2019

Guernsey Financial Services Commission

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

Guernsey Financial
Services Commission

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".

FOREWORD

The Commission's Annual Report and Accounts provides a comprehensive overview of the activities it has undertaken over the previous year together with a detailed analysis of the income it received, the expenditure it incurred and its overall financial position moving into the following year. The report is habitually discussed with the States' Policy & Resources Committee in the spring of each year and subsequently laid before the States.

Since the 2019 annual report was prepared, the world's circumstances have changed fundamentally with the arrival of COVID-19 which has become a major threat to global wellbeing and economic prosperity. The extraordinary measures taken by governments around the world in response to the threat posed by COVID-19, have inevitably and significantly altered any forward-looking statements. In this report we have removed many of them where we drafted in January is no longer appropriate in April.

The Commission is assisting the government in Guernsey and is currently focused on protecting the financial stability of the Bailiwick and its consumers. We have announced considerable changes in our rules and practices to help all parties cope with this epidemic and will consider further actions as the need arises.

Our duty towards our staff and our efforts to protect them from the effects of the virus, mean that our activity levels for the foreseeable future will inevitably be impacted, although we aim to mitigate this as far as is reasonably practicable.

We are committed to protecting the Bailiwick's financial health through this pandemic and we will contribute to the best of our ability to restoring and improving the Bailiwick's economic wellbeing.

Cees Schrauwers	William Mason
Chairman	Director General

1 May 2020

CHAIRMAN'S STATEMENT

In the middle of February when drafting version one of my Chairman's Statement it hit an optimistic note, expecting the UK and Guernsey economies to 'kick on' after the Brexit policy stagnation of the last three years.

Since, I and we all have observed the lightning development and the devastating impact on economic activity in the world of COVID-19. These developments have made any forward-looking statements futile and I am therefore refraining here from doing such a thing. Working together and supporting those who are most at risk, we need to get through this period in the best possible shape and the Commission is assisting the Guernsey Government where it can.

The world will need a good look at how it does business, looking at supply lines and how it shares data. In Europe, the Nation State has come back, which could make for a more straightforward future. I am remaining confident in the ability of the Bailiwick to weather the storm thereby securing the health and wellbeing of its citizens.

Cees Schrauwers
Chairman

DIRECTOR GENERAL'S STATEMENT

I don't think 2019 went as many people, myself included, expected it would go at the beginning of the year. Notably, we had our post-Brexit themed industry event in April a few days after the supposed Brexit departure day only to find that Brexit had not actually happened. That said, the year was marked by a lot of continuity within the Bailiwick with a considerable amount of ground being covered by the Commission in a number of important areas. 2019 went in an unexpected direction, 2020 appears certain to surpass it. We cannot tell, at this stage, whether the COVID-19 emergency will have a major and prolonged impact on financial markets or whether its impact whilst initially large is actually quite short-lived. Whatever developments we see, the Commission will do its utmost to protect consumers and the prosperity of the Bailiwick. What follows in my statement necessarily looks back at 2019.

Authorisations

The number of entities we authorise can provide a helpful indication of economic activity. In 2019, the level of activity was solid but not outstanding, perhaps reflecting in part the vagaries of the international economic and political environment. We had 264 investment sector applications compared with 295 in 2018 showing a pretty healthy number of new funds choosing to locate in Guernsey. In the fiduciary sector, applications continued at a similar level to that exhibited in 2018. Alongside staff training, we continued to invest in enhancing our technology, working to ensure that we safeguard the Bailiwick whilst remaining user friendly – objectives which are sometimes not without tension.

Supervision, Self-Assurance and Enforcement

We continued to apply our risk-based PRISM approach to supervision in 2019. At a statistical level, activity appears to have been broadly similar to 2018 with 270 Risk Mitigation Programme actions issued and 243 satisfactorily concluded over the 4,823 entities regulated by the Commission. If we look beneath these headline totals, we find that governance risk (used 141 times[1]) remained the single largest risk factor contributing to RMP actions with financial crime risk (used 120 times) remaining very important too. 2019 has seen a significant increase in the number of RMP actions targeting operational risk (used 132 times), perhaps reflecting the focus of some of our thematic work this year. Conduct risk (used 40 times) continues at approximately its 2018 level whilst the number of RMP issues raised relating to strategy and business model risk nearly halved to 24 in the last year.

Taking a sectoral view, we saw a few prudential and control issues arise in some insurers and a small tail of fiduciaries continuing to consume considerable resource because of a variety of poor quality business practices which they continue to exhibit. We also encountered some serious issues with a small number of investment entities where our actions to defend the interests of consumers and investors have been particularly intensive. These issues are discussed in more depth in the respective sectoral and subject specific sections of this annual report.

We undertook a number of wide-ranging thematic exercises covering beneficial ownership, cyber preparedness, the use of corporate directors and insurer cash controls. In some instances we published our findings as well as providing more specific feedback to some firms about weaknesses. At other times we adjudged it unhelpful to publish findings (e.g. on cyber) because they might prove helpful to criminal elements wanting a greater understanding of firms' vulnerabilities. In these cases we used our ongoing programme of regulatory self-assurance events to provide industry figures with confidential feedback designed to help them remediate weaknesses in a straightforward fashion. With more than 500 people attending our AML/CFT Handbook self-assurance events, 330 people attending our cyber events and over 150 at our beneficial ownership events, we continue to receive feedback on the utility of these educational meetings which have become embedded within our regulatory operations.

Sadly, there are still a number of firms and individuals whose general conduct and law breaking is damaging. At the end of 2019, we had 13 enforcement investigations open, the same number as we had at the beginning of the year. This masks the churn in cases with seven new cases being referred to the Enforcement Division and seven completed over the course of the year with one appeal relating to an earlier case also concluding. Of the eight cases concluded, only four led to public sanctions. We discontinued one case following an investigation because the failings did not appear to us to be severe enough for a public sanction to be or be seen to be proportionate. Three further cases were settled by way of private warnings.

The failure of a very small proportion of firms to have effective anti-money laundering controls and to treat customers/investors reasonably, continues to cause us considerable concern and we will continue to focus our finite resources on firms and individuals letting down the Bailiwick in this way.

International Activity

As a financial services regulator in a small jurisdiction with a large financial services sector, we are committed to participating fully in international organisations which both create the soft law

[1] A single RMP action can relate to more than one risk factor so summing the risk factors will provide a total larger than the overall number of RMP actions.

governing international financial services and then police the implementation of that law. The undoubted highlight of our year in this respect was the publication in June of the International Association of Insurance Supervisors's (IAIS) evaluation of the quality of our regulation following an extensive examination which spanned 2018 and the first part of 2019. IAIS gave us a positive evaluation and while its report is not devoid of recommendations to us and the States for improvement, it paints a positive picture of the Bailiwick's relatively high degree of compliance with international Insurance Core Principles. As the Bailiwick engages in discussions about future trading relationships in the wake of Brexit, we consider it helpful to have a current impartial evaluation of the quality of the Bailiwick's regulation – the first broad based inspection since the IMF inspection which reported in 2010.

As well as receiving inspection visits, we also assisted on other evaluation missions run by international bodies and contributed to regulatory training. Whilst we're wary of the overuse of shorthand terms such as "level playing fields" – in a world of competitive states you are never going to have those – there are certain minimum standards in financial services regulation which must be met if international finance is to prosper. We helped to provide education to help the staff of other regulators to reach those standards or played our part as members of inspection teams working under the auspices of an international body to police those standards. Doing so helped maintain the Bailiwick's status as an international good citizen. This year we were pleased to assist with one influential assessment of a European state and two assessments of states in the Caribbean region. We have also provided training in one European, one sub-Saharan African and four Caribbean jurisdictions working in conjunction with the International Association of Insurance Supervisors, the Toronto Centre and the Group of International Insurance Centre Supervisors who have provided considerable financial support for our international training work – conducted under their auspices.

Finance and Employment

Our lack of fee increases at the beginning of 2019 had a predictably negative effect on our bottom line, an effect which will compound during 2020 – the second year in which we will have had no fee increases and thus a high probability of negative real income growth[2]. In addition to this, our legal costs were much higher than budgeted as one enforcement case unfortunately continued to consume extensive legal resources and we faced actions seeking to challenge our legal protection from civil litigation under which we, in conjunction with almost all mainstream financial services regulators, operate[3]. We have also increased our technology expenditure (some of which is capitalised) under the terms of the three-year business plan set out in last year's annual report.

We finished 2019 with a deficit of c.£113,000 and we will expect to run a deficit budget in 2020. This deficit was almost entirely attributable to increased legal costs, costs we will make reasonable endeavours to recover where other actors force us into court based actions in which we would rather not have engaged.

On an ongoing basis, our main cost is that of employing our staff. In the Bailiwick's buoyant economy our staff require decent rates of pay. In 2019, we introduced a nine-day fortnight (contractual hours, most usually forty per week, being worked over nine rather than ten days in each fortnight allowing every other weekend to be a three day weekend) which we believe helped contribute to good staff retention rates in 2019 without damaging productivity. We were also commended at the Leaders in Wellbeing Awards for our employment practices. That said, we are in a position where we cannot prudently afford to provide the majority of our staff with inflationary pay increases and have not been able to do so for some years. Going forwards, taking due account of COVID-19, we will need to discuss an approach to fees which gives us and industry some stability whilst preserving our ability to retain high quality regulators on which the jurisdiction's reputation relies.

Doing Green and Being Green

2019 may go down as the year when being 'green' became more than merely socially desirable, with the UK making carbon emission commitments legally binding and the States of Guernsey giving substantial funding to *We are Guernsey* to pursue the Green Guernsey agenda.

At the Commission we continued to be an active participant in the UN backed Sustainable Insurance Forum and we were delighted to be accepted into the principal green forum for regulators, the Network for Greening the Financial System supported by the central banks of France and the Netherlands. We were also pleased to see the EU agree its green investment taxonomy which we look forward to incorporating into the Guernsey Green Fund regime once it is fully adopted by the EU. Closer to home, the issue of doing what we are asking others to do sprung into our consciousness. Here the Commission is probably in the Chicago nudge school in terms of encouraging firms to consider their environmental impacts rather than mandating that they must do so though we are certainly watching international developments on climate change disclosure with interest.

[2] The increase in total income seen from 2018 to 2019 is entirely due to the exceptional performance of the Commission's investment portfolio over 2019. If this, unlikely to be repeated result, is removed overall income is down slightly year on year with fees receivable down by 1.7% in cash terms, more in real terms.

On behalf of our staff, we retendered the investment management component of the Commission's staff pensions scheme and selected an investment manager able to provide staff with a green investment approach. Whilst it may be the case that issues of diversification arise if staff choose to invest in an entirely green portfolio, we thought it important to offer our staff the choice of investing their pension money in an environmentally supportive fashion. We are conscious that for many people of ordinary means the way in which they invest their pension may be the single biggest way in which they can contribute to carbon neutrality. We would hope that regulated firms will follow our lead in making environmentally friendly investing more accessible to their staff and customers over the course of the next year, to the extent COVID-19 does not impede progress.

We also evaluated our own carbon emissions in 2019 discovering somewhat unsurprisingly that our main emissions came from the electricity we consume as an organisation and the flights we take as an active regulator of international firms based on a small island. Whilst the new cable link to France may well help our electricity become lower carbon, we considered that we ought to be undertaking some active carbon offsetting activity to counter our emissions and therefore agreed to invest, following an evaluation of alternative options, in a piece of previously forested land in Angus, Scotland. We intend to plant this land with saplings over the course of the next three years with a view to becoming a carbon neutral organisation by the mid-2020s as the trees grow and start to act as an effective carbon sink, with the likelihood that this will make us one of the first carbon neutral regulators in the world. Given the commercial nature of many of the trees to be planted, the commitment of all major political parties in the recent UK election campaign to significant tree planting and the finite amount of land suitable for forestry in the UK or Guernsey, we also consider our prospective woodland can be regarded as an investment rather than simply a carbon sink.

William Mason
Director General

[3] We are not providing fuller details about these matters at present as the litigation has yet to conclude.

Authorisations

Overall, 2019 saw a solid volume of applications although in raw numbers we saw around 100 less applications than in 2018 which was a very buoyant year. As the graph on page 58 shows, all sectors were down, including Non-Regulated Financial Services Businesses (NRFSBs) that have, over the previous three years, maintained a consistent level of six applications but numbered only two in 2019.

Despite the volume of applications slowing over 2019 compared with 2018, the Division remained busy throughout the year as some of the applications received had a range of complex features. We continued to adopt a risk-based approach to our assessment of applications and for the majority of applicants this allowed for quick processing. We continued our use of Authorisation Review Panels (ARPs) the equivalent of Risk Governance Panels (RGPs) under PRISM where there is something unusual about an application which requires wider consideration across the Commission. ARPs are attended by representatives of the relevant supervisory divisions and other subject matter experts as appropriate. ARPs are only used in a very small percentage of the overall total of applications received. Over the course of 2019 we held nine ARPs to discuss under 2% of applications.

As well as the applications and one-off fees reflected in Figure 15 on page 58, the Division is 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. Inevitably, the busiest time for the submission of surrenders coincides with a busy period for applications – December. During 2019, October was the only month to outperform December for the volume of applications received, bolstered as it was by a block from one firm of 15 discretionary exemptions under The Regulation of Fiduciaries, Administration Businesses and Company Directors, etc. (Bailiwick of Guernsey) Law, 2000. Coupled with the increase in applications received during December was the fact that nearly all of the applicants requested completion by Christmas or the year-end regardless of whether or not they were submitted under the fast-track application regime.

Our assessment turnaround times are also 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 to the approval stage during 2019. In 2018, over 98% of the applications submitted were approved; in 2019 this figure decreased but only slightly to 97%. All of the applications that did not receive approval were either withdrawn by the applicant or lapsed. The need to return applications that were considered to be of poor quality, a reflection of the completion of the submission documentation as opposed to the quality of the business itself, reduced to only a few in 2019.

Members of the Division continued to meet with potential and existing licensees to discuss proposed and ongoing applications. Overall, 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 Personal Questionnaires (OPQs) are detailed in Figures 16 & 17 on page 58. The OPQs and associated Online Appointments and Online Resignations are the bedrock of the work the Commission carries out. In 2019, a total of 10,322 were received. Our level of staff commitment to this aspect of our work reflects the importance placed upon it and from a team of 14 there will, at any one time, be c. three members of the Division dedicated to reviewing the OPQs and Online Appointments and undertaking the relevant due diligence checks, as well as reviewing the Online Resignations. This is separate to the review of OPQs and Online Appointments submitted as part of an application which are undertaken by the team member allocated to each particular application. Figure 17 illustrates the spike seen in April 2019 of Online Appointments following the introduction of the new position of Money Laundering Compliance Officer.

The Division also continued to staff the online services Helpdesk and handled a range of queries relating to both the Online Submissions Portal and the Online Personal Questionnaire Portal, for example from new users with start-up questions to those more familiar who were experiencing technical issues. As far as possible, the enquiries are handled by the Helpdesk staff themselves and where more technical support is required, they are passed over to our IT team. The Commission continued to work over 2019 to ensure the Portals remained user friendly whilst providing the information necessary to meet our regulatory remit. During 2019, 23,928 submissions were made via the Online Submissions Portal.

Innovation

The Commission's innovation hub, the Innovation Soundbox, continued to welcome all conversations and engagement during 2019. Some of the interaction was less obviously innovative from a FinTech angle and more about rethinking current ways of doing things; for example, the introduction of the two hybrid ILS fund products. More obviously FinTech were the meetings held with a number of RegTech service providers predominately in the client on-boarding solution space.

In early 2019, we held a couple of Soundbox Dashes (a spin-off from the successful 2018 Soundbox Sprint event). Each Soundbox Dash discussed the involvement of the Commission in the Global Financial Innovation Network (GFIN). Following the positive feedback from those Soundbox Dashes, the Commission continued to be active in GFIN throughout 2019.

The Commission is one of the founding members of GFIN and sits on the Coordination Group. We were also one of the jurisdictions potentially willing to participate in the cross-border trials for which the window for applications ran for one month closing on 28 February 2019.

On 16 January 2020 GFIN established its own website at www.thegfin.com and amongst the documents published on that site is "GFIN Cross-border testing – lessons learned." After the initial screening of 44 applications for cross-border trials, GFIN announced in April 2019 that it would continue to work with eight firms to develop testing plans for their cross-border trials. By the end of 2019 GFIN had announced it was unable to take forward any of the eight firms to begin testing as the firms did not develop a testing plan that satisfied each jurisdiction's criteria (e.g. the firm's business is still in development and not ready to test; lacking formal partnerships).

Since the GFIN coordination group meeting in October 2019, regulators, including the Commission, have been working on taking forward solutions that will address challenges identified by the pilot for the cross-border trials. The solutions include the new website itself, a compendium including details of each member regulator and the areas it regulates and a single application form. GFIN has launched these solutions ahead of the planned opening of applications for a new cohort of cross-border applications in 2020. The Commission is committed to being involved in that next pilot whenever that becomes possible.

Emma Bailey
Director

Supervision

As at January 2020, the International Monetary Fund (IMF) estimated global GDP growth for 2019 at 2.9%. This is the slowest rate of global growth since 2008-9 and reflected weakening growth expectations. UK GDP growth grew 1.4% in 2019 according to the Office of National Statistics.

As at end September 2019, total liabilities of Guernsey banks stood at £123bn (cf £121bn in September 2018). Third party deposits, that is deposits other than from banks, as at end September 2019, stood at £41bn (cf £42bn in September 2018). These figures indicate a stable banking sector.

The number of banks in Guernsey fell to 22 at end-year, following one licence surrender, one amalgamation and one new licence. Full time equivalent staff was more-or-less static at 1,487 at end-2019.

The Commission completed six Full Risk Assessments for banks in 2019 and 74 engagement tasks. The Commission's experience from routine supervision is that Guernsey banks sometimes struggle with the following challenges – though they are not unique to Guernsey:

- heightened international and local requirements around financial crime mitigation; in particular around the need to align human with automated controls;
- the need to maintain proportionate controls over outsourcing;
- the need to put in place meaningful governance over Guernsey businesses, whilst still operating within a group business; and
- cyber threats.

Generally, the last challenge is rightly perceived by banks as being the most pertinent both for 2019 and 2020.

Policy

No new regulatory policies were issued in Guernsey in 2019. However, the Commission is working on a revision to the Large Exposure Policy. More generally, the Commission intends in due course to issue an Omnibus Consultation Paper on Basel III/IV implementation.

In 2019, the Commission continued to be active internationally, attending regulatory colleges and meetings of the Group of International Finance Centre Supervisors (GIFCS). The Commission also joined the Network for Greening the Financial System (NGFS) – for which see the Green section of this Report.

Risk Outlook

Guernsey banks should seek to mitigate the following key risks:

- balance sheet stress arising from the likely global economic downturn caused by COVID-19;
- the threat from cyber-crime;
- source of funds in relation to central London property; and
- lending on the basis of inflated asset prices.

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

Jeremy Quick
Director

FIDUCIARY AND PENSIONS

Supervision

During 2019, we undertook 44 onsite Fiduciary visits:

- 10 Full Risk Assessments (FRA);
- 15 Engagement visits;
- 9 thematic visits as part of the Commission's review of Cyber Security; and
- 10 thematic visits in respect of the review of the Corporate Directors.

A total of 51 Risk Mitigation Programme (RMP) actions were imposed on Fiduciary firms during 2019. One item can cover a number of different risks: the RMPs covered a number of individual risks spread over the 11 risk categories considered under PRISM and as in previous years, governance, operational and financial crime risk continued to be the major risks managed by the RMPs.

Governance risk was central to many RMPs. Issues such as weaknesses in risk assessment, insufficient reporting of management information and a lack of monitoring of outsourced functions were noted and were often symptomatic of inadequate board oversight. A common theme identified was the need to strengthen board composition to ensure adequate levels of challenge, scrutiny and effective overall direction.

An emerging theme arising from several supervisory engagements was the need for licensees to consider broader reputational issues for both the firm and the jurisdiction when reviewing compliance with the regulatory laws and regulations. Firms that choose to take a narrow view of risk, with a limited focus on their role in broader transactions and having little regard for the ultimate, sometimes indirect, customer can often be exposed to reputational risk and other unforeseen risks. More often than not in such cases, there appear to be inadequacies in the assessment of risk versus the relatively modest reward.

During the year the Commission completed a thematic review entitled "Fulfilment of Directors' Duties by Corporate Directors" and fed back our findings to industry in a series of well-attended self-assurance events.

The fiduciary sector participated in a thematic on beneficial ownership and we were pleased to observe that this review found widespread accurate identification and verification of the beneficial owners of legal persons in compliance with Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) Regulations. Fiduciary licensees also took part in the Commission-wide thematic on Cyber Security which concluded during the year.

Pension supervision continued to bed-in during the year, with the submission of annual returns providing a useful baseline to develop our approach to this important area of supervision.

Finally, the Commission continued its active participation in the activities of both the International Organisation of Pension Supervisors (IOPS) and the Group of International Finance Centre Supervisors (GIFCS). In the latter case, four supervisory colleges were held with relevant GIFCS member supervisors in respect of licensees with cross border operations.

Policy

During the year we consulted extensively on proposals to modernise and consolidate the regulatory framework for licensed fiduciaries with the objectives of maintaining the high levels of integrity commensurate with Guernsey's position as a leading international financial centre and ensuring compliance with the International Fiduciary Standards (GIFCS Standard). A parallel, related consultation process on the revision of Pension Rules was also conducted.

Following the conclusion of a productive period of consultation, two sets of new rules have been made and issued with supporting guidance. Licensed fiduciary and pension service providers will be required to comply with the new rules from 31 December 2020.

Risk Outlook

The number of small, independently owned firms continued to fall with either amalgamation of these smaller entities or their purchase by private equity houses. This trend of fewer, larger firms generates both risks and opportunities. Integration of businesses continues to be a challenge and we anticipate further focus on governance and operational risks associated with consolidating businesses, including those that outsource functions across group members and across borders.

Following the conclusion of the Commission's recent thematic review, it is clear that cyber risk remains relevant to all licensees in this sector and focus on this risk will be a feature of the ongoing supervisory process.

The fiduciary and pensions sectors will be affected by the global shift towards a greener global economy as client expectations change. The consideration of sustainability factors alongside the traditional view of fiduciary duty may present a shift in outlook for some licensees.

Gillian Browning
Director

Supervision

The eventual outcome around global and UK insurance trends in 2019 is still emerging. Nevertheless, general trends for 2018 and into 2019 can be summarised here.

In 2019, there was some hardening of the global general insurance market though this was not universal (an exception for example was the UK car insurance market). Long-term life insurance continues its journey away from guaranteed annuities because of low interest rates. The key operational challenges in the global insurance market remain digitalisation and big data – although the 'walk' still falls short of the 'talk' in terms of the impact on everyday insurance offerings.

In 2019, end-year licence numbers show an across-the-board reduction for all types of insurance and intermediary licensees but the extent of this reduction in each sector was marginal. The exception was ILS where the volume of open ILS cells in the Bailiwick went from 311 in 2018 to 251 in 2019. This reduction was largely due to global factors such as negative/low yields, and lower investment volumes.

Aggregate figures covering 2019 for Guernsey are unavailable at the time of printing because many insurers have an end-December year-end and will not report until the end of the first quarter of 2020. Nevertheless, in 2018 gross assets stood at £30.2bn (£28.3bn in 2017), net worth at £13.4bn (£12.9bn in 2017), and premiums at £5.25bn (£5.1bn in 2017). These figures reflect a stable environment in 2018.

In the first quarter of 2020, the Commission published a thematic on Insurer Cash Management and Control of Funds. This found that the sample of insurers examined generally had effective controls around the management of cash but that some improvements need to take place.

In 2019, six insurers underwent a Full Risk Assessment. In addition, there were 106 engagement tasks with some firms being in close periodic contact with the Commission.

During the course of routine supervision in 2019, the most common supervisory gaps uncovered by the Commission (as in previous years) were the following:

- Weak local governance especially where Guernsey licensees are part of a wider group; and
- Incorrect regulatory reporting by Insurance managers.

In contrast, issues around solvency, capital, and investment strategy were rare.

Policy

In December 2018, an external inspector from the International Association of Insurance Supervisors (IAIS) visited the Commission to assess its compliance with the IAIS Insurance Core Principles. In June 2019, IAIS published its 93 page report. This report is also available on the Commission's website. The report assessed six of the ICPs to be fully observed, 14 to be largely observed, three to be partly observed and none to be not observed. This was a good result; not least as it was the first time that an external assessment had been made on the effectiveness of PRISM with regard to insurance supervision in Guernsey. The Commission will, in due course, take forward a programme to consider those areas where the inspector recommended action. Having said that, some issues highlighted by the inspector – such as the fact that the Commission does not set licence fees – need to be addressed by the States of Guernsey.

In September 2019, the Commission issued a Feedback Statement in its 2018 Discussion Paper on Green Insurance. Details are in the Green section of this Report.

The Commission continues to participate in international regulatory fora. Collectively senior Commission officers chair the Group of International Insurance Centre Supervisors (GIICS), sit on the Executive Committee and the Policy Development Committee of the International Association of Insurance Supervisors (IAIS) and attend the IAIS/UN Sustainable Insurance Forum. One member of staff was seconded for a month to the Labuan Financial Services Authority courtesy of the Group of International Insurance Centre Supervisors (GIICS).

Risk Outlook

Licensees may wish to consider the following in particular:

- the conduct risk aspects of any ambiguity in policy wordings uncovered by COVID-19 claims in particular the need to treat customers fairly;
- the impact of COVID-19 on the ability to service claims and on future solvency margins;
- cyber-security controls as global threat levels increase;
- the new substance requirements, especially for general insurers;
- with reference to General Representatives, whether they are undertaking appropriate oversight and reporting around clients; and
- loan-backs for captives where the parent may be heading into difficulty.

Jeremy Quick
Director

Supervision

2019 saw continued supervisory engagement with licensees.

During 2019, we undertook 30 investment onsite visits:

- 9 Full Risk Assessments (FRA);
- 9 Engagement visits to investment firms;
- 11 thematic visits as part of the Commission's review of Cyber Security; and
- 1 thematic visit in respect of the review of the Corporate Directors.

Common risks observed included:

- governance risks such as a failure to maintain appropriate board composition, inadequate board reporting leading to weakness in compliance monitoring and failures to identify and integrate risk appetite into the business;
- outsourcing risk being mismanaged through a failure to adequately monitor and assume responsibility for outsourced functions;
- operational risks involving poor record keeping and accounting; and
- financial crime risk involving weaknesses in client risk assessments.

It was also observed that circumstances where licensees were working to integrate acquired or merged businesses presented challenges across all risk categories.

A total of 26 Risk Mitigation Programme (RMP) actions were imposed on investment firms during 2019. One item can cover a number of different risks: the RMPs covered a number of individual risks spread over the 11 risk categories considered under PRISM. Governance, operational and financial crime risk continued to be the major risks managed by the RMPs.

The use of thematic assessments is an important tool in the Commission's regulatory toolbox enabling efficient focus on a specific theme or issue of interest across a wide spectrum of licensees.

Investment firms were included in the Commission-wide cyber security thematic which concluded during the year with 11 licensees receiving an onsite cyber thematic visit. Specific findings from the review were provided directly to licensees in writing and in a series of presentations. Cyber security risk remains of high relevance to all licensees whatever the size or nature of their businesses.

A theme, apparent from a number of engagements, was licensees' narrow interpretation and visibility of their role in the context of a wider financial transaction. Greater consideration could be given to identifying client types and investment needs when devising or distributing products, recognising that alternative products may only be appropriate for a niche market. While Guernsey licensees typically fulfil only part of a financial transaction (for example also working with advisors or promoters overseas), failure to consider appropriately the totality of structures and relevant stakeholders, including the ultimate underlying investor, may leave a firm, and the Bailiwick, vulnerable to unacceptable levels of reputational risk.

Investment *(continued)*

Policy

During the year, the Commission engaged with industry with respect to the funds framework. This work will continue into 2020 with consultation on specific proposals aimed at updating the regime and ensuring the fund offering remains relevant to the needs of the market and investors.

The Commission has also continued to take an active role in the International Organisation of Securities Commissions (IOSCO) to ensure the jurisdiction remains up-to-date with global regulatory policy and maintains its position as a reputable international financial centre.

Risk Outlook

The maintenance of access to key markets is a relevant risk for the jurisdiction and developments arising from the UK's exit from the EU will be closely monitored.

The local fund market has remained stable. The jurisdiction remains well positioned to benefit from growing investor appetite on sustainable investment and the Commission is pleased to note the continued use of the Guernsey Green Fund designation. The Commission will look to develop this framework further in the coming year.

It is too soon to gauge the impact of COVID-19 on the industry. It may create stress on some types of fund but it might also create opportunities as disruptive events often do.

Gillian Browning
Director

CONDUCT

Supervision

The Conduct Unit continued to augment the Commission's consumer website in 2019. In particular, the Commission warned the Guernsey public about mini-bonds in the UK where the interest rate is especially high. The consumer pages also contain practical information for the public about the local implications of Brexit. This information continues to be relevant in 2020.

Through 2019, a reasonable supply of local mortgages continued to be in place. Local retail banks continued to show higher levels of care for customers' interest than before the financial crisis; not least through changes in the sales process.

The treatment of customers by insurers was a focus of Commission attention in 2019. This followed the Commission's issuance of new Conduct of Business Rules. These assign responsibility for customer care to the insurer as well as the intermediary. In general, local insurers have already bought into this concept with further improvements in train.

Following its 2018 thematic on local general insurance intermediation, the Commission held a breakfast meeting and self-assurance event in 2019 for the local industry. This was attended by 35 people.

Policy

In 2017-8, the Commission produced consultation and feedback papers on the regulation of credit and finance in Guernsey. In 2019, the Commission worked with the States to enable concrete proposals to be put forward in due course.

The Commission continued to work with the Deposit Compensation Scheme. In addition, the Commission is in the process of developing proposals for government around the establishment in Guernsey of a Resolution Authority for banks. Such a body would facilitate the continuation of retail banking services in the unlikely instance of a bank failure.

In 2019, the Commission considered whether there was an argument that those businesses offering general insurance as an incidental activity should be licenced by the Commission, subject to any decision by the States of Guernsey to mandate this. Examples would be dentists, funeral directors and vets. Given that the provision of such insurance is relatively limited in the Bailiwick and that, when undertaken, advice is rarely given, the Commission concluded that the potential additional costs to the public outweighed the benefits.

Risk Outlook

Life intermediaries should take care to support clients in a period when the COVID-19 pandemic has introduced high volatility to markets and asset prices have initially fallen sharply. Clients' attitude to risk may change rapidly.

For general intermediaries, there is a business case for a localised offering, given the particular needs of Bailiwick residents. Nevertheless, there continues to be challenge from generalised insurance offerings on the internet. The survival therefore of personalised insurance broking in the Bailiwick depends on high and cost-effective service standards.

Jeremy Quick
Director

Supervision

A perennial question for risk-based supervision is whether it targets the right firms as in those with high-risk business models but without commensurate and effective risk management controls.

The Division embarked on risk-based financial crime supervision in December 2012, introducing in stages, tools such as the financial crime risk return in 2015 to assist in assessing which firms were likely to pose the highest money laundering and terrorist financing risks to the Bailiwick. Year-on-year the efficacy of the risk model is assessed, on occasion recalibrated, and periodically corroborated against independent and reliably sourced information and intelligence, to establish if we are continuing to focus on the "right" firms.

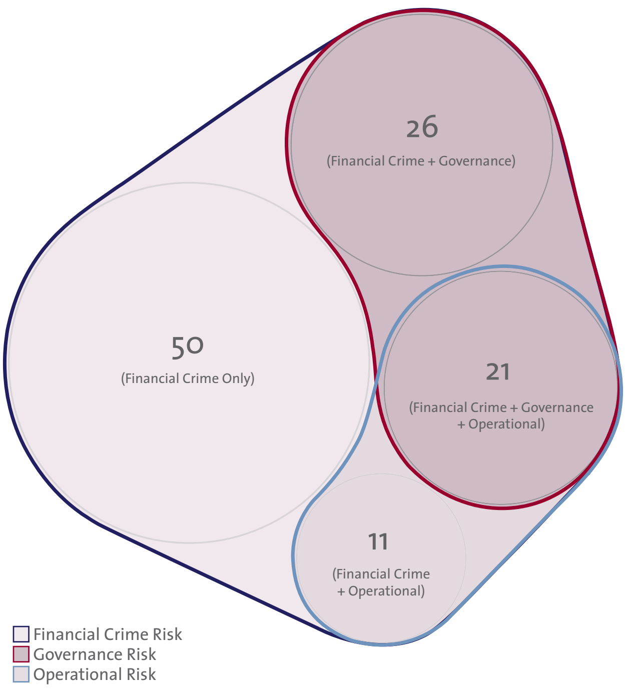
A study during 2019 of the inherent financial crime risks of firms we visited between 2013 and 2014, which was prior to the introduction of the financial crime risk return, shows that a significant number of firms we visited were not necessarily our riskiest. In 2019, we worked on two very different projects both of which will assist us in ensuring that supervisory effort is concentrated where it is most needed. The Commission made a significant investment in "SupTech" to deliver a new AML/CFT PRISM module to enhance our assessment of risk and separately it continued its work on the States-led National Risk Assessment, which identifies the main money laundering and terrorist financing risks to the Bailiwick.

The new PRISM module, launched in Q2 2019, completed the integration of financial crime supervision into PRISM. Its benefits include automating our cycle of AML/CFT inspections based on firms' risk ratings and providing improved management information. It also enables us to analyse quickly and visualise financial crime risk trends at both a firm and sector level and analyse supervisory actions and outcomes. This will be particularly valuable when the effectiveness of our risk-based supervision is tested at our next MONEYVAL evaluation in a couple of years' time.

Scrutiny of our supervisory findings and the actions we took in 2019 continues to endorse our risk-based approach. We carried out financial crime inspections of 45 firms. We made three referrals to the Enforcement Division for further investigation and five were required to appoint expert third parties to review and assess AML/CFT deficiencies and associated remediation. The number of referrals and third party reviews remains low relative to the total number of firms across industry subject to AML/CFT supervision. The key failings identified are the ineffectiveness of these firms' controls to manage and mitigate their inherently high-risk business models. Through the new PRISM module we have been able to identify swiftly that these firms were outliers compared to their peers.

We do not supervise in isolation. AML/CFT deficiencies can be indicative of wider prudential concerns about the compliance culture and operational resilience of firms. Of the 120 risk mitigation programme actions imposed last year to reduce financial crime risks, 26 were linked to governance risk and 21 programme actions were linked to both governance and operational risks, as illustrated in the Venn diagram below. A further five programme actions were linked to conduct risk, five to business model/strategy risk and two were tagged to insurance risk.

Financial Crime Venn organogram



Financial Crime *(continued)*

By examining a firm's exposure to prudential and financial crime risks at the same time, supervisors from both disciplines are able to discuss, evaluate and respond to all aspects of a firm's risk management and operations in the round.

In May 2019, a report was published by the Commission on a thematic review of beneficial ownership which covered all licensed fiduciaries. It was encouraging to find that the fiduciary sector, which represents one of our highest risk sectors continues to deploy robust controls to ensure the accurate and timely identification of beneficial owners of its customers and of the availability of that information to competent authorities, which are core elements for an effective AML/CFT framework.

Policy

Revisions to the "Criminal Justice (Proceeds of Crime) (Bailiwick of Guernsey) Law" and to the Handbook on Countering Financial Crime and Terrorist Financing, became effective on 31 March 2019. In advance, the Division hosted eight sector specific regulatory self-assurance workshops to take firms' compliance officers through the key changes to the framework. Approximately 600 people attended these sessions where we examined revisions to the definition of beneficial ownership, the application of enhanced measures to customers presenting certain higher risk characteristics and a new mechanism to enable a firm to declassify, on grounds of risk, certain types of relationships with former politically exposed persons. Whilst firms have until May 2020 to complete their transition to the revised framework, engagements with firms during 2019 indicated that good progress is being made to transition to the new framework and feedback we received reflected how beneficial these workshops had been.

The Commission continued to make a substantial contribution to the States-led National Risk Assessment (NRA) which, by the end of 2019, was in the final stages of completion. At the time of writing, the NRA was about to be published and the Division has planned a second series of regulatory self-assurance workshops examining how firms should apply the output from the NRA to their businesses. I hope that these workshops (now delayed until after the COVID-19 lockdown) prove useful to those senior staff within firms who are tasked with aligning business risk assessments and policies and procedures with the NRA.

Completion of the revisions to the Proceeds of Crime Law and the Handbook and the publication of the NRA, which is the Bailiwick's first comprehensive assessment of the money laundering and terrorist financing risks to the Bailiwick, whilst important in their own right, are significant milestones in the preparations for the Bailiwick's next evaluation by MONEYVAL. Nevertheless, as work progressed on the NRA, the Division identified further enhancements to be made to the data the Commission receives and steps are now in hand to collect that additional data. This will further support the application of risk-based money laundering and terrorist financing supervision.

During 2019, we continued to contribute our experience and expertise as an AML/CFT supervisor in a Financial Action Task Force initiative to revise three guidance papers on the risk-based approach for lawyers, accountants and trust companies. These papers were published in June 2019. We also contributed as an example the aforementioned thematic review of beneficial ownership which is published in a FATF report on best practices on beneficial ownership of legal persons. Moreover, we are contributing to the FATF's work stream on risk-based supervision and sharing our knowledge of SupTech.

Risk Outlook

The disruption caused by the COVID-19 measures is a classic opportunity for criminals to attempt to launder their funds because they think firms' AML/CFT controls are stretched by staff absences above normal and working from home and business continuity sites. Despite the difficulties, firms must use their best endeavours to maintain their vigilance. Longer term, it is imperative that all firms ensure that the findings of the NRA have been considered with business practices appropriately altered to take them into account.

Fiona Crocker
Director

General

2019 continued in the same vein as previous years for the Enforcement Division, with the number of cases increasing by one from 2018. At the beginning of 2019, the Division had 13 active investigations ongoing, which was an increase of one from the previous reporting year. During the year we took on a further seven investigations but importantly also completed seven investigations. This resulted in 13 active investigations remaining at the end of 2019 including several large cases that I would hope will come to a conclusion during 2020.

One case that was carried over from 2018 was appealed by the Commission before the Court of Appeal, with the judgment being published during the summer of 2019. There were a number of aspects to the appeal but the most important aspect was that the Royal Court had originally ruled that the Commission did not have the power to time-limit prohibitions on individuals.

Previously, the Commission has always imposed time-limited prohibition orders in cases where this was merited; this approach ensured that any individual who found themselves the subject of a prohibition order could take some comfort that once his or her prohibition had expired and he or she was able to demonstrate that he or she was fit and proper, they could re-apply to the Commission potentially to take up a new prescribed position, subject to any conditions laid down by the Commission being met. The Royal Court judgment, which the Commission appealed to the Court of Appeal, would have meant that every individual who was found not to be 'fit and proper' and had a prohibition order imposed upon them, would face an indefinite period of prohibition – potentially a full life term. The Commission's appeal was upheld on this major point and other aspects too and we now have clear guidance from the Court of Appeal on the extent of our statutory powers.

On the staffing side, there were a number of changes within the Enforcement Division in 2019. Some members of staff moved on to other opportunities both in Guernsey and overseas, however we were very pleased to recruit capable replacements who have brought with them a considerable level of experience and expertise. At the end of 2019, the Division had a full complement of staff.

We also took time during the year to reflect upon our practices and procedures and made some adjustments to ensure that those under investigation can continue to be dealt with in an appropriate and expedient manner. This, of course, has to be balanced with the Division maintaining a professional, evidence-based approach to the investigations that it undertakes.

Where there is acceptance of regulatory failings by a firm and, potentially, individuals, then matters can often proceed relatively quickly to a settlement. Regrettably, in the past few years fewer cases are now the subject of a settlement agreement than was the case for the first few years after the Division was established in 2013. This may be because we are continuing to seek sanctions against individuals involved in wrongdoing. Individuals have fewer incentives than companies to settle early when doing so may well damage their financial services careers, even though discounted penalties are normally offered to those who settle. The Commission believes sanctioning individuals remains one of the most powerful regulatory tools to ensure respect for the law and we will continue to seek sanctions against individuals who are culpable for severe breaches of legislation even though that may result in cases taking longer than would otherwise be the case. Deciding to prohibit an individual is never a decision the Commission takes lightly and a rigorous internal process is followed to ensure that this course of action is proportionate and necessary. Key considerations are ensuring that we are affording the public protection against those that seek to cause harm and protecting the reputation of the Bailiwick as an International Finance Centre, however all matters are taken into consideration.

From an operational point of view, there were 12 interviews conducted in 2019 with various people who held key roles within their respective firms. This is less than in 2018, but is not indicative of a decrease in work for the Division. There were also 20 statutory notices served under the various Regulatory Laws for either provision of material, and invitations or compulsion to attend the Commission for interview. These notices provided the Enforcement Division with a large volume of material to work through across all of the investigations to best inform us of what, if anything, has gone wrong, and then to seek to question why.

Enforcement *(continued)*

We continued to be represented at Committee 4 of the International Organisation of Securities Commissions (IOSCO). There are many new initiatives being discussed which are predominantly around affording investors protection across the markets they invest in. Also at an international level, we are increasingly sharing information with IOSCO member countries through the memorandum of understanding we have signed as well as with other international regulatory bodies under their agreed procedures.

During 2019, I was part of an assessment team from the Group of International Finance Centre Supervisors (GIFCS) involved in an assessment of another jurisdiction against the GIFCS standards. This organisation is a long-established international group with a core interest in promoting the adoption of international regulatory standards especially in the banking, securities, fiduciary and AML/CFT arenas.

Cases reported

Seven cases were completed in 2019; three resulted in sanctions being imposed ranging from fines of between £30,000 and £70,000 on the firms and fines against individuals ranging from £5,600 to one individual receiving a £20,000 fine and a two and a half year prohibition. In three cases we found that the evidence threshold had not been reached to make a recommendation to issue a private warning to the individuals concerned. No further action was taken in one other case after our initial investigation.

Simon Gaudion
Director

SENIOR DECISION MAKERS

This is my fifth report as President of the Panel of Senior Decision Makers, which was established by the Commission in late 2014. As reported last year, the Panel was refreshed in the course of 2018, and its active composition has not changed since then. The Panel of available decision makers is as follows:

- Glen Davis QC (England and Wales);
- Catherine Gibaud QC (England and Wales);
- Kirsty Hood QC (Scotland);
- Ben Hubble QC (England and Wales);
- Terence Mowschenson QC (England and Wales);
- Leigh-Ann Mulcahy QC (England and Wales and the Republic of Ireland);
- Richard Jones QC (England and Wales); and
- Alison Potter (England and Wales).

Mr Richard Millett QC (England and Wales) ceased to be a member of the Panel in October 2019; he had not been available for some time as he has been acting as Counsel to the Tribunal of Inquiry looking into the Grenfell Tower fire in London.

During the calendar year 2019, four cases were before a Senior Decision Maker, three of which were handled by members of the Panel appointed before 2018, and the fourth by one of the four new appointees who joined in 2018. Two of these four cases were the subject of determinations made in the year, and in both cases the outcome appears in one or more announcements on the Commission's website.

The first case was determined in April 2019, resulting in financial penalties imposed on, and a public statement concerning, a Guernsey fund management company and an individual who was the managing director and controller of the company. A prohibition order relating to the individual was also made and published on the Commission's website.

The second case was determined in June 2019, resulting in a financial penalty, a prohibition order and a public statement in relation to a director of a Guernsey entity licensed under the legislation regulating fiduciaries. The case had initially been determined by the Senior Decision Maker in June 2018, but the decision was made the subject of an appeal by the respondent to the Royal Court. The decision of the Royal Court was handed down on 29 November 2018 (judgment 47/2018, known as Y v. the Guernsey Financial Services Commission.) As mentioned in my report for 2018, the outcome of that appeal was that the Deputy Bailiff's judgment supported the Senior Decision Maker's conclusion that Y was capable of being found not to be fit and proper, but it also found that the Commission lacked the power to issue a prohibition order that is limited in duration. The Royal Court also found that the proposed public statement contained more detail than the relevant statutory power permitted. It remitted the matter back to the Senior Decision Maker in order to comply with the requirement that prohibition orders should be indefinite in duration and to reduce the length of the public statement.

Both the Commission and Y himself appealed the Royal Court decision to the Court of Appeal of Guernsey. The Commission submitted, in particular, that there was power to make a prohibition order for a finite period of time (in this case, of four years). The outcome was that the Commission's appeal was successful. The Prohibition Order was reinstated, with the period of four years to run from the date of the initial decision. The cross appeals by Y were dismissed. The decision of the Court of Appeal (Appeal No. 523 of 17 June 2019) appears on the Commission's website at GFSC v Y (Anonymised Version 17.06.2019).

This was the second occasion on which a decision of the Commission taken under the new arrangements for Senior Decision Makers has reached the Court of Appeal. The previous case was that of the Commission v Merrien in 2016 (23/2016), and there have been at least two earlier cases under the previous arrangements.

The other two cases of the four mentioned above were still in progress at the year-end. One of them has been before the Senior Decision Maker for some considerable time, while the other dates from the summer of 2019.

A training day was organised as usual for the Panel in September 2019. The Panel reviewed 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 the recent judgments of the Royal Court and Court of Appeal just mentioned, and information on the proposed legislative changes so far as relevant to matters of interest to the Panel.

This report for 2019 is expected to be my last one. My term of office as President of the Panel was extended for a year during the course of 2019 and will expire in the autumn of 2020. I do not seek an extension of my appointment. I have greatly enjoyed contributing to the development of the Commission's decision-making process, which I regard as an important feature of the financial services landscape in the Bailiwick.

Michael Blair QC
President of the Panel of Senior Decision Makers

Risk

During 2019, the Risk team continued to provide challenge and assurance to our supervisors and Commissioners respectively, and to develop our risk-based supervisory approach within the Commission. This took place against a backdrop of a number of organisational and personnel changes but we now have a robust and established Risk team that continues to operate a strong "second line of defence" for the Commission.

Of particular note during the year was the successful implementation of a new PRISM module that fully integrates our existing financial crime supervision into a single system, allowing us to upgrade our approach based on advancements in Supervisory Technology (SupTech). The new module not only provides supervisors with a structured but flexible workflow to record information and outcomes of onsite inspections, it also supports analytical tools to gain detailed insight from our supervisory data and reduces the need for supervisors to use multiple systems and software, thereby reducing a number of manual, time-consuming tasks. This frees up valuable time for supervisors to focus on finding failures in the financial services sector likely to encourage criminality and provides evidence of the effectiveness of our supervisory interventions.

A further development in our risk-based supervisory approach was our reconsideration of how best to supervise group entities, where a significant majority of management resources and controls are common across multiple licensed or registered entities. Working within our existing PRISM framework, we piloted a slightly adapted version of our risk-based supervisory approach to assess both vertical and horizontal risks across a single group structure. Following the success of this pilot, we plan to roll out this adapted methodology in the coming year to a small number of other groups where we consider critical interdependencies exist within the group, allowing for a more coordinated and effective approach, which will benefit both the Commission and the firms.

Alongside these developments, we maintained a steady pace in our risk-based supervision of authorised firms within the Bailiwick in accordance with our PRISM model. During 2019, we carried out 30 Firm Risk Assessment visits and over 65 further engagements with firms. Following these, the Risk Unit continued to act as an internal voice of challenge to our supervisors by providing an independent view on the Risk Mitigation Programme (RMP) actions being set. This helped to ensure that the 270 actions given to firms during the year were consistent, proportionate and risk focused. These RMP actions are created where the weakness in controls and systems identified at a firm results in the probability of the risk crystallising, such as within a firm's business strategy which is above the Commission's risk appetite.

We continued to set RMP actions to mitigate a wide range of risk types. In common with previous years, a significant number were targeted at governance, operational, financial crime and conduct risks and while some of these may be discrete in nature, often an interdependency exists between them. Firm directors should continue to ensure they are satisfied that their own systems and controls in each of these risks areas, as well as their effect on each other, are sufficiently robust to mitigate the level of risk that the firm faces, especially if the firm operates a high-risk or innovative business model.

In addition to the 118 Risk Mitigation issues raised during the course of the year, with 270 associated actions, we continued to receive and review a range of additional information on the firms we supervise. This information is received from a number of sources such as online returns, notifications, social media and the whistleblowing hotline. From these different sources we dealt with approximately 9,500 alerts and where necessary raised over 1,770 triages to record the action the Commission has (or has not) taken. These alerts and triages cover a wide range of events from breaches of legislation to reporting errors or the need to follow up on an RMP action that had been set.

We continue to consider the best methods to process and analyse the information that we receive in order to gain new insights and, through a small number of use-cases, have undertaken trials to understand how certain SupTech tools might help to augment our supervisory approach. This forms part of our Three-Year Business Plan, previously detailed within our 2018 Annual Report and Accounts, with the aim of developing and improving our supervisory approach.

In 2019, we also discussed our risk-based supervisory approach with a number of other regulators, including demonstrating PRISM, with a view to helping to improve regulatory approaches worldwide. We will continue to be responsible for assuring that PRISM remains effective in mitigating the risks of the firms authorised by the Commission. We do this through the operation of Risk Governance Panels, regular management information and specific assurance reviews on our supervisory approach.

Financial Stability

At the time of writing it remains to be seen how severe the economic consequences of the COVID-19 pandemic will be. Various scenarios are conceivable. Their impact on small economies such as that of the Bailiwick is unknowable and likely will be for some time. As the Chairman and Director General state in their Foreword, the Commission will do all in its power to sustain financial stability.

The Chairman, Director General and Director of Risk and Financial Stability of the Commission have participated in meetings of the Bailiwick's Financial Stability Committee throughout 2019 in conjunction with States of Guernsey officials and other independent actors. The Committee has provided advice to the Policy and Resources Committee of the States of Guernsey as appropriate on matters it considered to be pertinent to the financial stability of the Bailiwick.

Policy

We will continue to maintain our policy of international interaction and participation in international bodies including membership and participation in the Global Financial Innovation Network ('GFIN') of which we were a founding member when normal circumstances resume. This approach provides a number of benefits including understanding the aims and direction of the supranational regulatory bodies and helping to ensure we have early notice of risks that the Bailiwick may be facing.

Alongside the States of Guernsey and our Jersey counterparts, during 2019, we also held regular meetings with HM Treasury to understand developments in the UK and its position with respect to Brexit trade policies and any resultant risks. We continue to have conversations with our fellow regulators in the UK and to monitor their approach to financial regulation post Brexit, especially any openings this may offer for Guernsey entities to provide well-regulated products to UK customers.

Within each of our supervisory divisions, we have various policy initiatives looking at how we can contribute to maintain the Bailiwick's position as a well-regulated jurisdiction with responsive, proportionate and flexible rules. A good example of this is the Guernsey Green Fund in which investors and fund managers continue to show interest. We look to continue this development of green policies with the aim of providing high quality growth opportunities for the Bailiwick in future years. We will resume these operations as circumstances permit.

Katherine Jane
Director

THE COMMISSION'S THREE-YEAR BUSINESS PLAN

In the 2018 Annual Report we reported on the creation of our three-year business plan. In this section we report on progress made with implementing the plan in 2019. Progress in 2020 will depend on external factors, not least of which COVID-19.

Policy

We continued to work with the States of Guernsey during 2019 on: the Revision of Laws project covering the renewal of all our sector based regulatory laws to meet international standards; the Credit and Finance Policy Letter which covers the regulation of consumer credit and FinTech businesses which do not fit well into the existing regulatory architecture; and the Resolution Authority Policy Letter which is designed to bring the Bailiwick's laws into compliance with international standards on how troubled banks should be resolved. We hope that we may see the States pass these pieces of legislation prior to dissolving for the Guernsey General Election.

We continued to undertake other policy development work with our new Anti-Money Laundering and Countering the Financing of Terrorism Handbook going live in the first half of the year. We also consulted on: a new Fiduciary Handbook which is designed to simplify regulations for fiduciary businesses by bringing the vast majority of the regulations with which they are required to comply into one place; and new pensions rules designed to update the initial pensions rules – taking into account lessons learned from the first two years of pensions regulation in the Bailiwick.

Further to this we are pleased to have played a significant role in the development of the Bailiwick's National Risk Assessment which went through a consultation exercise in the second half of the year with publication by the States anticipated early in 2020.

In 2020, we intend to undertake additional work to improve further Guernsey's fund regulations, bring *Acting With Integrity* (the consolidated Fiduciary Rules and Guidance) into operation following consideration of feedback on our consultation; further develop our insurance capital proposals, taking into account both green issues and US regulatory developments; and to make further progress on Basel III/IV implementation. We will also be undertaking considerable additional work implementing or further developing the laws discussed above on which we have been working with the States of Guernsey, if they are passed by the States in the first part of 2020.

Technology

The investment in technology which we outlined in the 2018 Annual Report gathered pace throughout 2019 with all projects making good progress.

A highlight of the year was the completion of the PRISM AML/CFT module in April 2019. This SupTech development, in conjunction with the data sets which we have collected from industry for some years, provides us with the ability to target and monitor our financial crime supervision interventions in a way in which many less technologically advanced regulators would find challenging. In developing it we took into account lessons other regulators have learned from recent Financial Action Task Force inspections. We have demonstrated the software to other IFC regulators and the broader regulatory community at a SupTech conference in Frankfurt receiving positive feedback about this "made in Guernsey" software. We believe it markedly enhances our ability to ensure that those we supervise comply with the Bailiwick's AML/CFT laws.

We have also made considerable progress with our project to update the technology platform on which all our regulatory returns rest, developing a more resilient and future proof software and hardware solution. Indeed, in late 2019 some forms moved onto the new platform and were used successfully by firms to submit real data to us without issues. Working with d-Fine, our long-term partner in the development of PRISM, we intend to make considerable further progress of this project in 2020 through the transposition of the majority of the regulatory returns onto the new system.

Internally we successfully launched our new HR platform at the end of 2019 and are well advanced with our programme to update our general ledger and associated accounting systems. We plan to implement the new solutions during 2020 – markedly increasing straight through processing thereby reducing the need for multiple labour intensive manual checks subject to any COVID-19 related delays. We are also making strides in our data storage and retrieval technology upgrade with new and markedly more powerful servers having been installed and a Microsoft data storage software solution piloted with some divisions during 2019. With much of the research, planning and trialling having been completed in 2019, our transition to a new data storage approach will gather pace through 2020.

Our Augmented Intelligence (AI) partnership with RegulAItion, a tech venture led by two professors from University College London's Financial Computing Centre, developed considerably over the course of 2019. The first fruits of the partnership, a piece of software which can risk assess external auditors' reports and management letters using augmented intelligence engines, was developed to the working prototype stage during 2019. While we are not yet at the stage of pre-crime detection envisaged in the film Minority Report, we are certainly making progress in that direction with our technology programme and, funds permitting in a post-COVID-19 environment, hope to be able to use AI to scrutinise regulatory submissions for patterns of adverse behaviour at smaller regulated entities which we have previously lacked the human resources to scrutinise. In undertaking this work we are very conscious of our own limitations as humans and have no intention of using our new tools to restrict the freedom of individuals within industry to innovate but we do hope that our new capabilities will, within three to five years, enable us to detect several kinds of law breaking and other high-risk behaviour at an earlier stage than is currently probable. By doing so we would hope to be able to act to better protect customers and investors. We also believe these technological capabilities should enable us to spend less time interacting with smaller good quality firms – something we suspect they might appreciate.

Funding and New Steps

We have spent money allocated to technology investment under the three-year plan more slowly than we anticipated at the beginning of 2019. We are not displeased with this result as we are always conscious of our duty to spend public money wisely and will happily measure twice or even thrice and cut once as the reliable old carpenter's adage goes.

Looking ahead, we are conscious that we need to plan towards a major renewal of our Microsoft CRM systems to ensure we continue to have access to supported software. This will require considerable investment given the deep integration of our current highly customised CRM systems with our other regulatory software systems. It, alongside preparations for the next MONEYVAL Regional Financial Action Task Force inspection, is likely to form a major component of our next three-year business plan.

William Mason
Director General

Supervision

In 2018-9, the States of Guernsey, We Are Guernsey and the Guernsey financial services sector generally, all intensified their commitment to a green agenda for the Bailiwick.

Over the same period, the Commission followed the same path, interacting as appropriate with the above. The Commission has set up a dedicated Green page on its website to outline its approach to green issues.

In particular, in 2019 the Commission continued to enable funds to be designated as green, subject to their meeting a series of criteria specified by the Commission. As such, these funds may acquire certification and use the Guernsey Green Fund logo. As at end-2019, five funds were designated as green funds.

In 2019, the Commission issued internal guidelines for supervisory staff so that a discussion around green issues could begin with licensees.

The Commission has also considered various ways it could be more green. These are detailed in the Director General's report.

Policy

In 2018-9, the Commission issued a Discussion paper and Feedback paper on Green Insurance. These papers sought to explore the ways in which the Bailiwick might support green insurance, for example through insurance-linked securities, general global insurance and through capital incentives. These topics remain live.

Given that climate change has to be addressed on a global basis, in 2018 the Commission joined the Sustainable Insurance Forum, a joint entity supported by the International Association of Insurance Supervisors and the UN Environmental Programme, and in 2019 Greening the Financial System, a network of central banks and bank supervisors.

Risk Outlook

Licensees face a variety of risks around climate change. To name a few:

- reputational risk as customers' concerns around climate change increase;
- credit risk around 'brown' industries, counterparties generally and "stranded assets" as the impact of climate change takes hold (including in Guernsey itself); and
- liability risk for insurers as mortality, health and catastrophic conditions change as a result of climate change.

As an issue, climate change is only likely to increase in the next few years, so all licensees may wish now to develop their business plans in response to this issue.

Jeremy Quick
Director

Human Resources

The Commission employed 113 permanent staff as at 31 December 2019.

Our staff retention improved considerably compared to 2018. We attribute this in part to our efforts in responding to staff feedback and improvements in our employment practices including the introduction of new initiatives such as the 'nine-day fortnight' which we made permanent in 2019. That initiative has been particularly well received with over half of our staff participating.

On the training front, our organisational aim is to facilitate intelligent and co-ordinated delivery of all learning, training and development opportunities. During 2019, we ran 113 internal training courses on subjects as diverse as minute taking, chairing and participating in Risk Governance Panels, Business Model Analysis, Cyber Security Awareness, technical and personal development for managers and interview skills.

Our staff also attended a number of external training courses throughout 2019 including lectures by the Society of Trust and Estate Practitioners (STEP), IOD training, Mindful Leadership, anti-bribery and corruption forums and Green & Sustainable Finance Forums. In addition, 20 staff commenced a professional qualification in 2019 including CFA Level 1, ICA International Diploma in Governance, Risk and Compliance, ICA International Diploma in Anti-Money Laundering, the Green Finance Certificate and the Certificate in Insurance.

Following an extensive recruitment process, both on and off-island, we employed six new Graduates on our Graduate Development Programme (GDP). Our new recruits are currently studying towards the Investment Management Certificate, CFA Level 1 or ICSA Certificate in Corporate Governance. Our Graduates can spend up to three years on the GDP rotating annually into a different division to enable them to obtain a rounded view of the work of the Commission.

We also continue to support our staff in other ways – including the provision of wellness and educational support. All new staff are provided with internal mentors and we now have six staff who are qualified Adult Mental Health First Aiders. 14 Technology, Entertainment and Design Talks (TED Talks) were delivered during 2019 on topics that included positive psychology, the role of the Channel Islands Financial Ombudsman, drafting and amending regulatory rules, Guernsey Wills, and lessons from the global financial crisis.

A large proportion of 2019 was also spent working on a project to introduce new HR and payroll systems in order to improve our in-house payroll processes, reduce the number of manual HR administrative tasks carried out and improve the quality of our HR management information. The new system went live on 1 January 2020.

Finally, we have also continued to invest in our business continuity and recovery planning, having updated our plans and approach during 2019. Further testing of our plan and response to an incident is expected to take place in the first half of 2020. Similarly, we invested considerable time and effort throughout 2019 in reviewing our policies and procedures for data protection and data retention with training provided to all staff in this important area.

Dale Holmes
Commission Secretary

Financial Information

In the annual report and accounts of any profit-making business, the key figure is the one at the end of the profit and loss statement. The Commission is, however, a Public Benefit Entity so, before we get to how the Commission performed this year in a financial sense, I am going to touch on other changes that have been happening within the finance team. As with several other areas of the Commission, we made a decision under our three-year business plan in 2018 to invest in our finance systems and controls to ensure we can maintain an effective and efficient regulatory body now, and in the future.

Accordingly, in 2019 we made a number of changes such as the development of a new payroll system, alongside a new HR system. This facilitated greater straight through processing in our payroll processes not only reducing the risk of fraud or errors, but also reducing the level of manual work required thus enabling our staff to focus on other aspects of their roles.

In line with our IT strategy, we are aiming to simplify our finance systems by reducing the level of customisation and complexity within them. In addition, we want to simplify the way that licensed entities can pay us and deliver greater straight-through processing internally, freeing staff across the Commission from administration thereby enabling them to focus on their day jobs of authorisation, supervision and enforcement. Therefore, during 2019, a decision was taken to replace our complex and outdated General Ledger and this project will carry on in 2020 with an aim for us to have the ability to issue our invoices and take payments electronically by the end of the year.

Moving back to the final year-end position, for the first time in a number of years (excluding account fluctuations relating to our previous defined benefit pension scheme) we show a small deficit of £113,000 at the year-end. This has been mainly driven by some unexpected and unpredicted legal costs relating to a number of individual cases.

In the areas of expense under our control we continued to maintain robust budgetary controls, remaining under budget by over £0.5mn on our normal business-as-usual expenditure. However, this was eclipsed by legal costs which were over £0.6mn above budget, a 40% increase in costs year on year.

As a Commission, we aim year on year to operate prudently and work towards a balanced operating outturn although we expect to make small deficits given our three-year business plan investments. Those investments where appropriate, are being capitalised and we look to ensure we are not increasing our ongoing operational expenses when moving to newer systems. In addition, we have a stated policy of holding adequate liquidity to meet at least 6 months of operational expenses to be prepared for a worst case scenario. In light of this, we are looking to maintain our BAU expenses in line with inflation to enable us to maintain balanced budgets in the future.

Over recent years we have seen a material increase in our legal expenses (an increase of 52% between 2018 and 2017 for example). As explained earlier this may be a lagging indicator of the improvements in our effectiveness as a regulator as better supervision works through to more enforcement referrals. Firms and individuals then exercise their rights to appeal the Commission's decisions in the Courts. This is an indication of a healthy system working as it should. However, it does cause expenses to rise. Where appropriate the Commission will seek costs from unsuccessful appellants so that they are not ultimately borne by the rest of the industry in Guernsey through higher fees.

One consequence of the greater number of court cases is to call into question whether commercially available insurance can validly cover the Commission's legal costs. Conventional policies such as "Directors and Officers" insurance are designed for corporate bodies whose legal risks are incidental to their main commercial objectives. However, the Commission is a law enforcing Public Benefit Entity and legal risks are more central to its core activities. Many other financial services regulators do not insure for these risks and we will investigate how best to meet the expenses when they arise.

Finally on a more positive note, as mentioned within the Director General's report, we have assessed the Commission's environmental impact and have taken steps to mitigate this via the purchase of land for afforestation. Whilst the amount itself is not particularly material against our overall income (or even our current investment portfolio), hopefully the impact it will have in mitigating the carbon we produce as an international regulator on a small island will not be. The transaction will not be completed until 2020 but we have identified the commitment we have made in this year's accounts.

Katherine Jane
Director

Information Technology and Support Services

As with any organisation, Information Technology (IT) is an area that is subject to continual change to ensure that we have robust, stable and secure systems. Over the course of 2019, we made a number of changes to our IT infrastructure to improve our server capacity and flexibility and to ensure we can adapt more quickly to the increased demands on our systems, such as peak submission periods for licensed entities' returns.

We have upgraded our firewall and other defences to deal with the ongoing cyber-attacks (all defended) that any public body experiences. Whilst our supervisory colleagues carried out a thematic looking at industry's cyber security, we continued to invest in the education of our IT team and our own systems and controls. As in previous years, this included a war-gaming exercise where we worked through a number of different scenarios. It was comforting to note that our experienced IT team were able to deal with each situation, even through a number of learning points were taken from the day.

The largest piece of work completed in 2019 was the development and implementation of a new online portal. Over the course of the year, we designed, piloted and implemented a new modular structure for our portal that will enable greater flexibility and stability in the long-term. In doing this, we maintained the style and structure of the current portal so that firms and individuals using our systems will have experienced only minimal changes. The first forms were successfully launched just prior to the end of the year with no complaints, in fact with no comments received from our external users. This reflects the hard work of all our IT team.

The transfer and improvement of our forms onto the new portal will carry on in 2020 and will require updates to other parts of our system such as our authorisation and sign on servers. Users should experience further improvements, for example, they will no longer need to have separate 'log ons' for our Online Submission and Online Personal Questionnaire portals. Consequently, it will become even more important for firms to remove an employee's permissions once they leave the business and to ensure that at all times the firm has at least two Superusers or Licensee Main Users ('LMU') to ensure continued control of access. To add additional security to the log on process, our portal continues to support Two Factor Authentication, which requires individuals to confirm their identity through a second method before being able to access details on a licensee or individual.

Internally, we have also been looking at our document management systems and how we store the right information in the right manner. During 2019, good progress was made with identifying a new system and developing the right taxonomy for the storage and retrieval of data in a logical and robust manner. This project will continue into 2020 and beyond as circumstances allow.

Both of these large pieces of work form part of our three-year business plan, which we detailed in our 2018 Annual Report and Financial Statements with a focus on updating and improving our back office systems. Part of the process has involved selecting systems that require a minimum of customising and ensuring that they can be upgraded in a simple and easier manner in the future. We will continue to follow this strategy as we review and reassess our current systems with our future focus being on our central database of firms, entities and individuals.

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 2019, 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' ("FRS 102").

In our opinion, the financial statements:

- give a true and fair view of the state of the Commission's affairs as at 31 December 2019 and of its loss for the year then ended;
- are in accordance with United Kingdom Accounting Standards, including FRS 102 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ("FRS 102"); 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.

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

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.

Use of our report

This report is made solely to the Commissioners. 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 that the Commission and the Commissioners as a body, for our audit work, for this report, or for the opinions we have formed.

Grant Thornton Limited
Chartered Accountants
PO Box 313
Lefebvre House
Lefebvre Street
St Peter Port
Guernsey
GY1 3TF

1 May 2020

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	2019	2018
		£	£
Income			
Fees receivable		13,705,851	13,943,269
Financial penalties imposed	13	155,000	108,500
Bad debts recovered	13	32,899	40,288
Interest receivable and similar income		130,478	105,065
Net change in investments measured at fair value through profit or loss	11	225,085	-
		14,249,313	14,197,122
Expenses			
Salaries, pension costs, staff recruitment and training		(9,628,609)	(9,314,173)
Commissioners' fees		(286,700)	(275,345)
Legal and professional fees		(1,146,107)	(820,725)
Premises and equipment, including depreciation and dilapidations		(1,820,116)	(1,838,964)
Other operating expenses		(1,429,889)	(1,220,892)
Bad debt provision expense	13	(42,857)	(72,134)
Net change in investments measured at fair value through profit or loss	11	-	(100,027)
Auditor's remuneration		(8,500)	(8,500)
		(14,362,778)	(13,650,760)
Total comprehensive loss for the year		(113,465)	546,362

The notes on pages 40 to 47 form an integral part of these financial statements.

STATEMENT OF RESERVES

For the year ended 31 December 2019

	Note	2019	2018
		£	£
Opening reserves		13,626,245	13,079,883
Total comprehensive income for the year		(113,465)	546,362
Balance at 31 December 2019		13,512,780	13,626,245

The notes on pages 40 to 47 form an integral part of these financial statements.

BALANCE SHEET

As at 31 December 2019

	Note	2019	2018
		£	£
Fixed assets			
Tangible assets	4	3,310,480	2,837,811
Current assets			
Debtors and prepayments	5	773,819	721,638
Short-term deposits	10	7,000,002	7,565,894
Investments	11	3,423,952	3,198,867
Cash at bank and in hand	10	1,872,402	976,559
		13,070,175	12,462,958
Current liabilities			
Creditors – amounts falling due within one year	6	(2,553,819)	(1,400,068)
Net current assets		10,516,356	11,062,890
Non-current liabilities			
Provisions for liabilities	14	(314,056)	(274,456)
Net assets		13,512,780	13,626,245
Total reserves		13,512,780	13,626,245

The Financial Statements on pages 36 to 47 have been approved by the Commissioners and signed on their behalf on 1 May 2020 by:-

C Schrauwers	R Moore	W Mason
Chairman	**Vice-Chairman**	**Director General**

The notes on pages 40 to 47 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	2019	2018
		£	£
Cash flows from operating activities			
Surplus/(deficit) for the financial year		(113,465)	546,362
Adjustments for:			
Depreciation of tangible fixed assets	4	818,850	747,772
Loss on disposal of tangible fixed assets	4	17,341	13,180
Interest receivable		(130,478)	(105,065)
Unrealised loss/(gain) on investment portfolio	11	(225,085)	100,027
(Increase)/decrease in debtors and prepayments		(52,181)	(118,144)
(Decrease)/increase in creditors		1,153,751	(370,168)
Increase in provisions for liabilities	14	39,600	38,487
Net cash generated from operating activities		1,508,333	852,451
Cash flows from investing activities			
Purchases of tangible fixed assets	4	(1,308,860)	(706,906)
Interest received		130,478	105,065
Purchase of short-term deposits	10	565,892	(806,890)
Net cash from investing activities		(612,490)	(1,408,731)
Net (decrease)/increase in cash at bank and in hand	10	895,843	(556,280)
Cash at bank and in hand at the beginning of the year		976,559	1,532,839
Cash at bank and in hand at end of the year		1,872,402	976,559

The notes on pages 40 to 47 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2019

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.

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 Commissioners having considered the Commissions available resources along with its projected income and expenditure, are satisfied that the Commission has adequate resources to continue in operational existence for the foreseeable future. The Commission is closely monitoring the latest market developments relating to COVID-19, and possible future impact on the Commission, the Commissioners remain confident that the going concern basis remains appropriate in preparing these consolidated financial statements.

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 7 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; 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.

(i) Investments

i. 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.

ii. The Commission entered into a commitment to purchase land for tree planting in Scotland to a value of £108,000 for the purpose of offsetting carbon emissions emitted from its activities. The transfer of ownership is due to complete in 2020.

(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 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. The majority of 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 2019	1,432,915	537,122	807,886	4,489,343	7,267,266
Additions	13,306	9,445	266,267	1,019,842	1,308,860
Disposals	-	(18,706)	(264,428)	(329,878)	(613,012)
At 31 December 2019	1,446,221	527,861	809,725	5,179,307	7,963,114
Depreciation					
At 1 January 2019	494,186	333,499	586,960	3,014,810	4,429,455
Charge for the year	77,527	41,291	136,557	563,475	818,850
On disposals	-	(18,364)	(264,427)	(312,880)	(595,671)
At 31 December 2019	571,713	356,426	459,090	3,265,405	4,652,634
Net book value at 31 December 2018	938,729	203,623	220,926	1,474,533	2,837,811
Net book value at 31 December 2019	874,508	171,435	350,635	1,913,902	3,310,480

A loss on disposal of tangible fixed assets of £17,341 was recorded in 2019 (2018: £13,180).

5. Debtors and prepayments

	2019	2018
	£	£
Prepayments	648,585	651,388
Provision for bad debts (see note 13)	(81,797)	(147,283)
Other debtors	207,031	217,533
	773,819	721,638

Included in the total are prepayments of £80,164 (2018: £94,433) which relate to periods longer than 12 months.

6. Creditors - amounts falling due within one year

	2019	2018
	£	£
Creditors and accruals	922,411	724,274
Fees received in advance	1,631,408	675,794
	2,553,819	1,400,068

7. Post-employment benefits

Disclosure for defined contribution schemes

i) Defined Contribution Scheme

The amount recognised in the Statement of Comprehensive Income as an expense in relation to the Commission's defined contribution scheme, for the year ended 31 December 2019, was £105,713 (2018: £81,777). No contributions were outstanding as at 31 December 2019 or 2018. 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 2019 was £517,454 (2018: £482,420). No contributions were outstanding as at 31 December 2019 or 2018 and no contributions were prepaid as at 31 December 2019 or 2018. 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	683,297
Lease payments between 1 and 5 years after balance sheet date	2,733,188
Lease payments more than 5 years after balance sheet date	6,634,533
Total future minimum lease payments	10,051,018

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 2019	Cash flow	At 31 December 2019
	£	£	£
Call account balances	85,274	(57,991)	27,283
Cash at bank and in hand	891,285	953,834	1,845,119
Total cash at bank and in hand	976,559	895,843	1,872,402
Certificates of deposit	1,307,767	(1,307,767)	-
Fixed deposits and notice accounts	6,258,127	741,875	7,000,002
Total short-term deposits	7,565,894	(565,892)	7,000,002

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. A portfolio of certificates of deposits was closed and converted to cash at bank in December 2019.

11. Current asset investments

	2019	2018
	£	£
Opening fair value	3,198,867	3,298,894
Purchases	-	-
Net movement in fair value through profit or loss	225,085	(100,027)
Market value	3,423,952	3,198,867

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 gain recognised on these investments in the year was £225,085. The portfolio was first established in February 2015.

12. Financial instruments

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

	2019	2018
	£	£
Financial assets		
Financial assets measured at fair value through profit or loss	3,423,952	3,198,867
Financial assets measured at amortised cost	8,997,638	8,612,704
Financial liabilities		
Financial liabilities measured at amortised cost	2,867,875	1,674,524

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, 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 £155,000 (2018: £108,500). The amounts written off or provided for by the Commission during the year amounted to £42,857 (2018: £72,134).

The total of provisions relating to financial penalties as at 31 December 2019 were £48,064 (2018: £68,088). Provisions relating to other fees outstanding at 31 December 2019 total £33,733 (2018: £79,195). 2019 debts totalling £28,886 (2018: £6,757), 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 £32,899 (2018: £40,288).

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.

	2019	2018
	£	£
Provision brought forward from previous year	274,456	235,969
Dilapidations charged to Statement of Comprehensive Income	39,600	38,487
Total provision at year-end	314,056	274,456

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 2019, including pension and social insurance, amounted to £1,947,636 (2018: £2,274,838).

Related-party transactions

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.

16. Subsequent Events

COVID-19 is a developing situation and as of the date of approval of these financial statements, the assessment of this situation will need continued attention and will evolve over time. In the view of the Commission, COVID-19 is considered to be a non-adjusting subsequent event and as a result, no adjustments have been made in these financial statements. The Commission will be closely monitoring the latest market developments relating to COVID-19 and the possible future impact on the Commission.

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. 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, a position from which he retired in March 2020. 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 Mercantile Ports and Logistics Limited, Downing Four VCT plc and a number of other companies and investment funds. He retired as a Commissioner on 31 January 2020.

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 served as President of the Chamber of Commerce 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. He is also currently the Deputy Bâtonnier of the Guernsey Bar, a member of the Board of Examiners for the Guernsey Bar Examinations and a member of the Editorial Board of the Jersey and Guernsey Law Review.

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. She is currently Director of Dorey Financial Modelling, an investment consulting firm, and a Non-Executive Director of Schroders (CI) Limited. She has multisector experience across investment, banking and pensions, occupying senior posts in business strategy, governance and marketing and distribution for a number of leading institutions in the City of London. During that period, she was responsible for external risk reporting to the Financial Services Authority and embedding new "Treating Customers Fairly" processes. She was also responsible for the launch and ongoing promotion of the Guernsey-domiciled M&G Property Fund to the UK Market. A strong advocate of continuous learning, she assisted the Investment Management Association in developing a new investment management syllabus for Independent Financial Advisors and, in 2018, gained the Institute of Directors Certificate and Diploma in Company Direction. She was admitted as a Chartered Director and Fellow of the IoD in 2019.

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

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

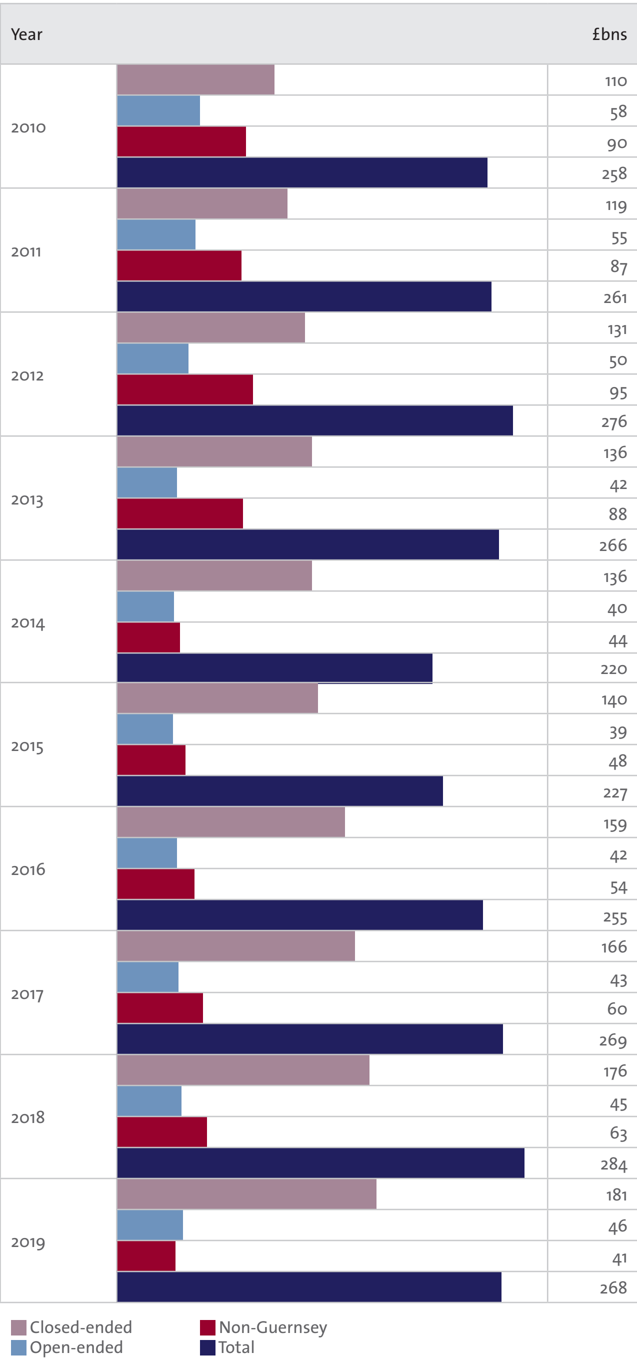


Figure 2. **Total number of investment funds at the year-end**

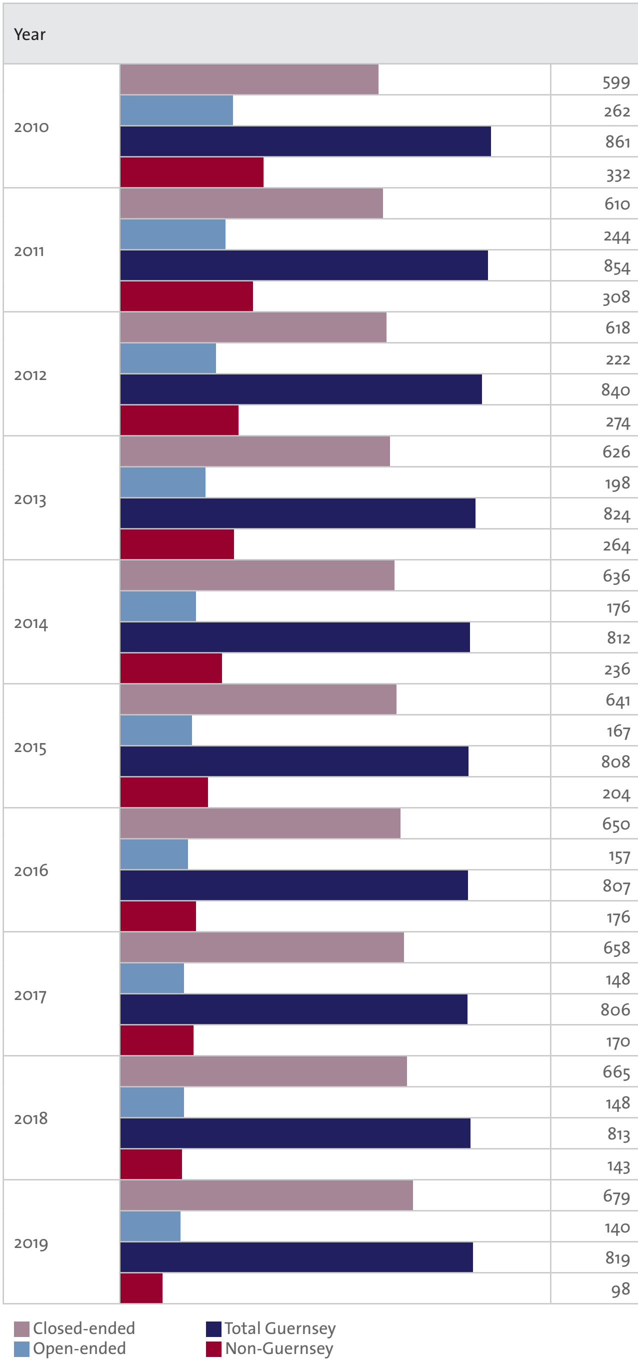


Figure 3. **Total number of investment licensees at the year-end**

Year	
2010	652
2011	654
2012	644
2013	635
2014	622
2015	639
2016	644
2017	640
2018	663
2019	677

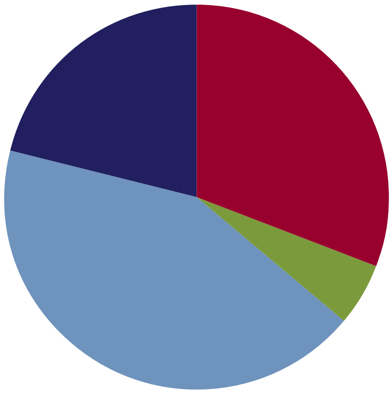
Under the Protection of Investors (Bailiwick of Guernsey) Law, 1987, investment funds (Figure 2.) are either Registered or Authorised; whereas the firms (Figure 3.) undertaking Controlled Investment Business are Licensed under the same law. There is no meaningful correlation to be drawn between the number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

Figure 4. **Movements within period**

Type	Total as at 31 December 2018	Approved in year	Lost in year	Total as at 31 December 2019
Total of open-ended schemes	148	4	12	140
of which Authorised	130	1	10	121
of which Registered	18	3	2	19
of which Qualifying Investor Funds (QIFs)	23	0	1	22
Total of closed-ended schemes	665	61	47	679
of which Authorised	348	9	23	334
of which Registered	317	52	24	345
of which QIF's	157	5	5	157
Total of licensees	663	55	41	677
Total of non-Guernsey schemes	143	14	59	98
of which QIF's	16	0	1	15

Fiduciary

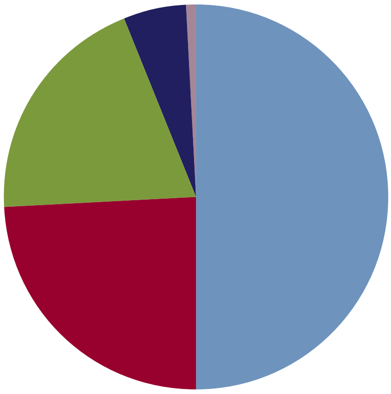
Figure 5. **Ownership of Fiduciary lead licensees as at 30 June 2019***



	2019	2018
International financial group	47	46
Lawyers and accountants	8	8
Privately owned – local	65	65
Privately owned – overseas	32	30

*Based on 152 persons holding a full fiduciary licence as at 30 June 2019.

Figure 6. **Staffing levels of licensees based on total number of staff carrying out regulated fiduciary activities as at 30 June 2019***



	2019	2018
Up to 10 staff	74	72
11-25 staff	36	42
26-50 staff	29	22
51-75 staff	8	8
More than 75 staff	1	2

*Based on the submission of an annual return by 148 licensees as at 30 June 2019.

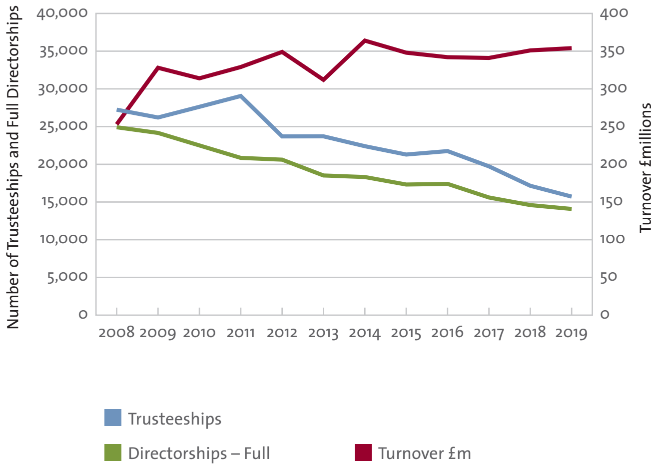
Figure 7. **Number of licensees in each turnover band based on fiduciary turnover for accounting periods falling in the year ended 30 June 2019***

Turnover band	2015	2016	2017	2018	2019
Up to £249,999	47	32	27	25	20
£250,000 to £1,000,000	37	47	43	43	49
£1,000,000 to £2,000,000	19	21	25	21	22
£2,000,000 to £4,000,000	26	24	25	27	26
£4,000,000 or over	27	30	27	28	31

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

2015
2016
2017
2018
2019

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 2019**

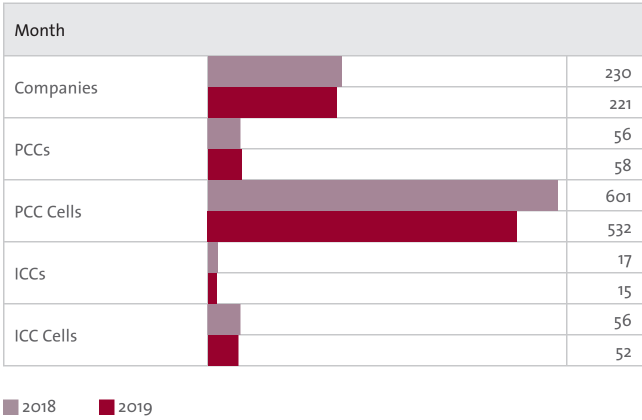


Figure 10. **International insurers – net worth**

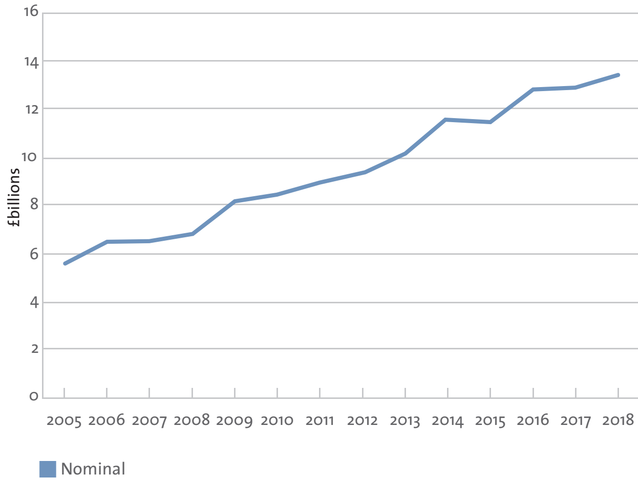


Figure 11. **International insurers – gross assets**

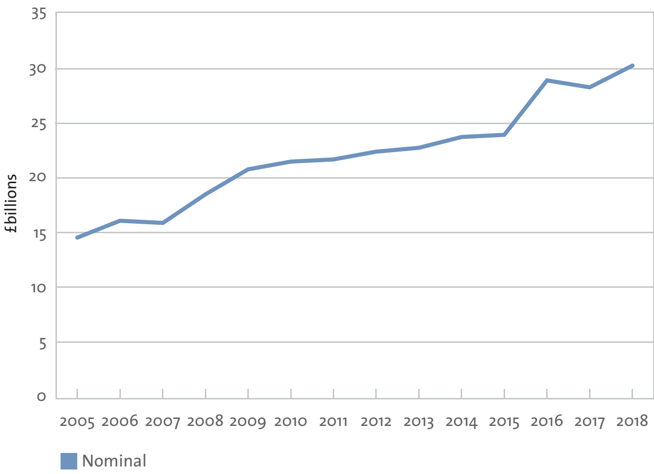
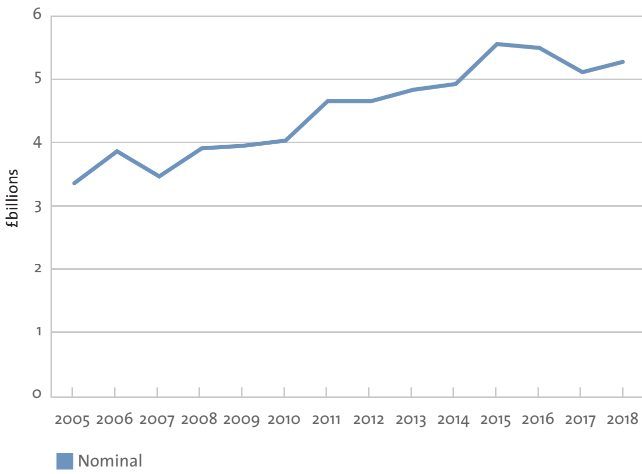
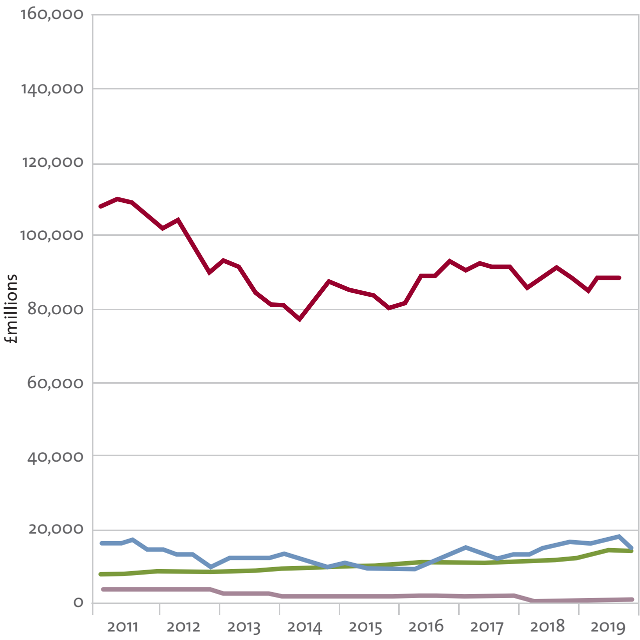


Figure 12. **International insurers – gross premium**



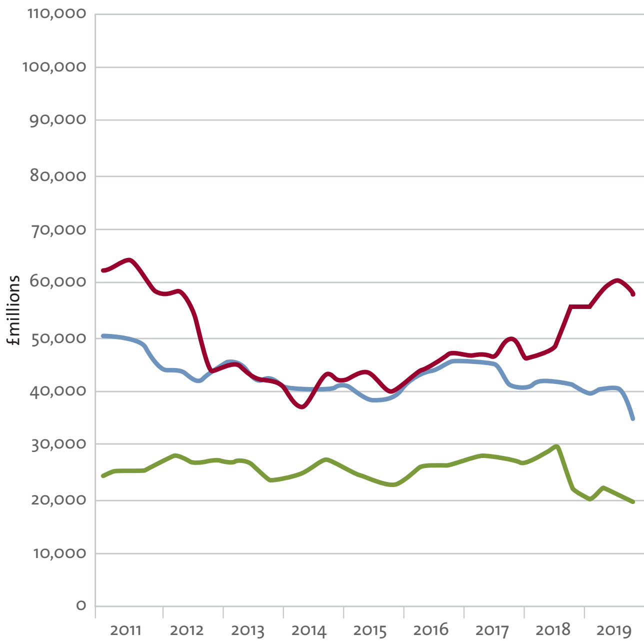
Banking

Figure 13. **Guernsey bank assets**



Bank loans plus intra-group exposures
Loans and advances
Securities and Investments
All other assets

Figure 14. **Guernsey bank liabilities**



Third party deposits*
Bank deposits
Other liabilities

*Includes non-bank financial institutions

Figure 15. **Total application and one-off fees by volume and type – 2018 to 2019 comparison**

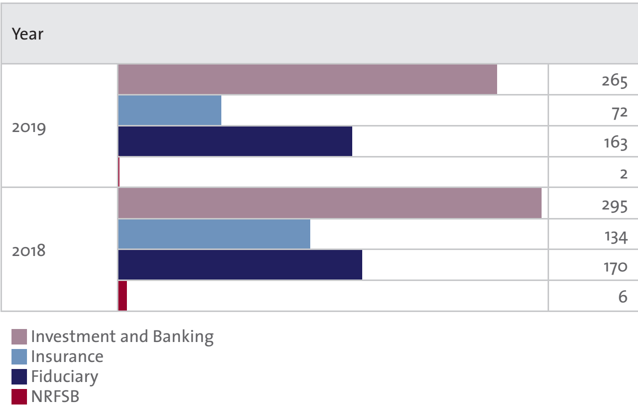


Figure 16. **Online submissions 1 January to 31 December 2019**

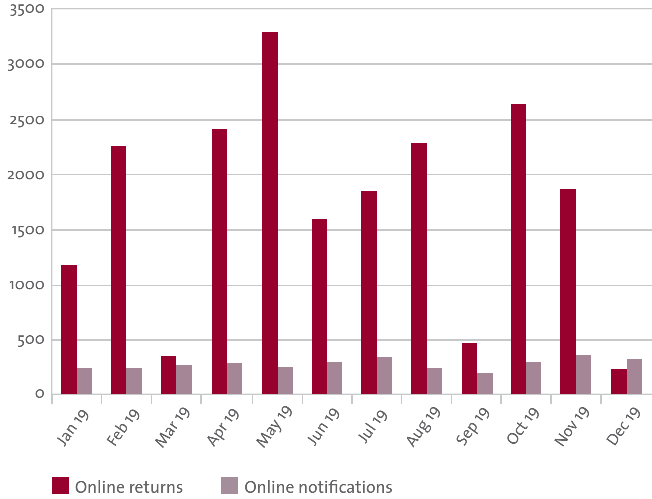
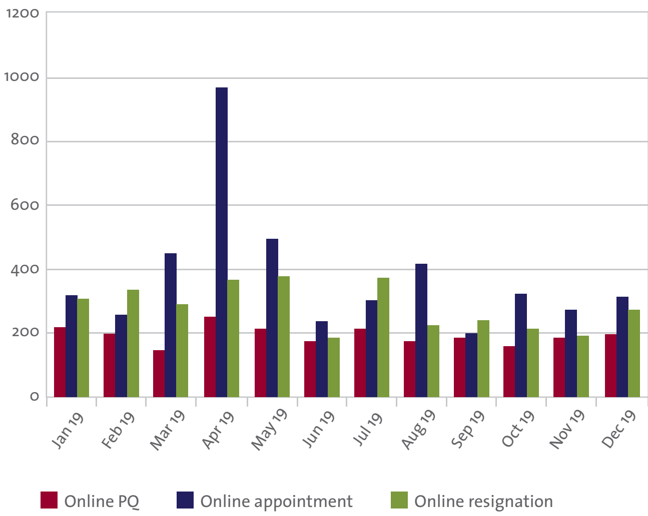


Figure 17. **Online Personal Questionnaire portal submission 1 January to 31 December 2019**



Finance and Operations

Table 1. **Expenditure by functional area**

	2019	2018
	£'000	**£'000**
Enforcement	2,492	1,900
Authorisations	891	815
Risk	606	516
Supervisory and Policy divisions	5,321	5,451
Internal operational support functions	1,224	1,493
Overheads incl. Premises, IT expenses, depreciation and three-year business plan	3,829	3,476
Total	**14,363**	**13,651**

Table 2. **Salaries and related costs**

	2019	2018
	£'000	**£'000**
Salaries	7,476	7,268
Pension costs	808	777
Social insurance, permanent health and medical insurance	889	877
Recruitment and training	455	392
Total	**9,628**	**9,314**

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

Remuneration	2019	2018
£0 – £39,999 p.a.	43	38
£40,000 – £79,999 p.a.	54	58
£80,000 – £119,999 p.a.	15	12
£120,000 – £159,999 p.a.	6	6
£160,000 p.a. and above	2	2
Total number of staff	**120**	**116**
Full time equivalent	**111.8**	**108.8**
Comprising:		
Permanent staff	113	107
Fixed-term staff	7	9
	120	**116**
FTE vacancies at year-end	6	10

Table 4. **Legal and professional fees**

	2019	2018
	£'000	**£'000**
Legal fees – enforcement	459	523
Legal fees – judicial process	382	107
Legal fees – advisory	26	15
Professional fees	242	162
Internal audit	37	14
Total	**1,146**	**821**

Table 5. **Commissioners' fees**

	2019	2018
	£	£
Cees Schrauwers	64,500	60,600
Robert Moore	27,000	27,000
Lord Flight	35,000	35,000
Richard Hobbs	35,000	35,000
Simon Howitt	27,000	27,000
Wendy Dorey	27,000	27,000
John Aspden	35,000	26,250
Philip Middleton	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 including establishing the policy framework for financial regulation and 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 2019, 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.

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 2019 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 48 and 49 of this report. Three Commissioners reside in Guernsey, with the remainder living in the UK.

There were 11 meetings of the Board in 2019. The attendance was as follows: Drs. Cees Schrauwers 11, Howard Flight 8, Richard Hobbs 11, Bob Moore 11, Simon Howitt 10, Wendy Dorey 11, John Aspden 10 and Philip Middleton 10. 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. During 2019, the review was undertaken by a UK-based company with experience in this area.

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. The Lord Flight retired as a Commissioner on 31 January 2020.

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 2019, 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 2019. The attendance of the individual members at these meetings was as follows: Richard Hobbs four, Simon Howitt four, Wendy Dorey four and John Aspden three. 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 2019 with all members attending both meetings other than Bob Moore who attended one. The Commission's Chairman attended both meetings.

Nominations Committee

The Nominations Committee comprises Bob Moore (Chairman), Richard Hobbs, Wendy Dorey and Philip Middleton. The Committee is responsible for advising the Board on succession planning for Commissioners and the Director General and on appointments to the other Committees.

Meetings are attended by the Director General and the Commission Secretary. The Committee met twice in 2019 with all members attending both meetings other than Bob Moore who attended one.

Investment Committee

Towards the end of 2019, the Board agreed to establish an Investment Committee to assist the Commission in fulfilling its investment responsibilities. The Committee comprises Philip Middleton (Chairman), Simon Howitt, Richard Hobbs and John Aspden. Meetings will be attended by the Director General, the Director of Risk and Financial Stability and the Financial Controller.

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 2019, the Commission appointed an external party to undertake internal audits in the following areas:-

- Capital expenditure;
- Management Accounts; and
- IT Infrastructure.

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.

The corporate governance standards of the Commission are regularly reviewed by the Board and it is satisfied that the Commission meets expectations in connection with internal audit and corporate governance.

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 in 2020.

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, published in June 2019, demonstrated a high degree of compliance.

CONTACT US

info@gfsc.gg
www.gfsc.gg
+44 (0)1481 712706