Commission (Bailiwick of Guernsey) Law, 1987 as amended.

The debts, for which a provision has been raised, are reviewed regularly to ensure that all avenues are explored to obtain recovery.

v. Dilapidations (see note 14)

Provisions are maintained for dilapidations, including redecoration, to cover future liabilities under the terms of the Glategny Court lease. A professional review of the future dilapidations liability provided an initial estimate of the level of provision to be applied on an annual incremental basis. The original amount is increased annually at the Guernsey rate of inflation as measured by RPIX.

3. Taxation

The Commission is exempt from the provisions of the Income Tax (Guernsey) Law, 1975 as amended.

4. Tangible assets

	Leasehold improvements	Office equipment furniture and fittings	Computer hardware	Computer software	Total
	£	£	£	£	£
Cost					
At 1 January 2018	1,375,441	402,400	825,004	4,258,612	6,861,457
Additions	57,474	169,977	172,123	307,332	706,906
Disposals	-	(35,255)	(189,241)	(76,601)	(301,097)
At 31 December 2018	1,432,915	537,122	807,886	4,489,343	7,267,266
Depreciation					
At 1 January 2018	421,304	337,024	700,243	2,511,029	3,969,600
Charge for the year	72,882	29,838	71,583	573,469	747,772
On disposals	-	(33,363)	(184,866)	(69,688)	(287,917)
At 31 December 2018	494,186	333,499	586,960	3,014,810	4,429,455
Net book value at 31 December 2017	954,137	65,376	124,761	1,747,583	2,891,857
Net book value at 31 December 2018	938,729	203,623	220,926	1,474,533	2,837,811

5. Debtors and prepayments

	2018	2017
	£	£
Prepayments	651,388	535,312
Provision for bad debts (see note 13)	(147,283)	(227,142)
Other debtors	217,533	295,324
	721,638	603,494

Included in the total are prepayments of £94,433 (2017: £52,362) which relate to periods longer than 12 months.

6. Creditors - amounts falling due within one year

	2018	2017
	£	£
Creditors and accruals	724,274	659,065
Fees received in advance	675,794	1,111,171
	1,400,068	1,770,236

7. Post-employment benefits

FRS 102 (Section 28) Disclosure for the Guernsey Financial Services Commission ("GFSC") Actuarial Account of the States of Guernsey Public Servants Pension Scheme ("PSPS")

Background

Having closed the above scheme to future accrual of benefits with effect from 30 June 2014, all remaining active members were treated as having left pensionable service with effect from that date, and were classified as deferred members. Following the closure date, the GFSC's actuarial account was kept open to accurately calculate and pay what became either deferred or pensioner members, active membership being closed.

In 2017, the Commission entered into an agreement with the States of Guernsey to close the actuarial account and settle outstanding liabilities. All of the GFSC's deferred and pensioner members as at 30 April 2017 were re-classified as being in the combined pool section of the PSPS. The agreement allowed for the States of Guernsey to assign the value of the GFSC's actuarial account to the combined pool. As a result all of the historic defined benefit pension financial commitments were removed from the Commission's balance sheet as at 30 April 2017.

Employee benefit obligations

a) The amounts recognised in the Statement of Comprehensive Income are as follows:

	2018	2017
	£	£
Net interest on net defined liability	-	(137,856)
Settlement gain	-	14,172,606
Gain recognised in the Statement of Comprehensive Income	-	14,034,750

b) The amounts recognised as re-measurements in other comprehensive income are as follows:

	2018	2017
	£	£
Return on assets (not included in interest)	-	563,530
Actuarial gains on obligation	-	197,550
Total re-measurements recognised	-	761,080
Cumulative amount of re-measurements recognised in other comprehensive income	-	(4,095,086)
Actual return on scheme assets	-	747,959

c) Changes in the present value of the defined benefit obligation are as follows:

	2018	2017
	£	£
Opening defined benefit obligation	-	(35,245,295)
Liabilities extinguished on settlement	-	35,196,206
Interest on obligation	-	(322,285)
Experience gains	-	197,550
Loss from changes in assumptions	-	-
Net benefits paid including pensions, lump sums, refunds of member contributions and transfer values	-	173,824
Closing defined benefit obligation	-	-

d) Changes in the fair value of scheme assets are as follows:

	2018	2017
	£	£
Opening fair value of scheme assets	-	20,328,639
Assets distributed on settlement	-	(21,023,600)
Interest on scheme assets	-	184,429
Return on assets (not included in interest)	-	563,530
Contributions by employer	-	122,159
Net benefits paid including pensions, lump sums, refunds of member contributions and transfer values	-	(173,824)
Administration expenses	-	(1,333)
Closing fair value of scheme assets	-	-

e) Disclosure for defined contribution schemes

i) Defined Contribution Scheme I

The amount recognised in the profit and loss account as an expense in relation to Defined Contribution Scheme 1, for the year ended 31 December 2018, was £81,777 (2017: £100,464). No contributions were outstanding as at 31 December 2018 or 2017. Employer contributions are calculated at 12% of pensionable salary and mandatory employee contributions were at a rate of 5% of pensionable salary up until 30 June 2014. Subsequent to this date, employee contributions are entirely voluntary.

ii) Multi-member RATs scheme ("GFSC Group Pension Scheme")

The net expense of employer contributions to the GFSC Group Pension Scheme for the year ended 31 December 2018 was £482,420 (2017: £429,390). No contributions were outstanding as at 31 December 2018 or 2017 and no contributions were prepaid as at 31 December 2018 or 2017. Employer contributions are calculated at 12% of pensionable salary and employee contributions are entirely voluntary.

8. Operating lease commitments

The Commission had minimum lease payments under non-cancellable operating leases as set out below:

	£
Lease payments up to 1 year after balance sheet date	664,927
Lease payments between 1 and 5 years after balance sheet date	2,659,708
Lease payments more than 5 years after balance sheet date	7,121,095
Total future minimum lease payments	10,445,730

The Commission leased office accommodation at Glategny Court during the year. The lease for Glategny Court is non-cancellable and expires on 16 September 2034.

9. Controlling party

In the opinion of the Commissioners there is no controlling party of the Commission, as defined by FRS 102 (Section 33.5), as no party has the ability to direct the financial and operating policies of the Commission with a view to gaining economic benefits from their direction.

10. Cash at bank and in hand and short-term deposits

	At 1 January 2018	Cash flow	At 31 December 2018
	£	£	£
Call account balances	96,290	(11,016)	85,274
Cash at bank and in hand	1,436,549	(545,264)	891,285
Total cash at bank and in hand	1,532,839	(556,280)	976,559
Certificates of deposit	1,255,920	51,847	1,307,767
Fixed deposits and notice accounts	5,503,084	755,043	6,258,127
Total short-term deposits	6,759,004	806,890	7,565,894

Certificates of Deposit are managed as liquid investments and have maturity dates typically between three months and one year after the balance sheet date. The fixed deposits have original maturity dates ranging between three months and one year, whilst other deposits require notice of withdrawal of a maximum of three months.

11. Current asset investments

	2018	2017
	£	£
Opening fair value	3,298,894	3,190,973
Purchases	-	-
Net movement in fair value through profit or loss	(100,027)	107,921
Market value	3,198,867	3,298,894

A defensive strategy for these current asset investments is employed, and the portfolio comprises shares, bonds and funds, held in listed companies and gilts, which are traded on a regular basis. The total unrealised loss recognised on these investments in the year was £100,027. The portfolio was first established in February 2015.

12. Financial instruments

The Commission's financial instruments may be analysed as follows:

	2018	2017
	£	£
Financial assets		
Financial assets measured at fair value through profit or loss	3,198,867	3,298,894
Financial assets measured at amortised cost	8,612,704	8,360,025
Financial liabilities		
Financial liabilities measured at amortised cost	1,674,524	2,006,205

Financial assets measured at fair value through profit or loss comprise a portfolio of equities, bonds and funds, which are valued at the reporting date at the quoted bid price.

Financial assets measured at amortised cost comprise cash at bank and in hand, certificates of deposit, short-term deposits, and other debtors.

Financial liabilities measured at amortised cost comprise creditors.

13. Financial penalties and provisions for bad debts

During the year the Commission imposed financial penalties under section 11D (1) of the Financial Services Commission (Bailiwick of Guernsey) Law, 1987 as amended, amounting to £108,500 (2017: £136,500). The amounts written off and provided for by the Commission during the year amounted to £72,134 (2017: £101,636).

The total of provisions relating to financial penalties as at 31 December 2018 were £68,088 (2017: £194,946). Provisions relating to other fees outstanding at 31 December 2018 total £79,195 (2017: £32,196). 2018 debts totalling £6,757 (2017: £23,726), written off during the year, are also reflected under bad debt expense. Recoveries of previously disclosed doubtful debts, reflected under bad debts recovered, amounted to £40,288 (2017: £34,748).

14. Provision for liabilities

A provision is maintained for dilapidations, including redecoration, to cover future liabilities under the terms of the Glategny Court operating lease. Over the course of the 24 year lease the dilapidation provision is planned to increase to £700,000, subject to annual inflationary increases. Provision for re-decoration of the office is also included which needs to be undertaken on a 5 yearly cycle.

	2018	2017
	£	£
Provision brought forward from previous year	235,969	198,096
Dilapidations charged to Statement of Comprehensive Income	38,487	37,873
Total provision at year end	274,456	235,969

15. Related party

Key management personnel compensation

Key management comprises the Commissioners and members of the Executive Committee. The compensation paid to key management for employee services in 2018, including pension and social insurance, amounted to £2,274,838 (2017: £2,158,460).

Related-party transactions

The Commission engaged Commissioner Dorey's husband to provide a presentation on external regulation. This was contracted on an arm's length basis and is not considered to be significant in the context of the business of the parties. Separately, Commissioner Dorey, in her capacity as a Non-Executive Director of Schroders (C.I.) Limited, is not present at discussions with Commissioners relating to any business involving this firm, which provides investment and deposit administration services for the Commission.

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COMMISSIONERS

Drs. Cees Schrauwers
Chairman of the Commission

Drs. Schrauwers is a Dutch economist with over forty years' experience in financial services. He has served as Managing Director of Aviva International, CGU Insurance and Commercial Union, covering both the general insurance and life sectors. He was instrumental in the implementation of the mergers with General Accident and Norwich Union which resulted in the creation of Aviva plc. Following the mergers he was appointed Managing Director of Aviva International, gaining valuable experience in dealing with regulators across the globe, including North America. Prior to this, he was a Partner with Coopers & Lybrand in charge of its insurance consultancy practice. He has served as Chairman of Drive Assist Holdings Limited, Senior Independent Director of Brit Insurance Holdings Plc. and Brit Syndicates Limited, Non-Executive Director of Canopius Holdings UK Limited and Canopius Managing Agents Limited, Director of Munich Re (UK) Plc and as Senior Independent Director of Record Plc for nine years. He also served as an Independent Director at the Scottish Widows Group and Chairman of EC3 Legal LLP. He is currently Chairman and Commissioner of the Guernsey Financial Services Commission. Cees was appointed as a Commissioner in 2008 and Chairman in 2012 and is also a Non-Executive Director of China Taiping Insurance (UK) Company Limited. He was educated at the Vrije Universiteit Amsterdam and the Nautical College Den Helder. He lives with his wife near London.

Bob Moore
Vice-Chairman of the Commission

Bob Moore was appointed as a Commissioner in February 2012 and Vice-Chairman with effect from 2 February 2017. He has spent over thirty years in the financial services industry in Guernsey and internationally. From 1979 to 1997, he held positions in international banking and international private banking with the Lloyds Bank/Lloyds TSB group in South America, the United States, the United Kingdom and in Luxembourg. These included responsibility for Lloyds' international private banking operations in New York and in Luxembourg. From 1997 to 2011, he was jurisdictional Managing Director with responsibility for the Butterfield Group's operations in Guernsey, including banking, investment management, custody and fiduciary services. In June 2011, he was appointed to the position of Executive Vice-President and Head of Group Trust for the Butterfield Group. He has also been a Director of a number of other banks and investment funds.

The Lord Flight MA (Cantab) MBA FRSA
Commissioner

Howard Flight was appointed as a Commissioner in 2005. He was the Conservative Member of Parliament for Arundel and South Downs from 1997 to 2005, during which time he was Shadow Chief Secretary to the Treasury and a member of the Shadow Cabinet. From 1999 to 2004 he had Shadow Treasury responsibilities for the Finance Acts, the financial services industry, financial regulations and pensions. He has worked for over forty years in the financial services industry, starting his career at Rothschilds. In the second half of the 1970s he worked for HSBC's merchant bank in Hong Kong and India. In 1979 he joined Guinness Mahon and established what became Guinness Flight Global Asset Management, of which he was joint Managing Director until it was acquired by Investec in 1998. He formed, and is Chairman of, Flight & Partners, which is the manager of the Flight & Partners Recovery Fund, and is currently a Director of Investec Asset Management Limited, Metrobank plc, Aurora Investment Trust plc. and a number of other companies and investment funds.

Richard Hobbs MCIPD
Commissioner

Richard Hobbs was appointed as a Commissioner in January 2012. His first career was in the UK Civil Service where he concentrated on a variety of consumer protection and European issues. Latterly, he was a Director of the Department of Trade and Industry's Insurance Division where he was responsible for overall supervision of the Lloyd's insurance market during its reconstruction in the mid-1990s. He has been Head of Life and Pensions at the Association of British Insurers, and for the past twenty years has been a consultant advising a wide range of clients in financial services on regulatory, risk and governance issues. He was previously Chairman of Faber Global Limited, a wholesale insurance broker and Barbican Managing Agency Limited, a Lloyd's managing agent. He is currently a Non-Executive Director on the Board of Beach UK Holdco Limited, a reinsurance broker.

Commissioners *(continued)*

Simon Howitt
Commissioner

Advocate Howitt was appointed as a Commissioner in June 2013. He has over thirty years' experience as an advocate and is a consultant at Babbé having previously been a Partner. He is a member of the Council of the Chamber of Commerce and served as its President between 2001 and 2003. Advocate Howitt has served on a number of States Committees including being a non-States member of the Legislation Select Committee and its successor, the Legislation Review Panel, since 2004, the share transfer duty working party and the Inheritance Law Review Committee. Advocate Howitt is currently the Deputy Bâtonnier of the Guernsey Bar.

Wendy Dorey
Commissioner

Wendy Dorey was appointed as a Commissioner in November 2015. She has spent over twenty years in the financial services industry in the UK, France and Guernsey. Prior to moving to Guernsey in 2010 as Director of Dorey Financial Modelling, she occupied senior posts in financial marketing, distribution and business planning and strategy with Robert Fleming, Friends Ivory & Sime and M&G Asset Management in London. During that period she was also responsible for internal audit reporting, external risk reporting to the Financial Services Authority and embedding new "Treating Customers Fairly" processes. In 2005, she was responsible for the launch and on going promotion of the Guernsey-domiciled M&G Property Fund to the UK Market. She also previously assisted the Investment Management Association in developing a new investment management syllabus for Independent Financial Advisors. In November 2017, she was appointed as a Non-Executive Director of Schroders (C.I.) Limited and obtained a Diploma in Company Direction from the Institute of Directors in 2018.

John Aspden MBE
Commissioner

John Aspden was appointed as a Commissioner in April 2017. He is a senior finance professional with significant experience in investment and banking supervision in both the public and private sectors. He was Chief Executive of the Financial Supervision Commission in the Isle of Man from 1998 to 2015, where he was responsible for the regulation and supervision of all banking, securities and funds, trusts and companies, and money transmission activities. Prior to taking up his role at the Financial Supervision Commission in the Isle of Man, Mr Aspden held roles in the private sector including Managing Director of Matheson InvestNet Ltd, at the time Hong Kong's largest independent distributor of, and adviser on, collective investments for retail investors. Mr Aspden has also held the role of Deputy General Manager of the International Bank of Asia Ltd and has worked in banking supervision at the Bank of England and at the Office of the Commissioner of Banking in Hong Kong, now HKMA. Mr Aspden is also Chairman of the Group of International Finance Centre Supervisors and was awarded a MBE for his work in financial services supervision.

Philip Middleton
Commissioner

Philip Middleton was appointed as a Commissioner in April 2017. He is a senior financial services strategist with significant recent experience in advising government, central banks and financial institutions on crisis related issues. Since 2014, he has carried out consulting and advisory work in central banking and financial services through Rifle House Capital Ltd. He is also Deputy Chairman of the Board of the Official Monetary and Financial Institutions Forum, a leading Central Banking think tank. He has had significant experience in the private sector, holding various roles within KPMG LLP, including Partner and European Head of Financial Services Strategy, and within Ernst & Young LLP, including Partner and Head of Central Banking, EMEIA.

SENIOR OFFICERS OF THE COMMISSION

COMMISSIONERS

- **William Mason**
  Director General
  - **Emma Bailey**
    Director
    Authorisations and Innovation Division
  - **Gillian Browning**
    Director
    Investment, Fiduciary and Pension Division
  - **Fiona Crocker**
    Director
    Financial Crime Division
  - **Simon Gaudion**
    Director
    Enforcement Division
  - **Dale Holmes**
    Commission Secretary
  - **Katherine Jane**
    Director
    Risk and Financial Stability
  - **Philip Nicol-Gent**
    General Counsel
  - **Jeremy Quick**
    Director
    Banking and Insurance Division

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Investment, Fiduciary and Pension Division

Figure 1. **Net asset values of schemes under management at the year end**

Year	Closed-ended (£bns)	Open-ended (£bns)	Non-Guernsey (£bns)	Total (£bns)
2009	85	51	48	184
2010	110	58	90	258
2011	119	55	87	261
2012	131	50	95	276
2013	136	42	88	266
2014	136	40	44	220
2015	140	39	48	227
2016	159	42	54	255
2017	166	43	60	269
2018	176	45	63	284

Figure 2. **Total number of investment funds at the year end**

Year	Closed-ended	Open-ended	Total Guernsey	Non-Guernsey
2009	608	276	884	324
2010	599	262	861	332
2011	610	244	854	308
2012	618	222	840	274
2013	626	198	824	264
2014	636	176	812	236
2015	641	167	808	204
2016	650	157	807	176
2017	658	148	806	170
2018	665	148	813	143

Figure 3. **Total number of investment licensees at the year end**

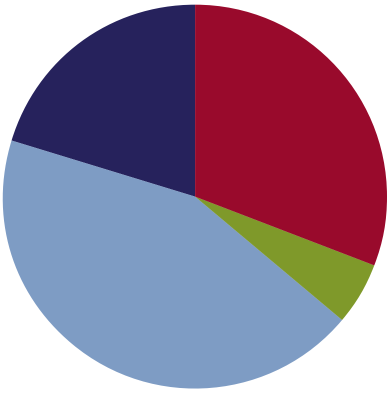
Year	
2007	636
2008	680
2009	661
2010	652
2011	654
2012	644
2013	635
2014	622
2015	639
2016	644
2017	640
2018	663

Under the Protection of Investors (Bailiwick of Guernsey) Law, 1987, investment funds (Figure 2.) are either Registered or Authorised; whereas the firms (Figure 3.) undertaking Controlled Investment Business are Licensed under the same law. There is no meaningful correlation to be drawn between the number of investment funds and the number of licensees in existence.

Figure 4. **Movements within period**

Type	Total as at 31 December 2017	Approved in year	Lost in year	Total as at 31 December 2018
Total of open-ended schemes	148	13	13	148
of which Authorised	134	8	12	130
of which Registered	14	5	1	18
of which Qualifying Investor Funds (QIFs)	23	1	1	23
Total of closed-ended schemes	658	57	50	665
of which Authorised	369	12	33	348
of which Registered	289	45	17	317
of which QIF's	160	8	11	157
Total of licensees	640	62	39	663
Total of non-Guernsey schemes	170	17	44	143
of which QIF's	21	0	5	16

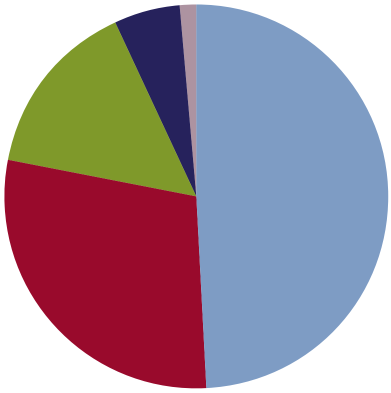
Figure 5. **Ownership of Fiduciary lead licensees as at 30 June 2018***



	2018	2017
International financial group	46	46
Lawyers and accountants	8	9
Privately owned – local	65	70
Privately owned – overseas	30	25

*Based on 149 persons holding a full fiduciary licence as at 30 June 2018.

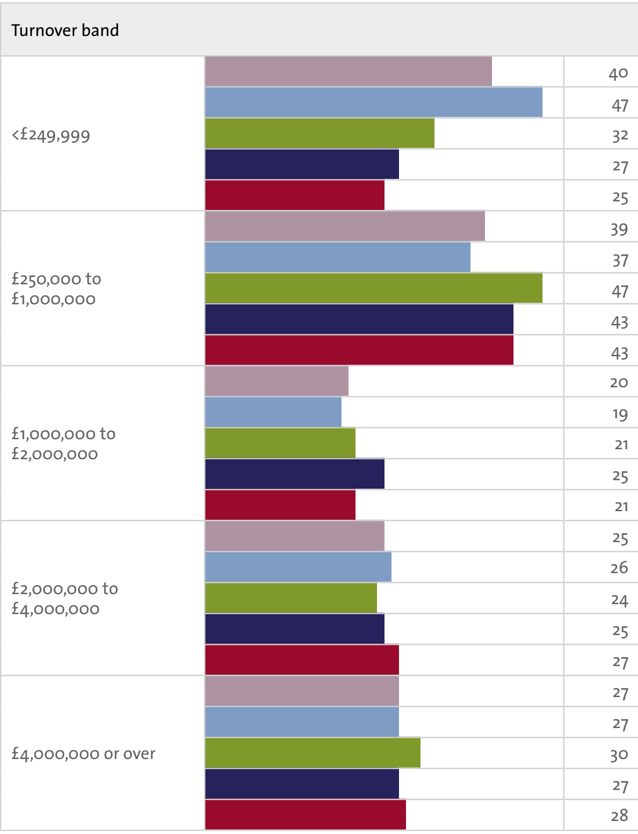
Figure 6. **Staffing levels of licensees based on total number of staff carrying out regulated fiduciary activities as at 30 June 2018***



	2018	2017
Up to 10 staff	72	75
11-25 staff	42	44
26-50 staff	22	22
51-75 staff	8	5
More than 75 staff	2	1

Based on the submission of an annual return by 146 licensees as at 30 June 2018.

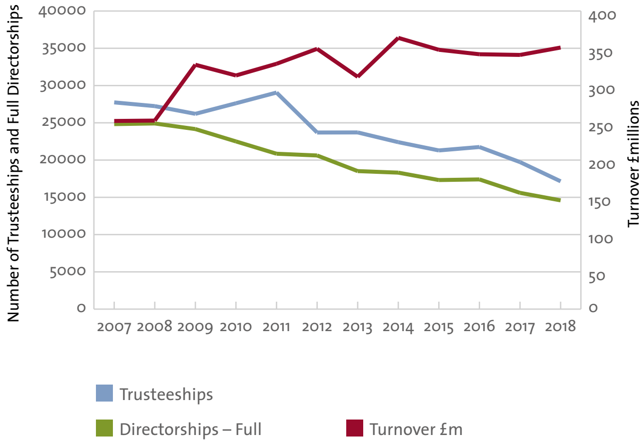
Figure 7. **Number of licensees in each turnover band based on fiduciary turnover for accounting periods falling in the year ended 30 June 2018***



*Based on licensees that have submitted audited financial statements.
Financial statements may not have fallen due for recently licensed companies.

2014
2015
2016
2017
2018

Figure 8. **Number of Director and trustee appointments for full fiduciaries at the year end; aggregate turnover of full fiduciary licensees***



*Please note turnover records aggregate annual chargeable fees. It does not represent assets under trusteeship.

Figure 9. **International insurers as at 31 December 2018**

Month	2017	2018
Companies	239	230
PCCs	60	56
PCC Cells	422	597
ICCs	15	17
ICC Cells	52	55

Figure 10. **International insurers – net worth**

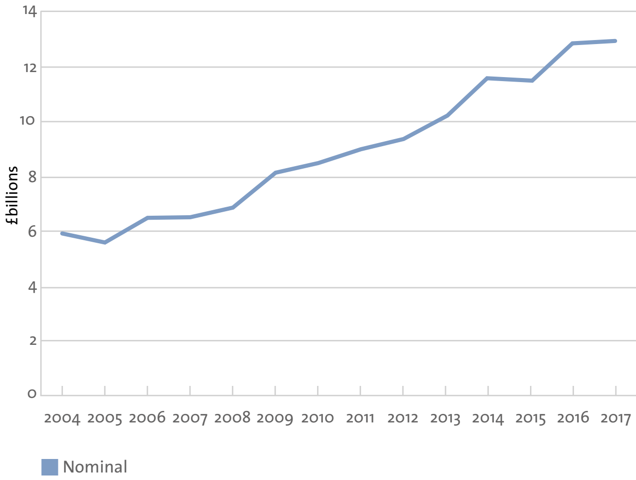


Figure 11. **International insurers – gross assets**

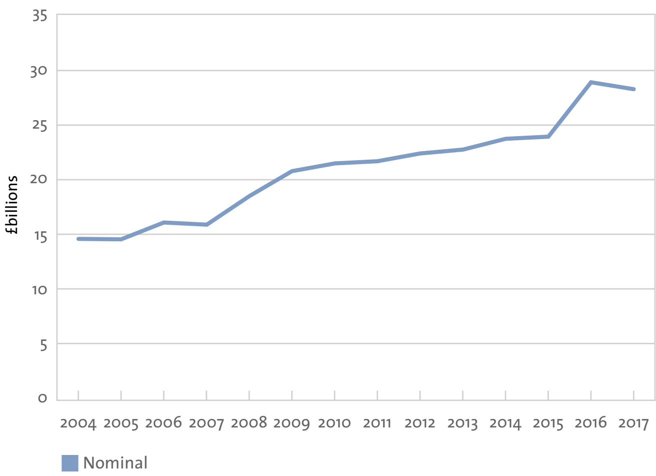
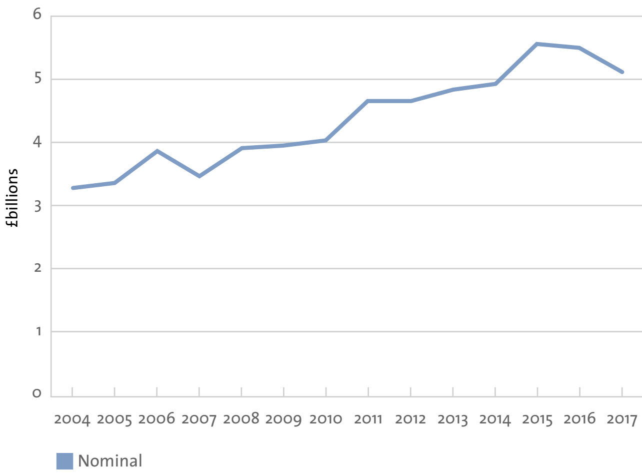


Figure 12. **International insurers – gross premium**



Banking Division

Figure 13. **Guernsey bank assets**

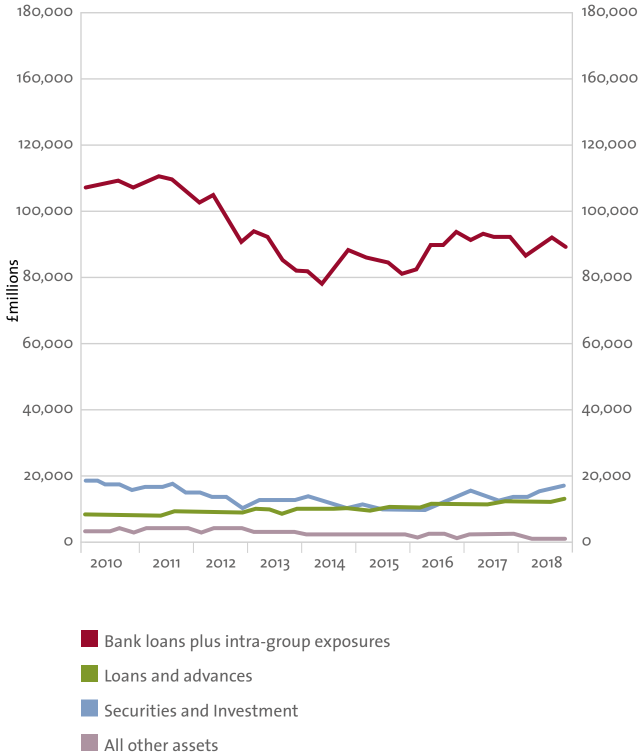


Figure 14. **Guernsey bank liabilities**

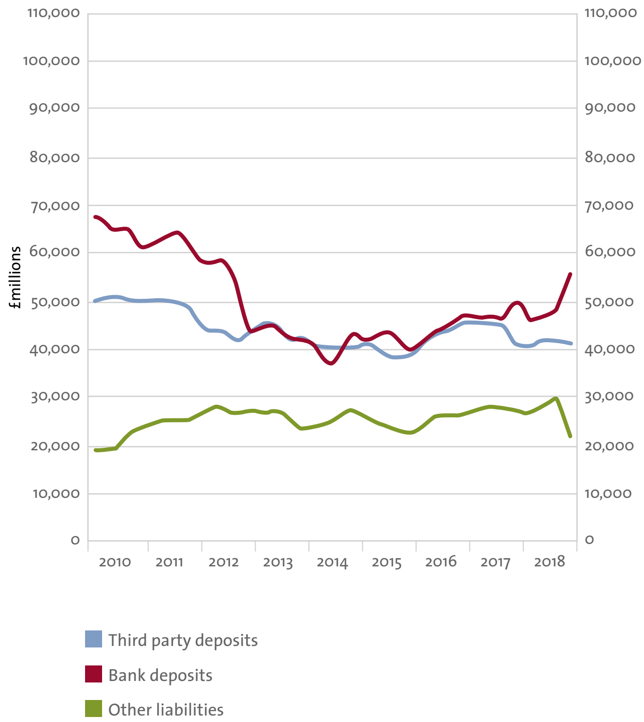


Figure 15. **Total application and one-off fees by volume and type - 2017 to 2018 comparison**

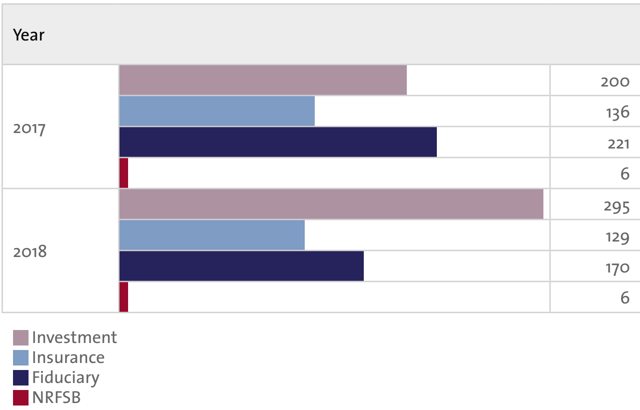


Figure 16. **Online submissions 1 January to 31 December 2018**

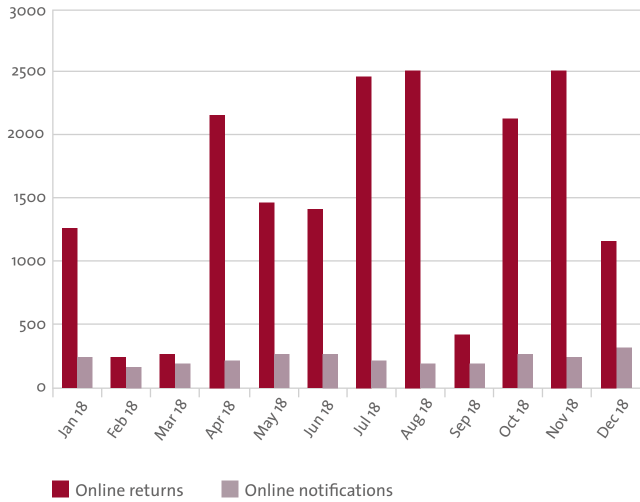
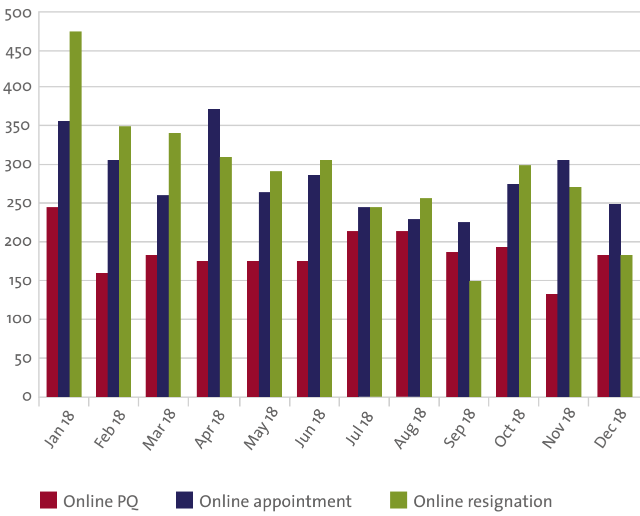


Figure 17. **Online Personal Questionnaire portal submission 1 January to 31 December 2018**



Finance and Operations

Table 1. **Expenditure by functional area**

	2018	2017
	£'000	**£'000**
Enforcement	1,900	1,445
Authorisations	815	816
Risk	516	525
Supervisory and Policy divisions	5,451	5,500
Internal operational support functions	1,493	1,315
Overheads incl. Premises, IT expenses and depreciation	3,476	3,331
Total	**13,651**	**12,932**

Table 2. **Salaries and related costs**

	2018	2017
	£'000	**£'000**
Salaries	7,268	6,964
Pension costs	777	750
Social insurance, permanent health and medical insurance	877	840
Recruitment and training	392	357
Total	**9,314**	**8,911**

Table 3. **Number of staff by total remuneration**

Annual salary	2018	2017
£0 - £39,999 p.a.	38	31
£40,000 - £79,999 p.a.	58	61
£80,000 - £119,999 p.a.	12	13
£120,000 - £159,999 p.a.	6	6
£160,000 p.a. and above	2	3
Total number of staff	**116**	**114**
Full time equivalent	**108.8**	**109.6**
Comprising:		
Permanent staff	107	112
Fixed-term staff	9	2
	116	**114**
FTE vacancies at year end	10	4

Table 4. **Legal and professional fees**

	2018	2017
	£'000	**£'000**
Legal fees - enforcement	368	129
Legal fees - judicial process	262	68
Legal fees - advisory	15	24
Professional fees	162	278
Internal audit	14	38
Total	**821**	**537**

Table 5. **Commissioners' fees**

		2018	2017
		£	**£**
Cees Schrauwers		60,600	67,800
Robert Moore		27,000	27,000
Alex Rodger	Retired 1 February 2017	-	2,354
Lord Flight		35,000	35,000
Richard Hobbs		37,400	35,000
Simon Howitt		27,000	27,000
Wendy Dorey		27,000	27,000
John Aspden	Appointed 3 April 2017	35,000	26,250
Philip Middleton	Appointed 3 April 2017	35,000	26,250

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Functions, Structure and Corporate Governance and other Control Systems of the Commission

Functions of the Commission

The Financial Services Commission (Bailiwick of Guernsey) Law, 1987 as amended (the Commission Law) established the Commission with both general and statutory functions. The general functions include the taking of "such steps as the Commission considers necessary or expedient for the effective supervision of finance business in the Bailiwick". The statutory functions include those prescribed under or arising pursuant to the following regulatory laws:

- the Protection of Investors (Bailiwick of Guernsey) Law, 1987 as amended;
- the Banking Supervision (Bailiwick of Guernsey) Law, 1994 as amended;
- the Criminal Justice (Proceeds of Crime) (Bailiwick of Guernsey) Law, 1999;
- the Regulation of Fiduciaries, Administration Businesses and Company Directors, etc. (Bailiwick of Guernsey) Law, 2000 as amended;
- the Insurance Business (Bailiwick of Guernsey) Law, 2002 as amended;
- the Insurance Managers and Insurance Intermediaries (Bailiwick of Guernsey) Law, 2002 as amended;
- the Non-Regulated Financial Services Businesses (Bailiwick of Guernsey) Law, 2008.

Relationship with the States

The Policy and Resources Committee of the States of Guernsey is responsible for financial matters and for establishing the policy framework for financial regulation, including the government's relationship with the Commission. The Commission Law states that the Commission shall issue its audited financial statements and the two reports, referred to later in this appendix, annually to the Policy and Resources Committee.

The Commission maintains regular dialogue with the States. During 2018, the Commission continued to engage with the Policy and Resources Committee, with meetings held to facilitate an open exchange of views on matters of importance to the States and the Commission. The Commission also engaged with the Committee for Economic Development in relation to financial services legislation.

Outside of formal meetings and presentations, the Commissioners and Director General maintain regular contact with senior States Members.

The Commissioners

The activities of the Commission's executive are overseen by the Board of the Commission (Commissioners). The Commission Law provides that the Board shall consist of a minimum of five members who are elected by the States from persons nominated by the Policy and Resources Committee and appearing to it to be persons having knowledge, qualifications or experience appropriate to the development and supervision of finance business in the Bailiwick. The Chairman is appointed for a period of three years from amongst the Commissioners and is elected by the States following nomination by the Policy and Resources Committee. The Vice-Chairman is appointed for a period of one year by the Commissioners. A Commissioner is appointed for a period not exceeding three years. A member whose term of office has come to an end is eligible for re-election. The Chairman and Vice-Chairman are also eligible for re-election to their positions. Commissioners must currently retire on reaching the age of 75 years.

The Commissioners during 2018 were Drs. Cees Schrauwers, The Lord Flight, Richard Hobbs, Bob Moore, Simon Howitt, Wendy Dorey, John Aspden and Philip Middleton. A brief résumé for each Commissioner is provided on pages 50 and 51 of this report. Three Commissioners reside in Guernsey, with the remainder living in the UK.

There were 11 meetings of the Board in 2018. The attendance was as follows: Drs. Cees Schrauwers 11, Howard Flight 11, Richard Hobbs 11, Bob Moore 9, Simon Howitt 10, Wendy Dorey 10, John Aspden 11 and Philip Middleton 11. Prior to each meeting, Commissioners are provided, save in exceptional circumstances, with a full information pack to support the meeting's agenda.

An induction programme is in place for new Commissioners. The Commissioners periodically consider their roles, responsibilities and accountabilities. In addition, each year Commissioners undertake a board effectiveness review.

The Commission Law also makes provision for the appointment of such officers and servants as are necessary for carrying out the Commission's functions and for the most senior officer to have the title of Director General.

Delegation of functions to executive staff

The Commissioners have delegated certain of their statutory functions to the executive staff of the Commission. These statutory functions are exercised by the executives both jointly and individually. All statutory functions of the Commission may be delegated to the executives except:

- the power of the Commissioners to delegate functions;
- the Commissioners' duty to make an annual report on the Commission's activities during the previous year to the Policy and Resources Committee;
- any statutory functions which:
  - (i) require the Commissioners to consider representations concerning a decision which they propose to take; or
  - (ii) empower the Commission to cancel, revoke, suspend or withdraw a licence, consent, registration, permission or authorisation (except where the cancellation, revocation, suspension or withdrawal is done with the consent of the person who is, or who is acting on behalf of, the holder of the licence, consent, registration, permission or authorisation); or
  - (iii) empower the Commission to petition for the winding-up of a body corporate.

Annual report and financial statements

The Commission must, as soon as possible in each year, make a report to the Policy and Resources Committee on its activities during the preceding year. The President of the Committee shall, as soon as possible, submit that report for consideration by the States.

The Commission Law also provides that the Commission shall:

(a) keep proper accounts and proper records in relation to those accounts; and
(b) prepare, in respect of each year, a statement of accounts giving a true and fair view of the state of affairs of the Commission;

and that the accounts of the Commission shall be:

(a) audited by auditors appointed by the States; and
(b) laid before the States.

The Commission includes a copy of its audited financial statements in the annual report to the Policy and Resources Committee, referred to above.

Report on internal control and corporate governance

Under the Commission Law, the Commission must also review in each year, by the appointment of appropriately qualified and independent professional persons or otherwise:

(a) the adequacy and application of the Commission's systems of internal control;
(b) the selection and application of the Commission's accounting policies and accounting procedures;
(c) the effective, efficient and economical management of the Commission's assets and resources; and
(d) the Commission's compliance with such generally accepted principles of good corporate governance as it is reasonable to regard as being applicable to the Commission.

The Commissioners are required to satisfy themselves in connection with the conclusions of each review and provide the Policy and Resources Committee with confirmation in the annual report on the matters covered by it.

The Commissioners are responsible for overseeing the Commission's corporate governance regime and for monitoring the effectiveness of management's systems of internal control. These systems are subject to regular review by management and address the risks to which the Commission is exposed. The Commission has an ongoing process for identifying, evaluating and managing operational risks (including regulatory and financial risks). Although not required to comply with the UK Corporate Governance Code, the Commission has regard to the guidance contained therein and complies wherever valid to do so.

Two Commissioners, Drs Cees Schrauwers and the Lord Flight have served as Commissioners for longer than nine years. The other Commissioners led by the Vice-Chairman have taken relevant factors into account and have concluded that those two Commissioners should continue to serve. This process will be conducted annually when necessary.

The Commission has robust policies and procedures in place to ensure that any conflicts of interest involving Commissioners or staff are managed effectively.

In accordance with the Commission Law, the Commissioners have reviewed the Commission's approach to risk management policies and processes. The report required by the law on internal control and corporate governance has been provided by the Commission to the Policy and resources Committee.

Functions, Structure and Corporate Governance and other Control Systems of the Commission *(continued)*

Audit Committee

In 2018, the Commission's Audit Committee comprised Simon Howitt, Wendy Dorey and John Aspden and was chaired by Richard Hobbs. The Committee covered oversight of the management of risk, reviewed corporate governance and the systems of internal control and reported routinely to meetings of the Board as a whole. Meetings are attended by the Director General, the Director of Risk and Financial Stability and the Financial Controller.

The Committee met four times in 2018. The attendance of the individual members at these meetings was as follows:, Richard Hobbs four, Simon Howitt four, Wendy Dorey three and John Aspden four. The Audit Committee has oversight for non-regulatory risk; regulatory risk is reviewed by the Board as a whole.

Remuneration Committee

The Remuneration Committee, which comprised Bob Moore (Chairman), Richard Hobbs, Wendy Dorey and Philip Middleton, is mandated to advise and assist the Commission in fulfilling appropriate governance in respect of remuneration policies, practices and structure.

The Committee has specific responsibility for proposing to the Board (1) the remuneration and reward of the senior executive and (2) the general policy for staff remuneration and benefits to ensure that all of our people are fairly rewarded for their individual contributions to the Commission. (The Policy and Resources Committee determines the level of Commissioners' fees)

Meetings are attended by the Director General and the Commission Secretary. The Committee met twice in 2018 with all members attending both meetings other than Richard Hobbs who attended one. The Commission's Chairman also attended one meeting.

Review systems

The Commission has retained specialist internal and external expertise to monitor the Commission's non-regulatory internal audit standards to ensure that the Commission is up-to date with current expectations.

During 2018, the Commission appointed an external party to undertake internal audits in the following areas:-

- Expenditure and Payments;
- Assets and Liabilities;
- Online Services.

The Commission also used an external party to facilitate an IT 'war gaming' exercise. Internal assurance reviews were undertaken on our use of PRISM and the development of our risk-based supervisory approach.

The outcomes of the audits have been taken forward to the satisfaction of the Audit Committee and the Board.

In 2018, the corporate governance standards of the Commission were reviewed by the Board. The Commission is satisfied that it meets expectations in connection with internal audit and corporate governance. The International Monetary Fund (IMF) undertook an evaluation of the Bailiwick against international regulatory and supervisory standards in 2010 under its Financial Stability Assessment Programme. The Commission and the other authorities in Guernsey were found by the IMF to have a high-level of compliance with these standards. This was reaffirmed by the Council of Europe's Financial Action Task Force regional inspectorate, Moneyval, which visited the Bailiwick in late 2014 and which published its final report in January 2016.

During 2017, an assessment was undertaken of the Bailiwick's regulatory regime against current international standards. This was undertaken by Mr Ian Tower, a former IMF assessor who was contracted by the Commission. The principal conclusion was that the main areas for improvement are already being progressed through the Revision of Laws project which is anticipated to be concluded by the end of 2019.

During 2018, an assessment was conducted by the International Association of Insurance Supervisors (IAIS) of the Bailiwick's insurance regulatory regime against current international standards. The results are expected to be received in the summer of 2019.

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