2014

Guernsey Financial Services Commission

ANNUAL REPORT AND FINANCIAL STATEMENTS

For the year ended 31 December 2014

Guernsey Financial Services Commission

Appendix

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

CHAIRMAN'S STATEMENT

The Commission continued on the path set out by Commissioners in 2013 and widely communicated within the Bailiwick's business community and discussed in depth with the Policy Council.

The main tenets of this policy are to deliver "good regulation" at an affordable price. The Commission's management and staff, together with representatives of the financial services community, worked diligently in 2014 at the development of the instruments that will allow us to deliver our long-term goals. In particular, a considerable effort has gone into further developing the PRISM capability (Probability and Risk Impact System). Our ability to assess the impact of risk upon the Bailiwick's businesses and economy will be greatly enhanced by this risk-based approach. The project will allow us to respond proportionately to the many regulatory challenges that have arisen and are likely to arise in the future. The Director General gives a wider explanation in his statement.

The Commission continued to strengthen its regulatory and operational teams through both internal promotion and external recruitment and we now expect a period of relative calm in that area. This does not, however, mean that the outside pressures have in any way diminished. There continues to be a steady stream of new rules and regulations from the UK, EU and the USA, under the watchful eye of the Financial Stability Board, which is the international body that monitors and makes recommendations about the global financial system.

New international regulatory requirements have put considerable pressure on the legal framework covering financial services in the Bailiwick. It has therefore been decided, in cooperation with the relevant stakeholders, to undertake a "Revision of Laws" project aimed at future-proofing the pertinent regulatory laws of the Bailiwick. The project is now well underway with delivery scheduled for Q2 of 2016; it is, however, likely to require considerable drafting and legislative time in 2015.

Separately, the Commission successfully completed its version of AIFMD regulation, which allows Bailiwick-based Funds continued access to the EU Financial Markets.

The Commission also considerably strengthened its capability to enforce its regulations by the introduction of a Panel of Queen's Counsel who preside over cases brought by the Enforcement Division against firms and individuals. They act as senior officers of the Commission under delegated authority and bring considerable expertise to bear on the cases over which they preside.

In my commentary last year, I expressed the hope that, by now, a state of sustained economic growth would be achieved. There has been some success in the UK and the USA, but the Euro Area remains in the unfamiliar territory of deflation with weak or no growth. The European Central Bank (ECB) recently embarked on a substantial programme of Quantitative Easing (QE) to kick start the economies of the Euro Area. The uncertainty surrounding the UK's role within Europe and the precarious position of Greece required the invention of new words and we will all need to be familiar with "Brexit" and "Grexit" covering the possible departures of the UK and Greece for very different reasons. As part of the Sterling zone, the Bailiwick will have to follow the Brexit developments closely.

In a recent speech the Head of the Financial Stability Board warned against complacency with regard to the regulatory environment. This, against a background of the further introduction of new rules and regulations, such as the coming on-stream of Solvency II. A realisation is beginning to develop that the desirable reduction of risk in the financial system, is also reducing the long-term growth expectations of the world's developed countries. There is certainly no complacency in the Commission regarding the importance of "good regulation" for the Bailiwick's economy.

The Commission is staying in close touch with the UK and EU regulatory authorities to ensure that our voice is heard in the right places. A major effort is also made by the Commission and its staff by participating in, and contributing to, the various bodies that cover the financial services regulatory landscape. Our aim, borne of necessity, is to punch above our weight – something in which we usually succeed. During 2014 we also provided support to the Channel Islands Brussels Office (CIBO) through the secondment of a senior member of our staff.

The Commission continues to strive to live within its means. In November 2012 I set out the Commission's funding plans for the period 2013-15 by limiting any increase in regulatory fees to no more than two per cent pa. The Commission delivered on that commitment and is now in discussion with the Policy Council about the future fee framework effective from 2016.

It has been another year in which Commissioners demanded a great deal from the management and staff who have risen to the challenges in delivering major projects alongside the supervisory activities. The preparation for Moneyval was a particularly well-executed activity in a relatively short period of time. I thank them for their dedication and delivery. I cannot promise a slackening of the regulatory pace, but expect that the various projects which are under way will assist in coping with the burden.

Finally, I should like to take this opportunity to express my appreciation to Susie Farnon, who retired as a Commissioner and as our Vice-Chairman on 31 March 2015. She has made an immense contribution as a Commissioner over the past 9 years which my colleagues and I have greatly appreciated. Alex Rodger has been elected as the Commission's new Vice-Chairman.

Cees Schrauwers
Chairman

DIRECTOR GENERAL'S STATEMENT

Activities in 2014

2014 was a year of intense change for the Commission. It was a year which saw the Commission implement PRISM across all supervisory divisions – our revised approach to supervising the firms we have licensed. It provides us with a structured system for focusing our finite supervisory resources on high value forward-looking supervisory activity. Within this there is a strong focus on the business models and governance of the most significant firms in the Bailiwick. It requires our supervisors to challenge, to make judgements and to mitigate unacceptable risks – be they prudential, financial crime or conduct-related. It also facilitates far better qualitative discussions with those we supervise.

PRISM is not, of course, a panacea. The Commission does not seek to run a zero-failure regime – partly because the financial costs to industry of resourcing ourselves to the level required would be too great, but more importantly because the cost, in terms of loss of freedom, would be too high. Were we to set ourselves up to run a zero-failure regime we would unduly constrain innovation, limit growth and seek to act in a risk-adverse fashion which would ultimately be to the detriment of the people of the Bailiwick as the financial sector became a shadow of its former self. Thus, even with PRISM, there will still be firm failures; there will still be consumer mistreatment and there will still be attempts by criminals to misuse the financial system. What PRISM should do though is to help ensure that we anticipate and address more problems before they become crises and that those which arise are, statistically speaking, less frequent and less severe than they would be were we not using a risk-based system of supervision.

The other very significant operational change we implemented in 2014, building on the creation of our Enforcement Division in mid-2013, was the appointment of a panel of Queen's Counsel, under the presidency of Michael Blair QC, to act as Senior Decision Makers when it is necessary for us to take enforcement action against firms and individuals who we do not believe have conducted themselves in a fashion which meets the standards – set out in law – which the Bailiwick requires. Under the previous system, it would have been normal for three Commissioners to meet as a "Commissioners' Decisions Committee" to take enforcement decisions. This had significant disadvantages in terms of tension between the role of the Commissioners as the governors of the Commission and their role when acting in a quasi-judicial capacity. The new system is at least as cost-effective as the former system; it enables the Commission to demonstrate the impartiality of its quasi-judicial decision-making and it increases the Commission's capacity to handle complex enforcement cases which a lay panel of Commissioners would have found hard to digest, given their necessarily limited time and relative lack of litigation experience. We believe this reform resolves one of the key structural issues at the Commission which led the Commerce and Employment Department to commission its consultation on regulatory reform entitled "A Regulatory Framework for the 21st Century".

With other internal changes we continued to build on the restructuring we executed in the middle of 2013:-

- We found that, in practice, having an innovation team divorced from supervision was not optimal so we merged them to form the Fiduciary Supervision Policy and Innovations Division. This restructuring increased our capacity to deal with innovation with key senior staff at the Commission becoming heavily involved in Bailiwick fora exploring "Fintech" and other innovations in the financial services sector.
- We comprehensively restructured our objective setting and appraisal process so that all staff have objectives clearly tied to the Commission's strategy whilst appraisals are moderated in a manner which clearly rewards collegiate working within the Commission.
- We have restructured our back-office operations to deliver efficiency gains and improve performance. One example of this was the absorption of our data management unit by the Risk Team so that our data-focused analytical staff are co-located under common leadership, able to benefit from cross-pollination of ideas.

In terms of our enforcement activities, we will generally seek to take enforcement action when there has been a material breach of our rules. We hope that the vast majority of financial services practitioners will welcome our approach as, in addition to serving the public, it serves to ensure that there is a meaningful and credible deterrent for those who would otherwise seek to undercut the competition by playing fast and loose with the law.

During 2014 we concluded one long-running enforcement case whilst continuing to make progress with a number of other complex and long-running cases. A review of our published public notices shows that, where we find inadequate financial crime controls, poor treatment of consumers and poor governance, we will take robust action to ensure that justice is done and that improvements are made. The Commission is evidence-based and when new facts are presented to us, we are perfectly willing to change our minds and discontinue actions but the Commission will not blink or bend when faced with defence tactics based on procedural challenges.

Externally, we, along with other authorities in the Bailiwick, were inspected by Moneyval which is the Council of Europe's inspectorate with responsibility for reviewing countries' defences against money laundering and terrorist financing. Part of our preparations saw us working in partnership with Law Enforcement to host a seminar for money laundering reporting officers on suspicious activity reporting. We also hosted a seminar on tax evasion with external speakers. We received positive feedback from industry on the seminars and, whilst it must remain the responsibility of firms to ensure they comply with the law at all times, we plan to run targeted seminars on an ongoing basis to help industry ensure that it maintains high standards of defence against financial criminals.

The Moneyval inspection proved to be a rather resource-intensive exercise for the Commission and, whilst the results will not be finalised until some point in the second half of 2015 when the assessors' findings are presented to a plenary meeting of Moneyval in Strasbourg, I'm very grateful to those in industry who worked exceptionally hard, often at very short notice, to help prepare the Bailiwick for it.

We also enhanced our engagement with international regulatory standard setters with the Commission's Director of Banking and Insurance developing his role as Chairman of the Group of International Insurance Centre Supervisors (GIICS) while our General Counsel launched the Group of International Financial Centre Supervisors' (GIFCS) new Trustee and Company Service Provider Standard after more than two years chairing the working group which developed it. We worked alongside the Jersey Financial Services Commission (JFSC) to engage with the European Central Bank, European Banking Authority and European Securities and Markets Authority to build relationships with these increasingly important Euro zone and EU regulators. We also seconded our Deputy Director of Insurance to the Channel Islands Brussels Office throughout the autumn to ensure that the Channel Islands were able to field a financial services expert in key discussions during an important period when a newly elected European Parliament was going up a steep learning curve whilst a new European Commission was being installed in Brussels.

In terms of policy implementation, 2014 saw the launch of the new Guernsey Financial Advice Standards, the development of new insurance capital standards, a new large exposures policy for banks, initial work on revisions to the Anti-Money Laundering and Counter Terrorist Financing Handbook and a consultation on revised standards for Retirement Annuity Trust Schemes.

Before turning to our financial results, I would like particularly to thank Peter Mills, as Chairman of the Guernsey International Business Association (GIBA), for his work with the Commission in 2014. We have different roles and responsibilities and there are policy areas where the Commission and GIBA have quite different perspectives but he has given us his advice tirelessly, on a voluntary basis, and in what I consider to be the best interests of the Bailiwick. On matters such as the piloting of our online questionnaires for directors of firms he has helped ensure a much higher level of industry engagement than would otherwise have been the case.

Financial Results

When I became Director General, there was a clear concern in the Bailiwick about the growth in the Commission's cost base and hence, the Commissioners and I embarked upon a quite far reaching change programme. We had committed to raise average fees by no more than 2 per cent per annum for three years and in our consultation paper on the level of fees for 2015, issued in August 2014, we formally honoured that commitment and will have raised average fees by no more than 2 per cent in each of 2013, 2014 and 2015. Honouring that commitment inevitably had its costs, particularly for our longer-serving members of staff. There was no general pay rise for staff in 2014 which also saw the closure, for Commission staff, of the States Public Sector Pension Scheme, a defined benefits scheme.

We also saw a number of resignations during 2014 and whilst the Commission is delighted that the financial services industry is confident enough to be expanding and that it regards our staff highly enough to wish to recruit them, we need to ensure – in terms of securing value for the public purse – that we continue to have an employment package attractive enough to retain staff with key skill sets as replacing them is expensive in terms of time, money and loss of capability. In this context, it is noteworthy that the European market for regulators is unusually competitive at present with the European Central Bank creating well-paid regulatory positions on a heretofore unseen scale with both the British and Irish regulators experiencing noteworthy levels of voluntary resignations. Given global regulatory pressures I would not expect this demand for regulatory talent to decline in the near future.

At the end of last year we had negative net assets. Thanks to an unusually benign result this year we now have positive net assets following an operating surplus of £1,665,247 in 2014 including a one off gain as a result of closing the pension scheme of £497,000. This result has come about because of:-

- Fee income running ahead of our moderately prudent budgetary expectations. We think this is very positive as it shows that the Bailiwick's financial services sector is relatively healthy both in terms of the number of firms which remain authorised and the number of new applications (which account for a large proportion of our increased income). There is a lot of cyclical variation in the number of applications and we do not believe we can rely on this level of application income recurring in 2015.
- Running our Sentinel technology development programme more slowly than originally planned. This programme includes electronic personal questionnaires, on-line returns and PRISM. Due to resource constraints we slowed down implementation of parts of it this year. As those involved in project management will appreciate, there is generally a trade-off between time, quality and cost – it is often necessary to make choices between them when delivering a project. We chose to preserve quality and save money this year rather than seeking to hire expensive contractors to complete everything in 2014 with a likely adverse impact on quality (Part II of PRISM, has been postponed until 2015 along with online returns implementation). We expect Sentinel to run to budget in 2015 so this one-off gain will not recur – the capital expenditure and associated depreciation is delayed rather than avoided.
- Closure of the defined benefit pension scheme to future service accrual. As well as the one-off gain, closing the pension scheme makes a marked difference to month-on-month operating costs as we no longer have to put aside funds as extra entitlements to the final salary pension are earned. Closing the scheme was unfortunate as our staff no longer have the prospect of a guaranteed retirement income but the Commission does not believe it could afford to sustain a final salary scheme with the associated costs and ever-increasing liabilities.
- Enforcement fines. We never budget for enforcement fines because they are set on the basis of what penalty is appropriate for a particular regulatory failure, without regard to raising income for the Commission. In contested cases, they are set independently by a QC who is quite properly unconscious of the Commission's budget. The fines in 2014 did not come close to paying for the costs of our enforcement operations nor is it an objective that they should as that might give the enforcement

team inappropriate incentives to take action against wealthy firms and individuals for minor breaches of regulations rather than pursuing serious malefactors who are unlikely to ever be in a position to pay a fine, where one is adjudged appropriate. Our fine income means that we are able to charge law-abiding firms less in fees than would be the case if we did not have the fine income. As the costs of enforcement actions fluctuate from year to year, so will fine income (although the two are not necessarily positively correlated, hence the need for the Commission to have reserves).

- A sharp focus on staff pay. Both avoiding a general pay rise and some restructuring of staff this year helped to control pay costs. As mentioned above, however, we need to ensure our pay is competitive if we are to retain our high-quality staff thus we do not think further material savings can be made here, rather the converse.
- We have rigorously managed non-staff costs – for example negotiating IT support contracts to obtain best value. Whilst the gains here are real, they are very difficult to repeat although they will recur to the extent a multi-year contract is involved. Once a contract has been negotiated or renegotiated one cannot expect further gains to recur from renegotiation within a short space of time unless there is some material change in the service required.

In summary, we have had a good outturn this year which puts us on a stronger financial footing than the place in which we found ourselves last year caused by increases in our pension liabilities in 2013. We think an operating surplus on the same scale in 2015 is highly improbable as it was generated, to a considerable extent, by factors which may prove to be one-off, albeit a number of them came about as a result of determined management action. I do not wish to anticipate the contents of the 2015 fees consultation paper but we remain committed to strong financial controls and cost conscious management so as to ensure that, despite our ever increasing workload, we only require modest increases in average licence fees going forward.

2015 Objectives

In 2014, having examined our statutory duties, we sought to encapsulate them for our staff in the mission statement, "Confidence in the Bailiwick: securing good regulatory outcomes with integrity, proportionality and professional excellence." Underneath this mission statement we will work in 2015 to deliver six high-level objectives:-

- Executing high quality risk-based prudential, financial crime and conduct supervision and authorisation processes. This includes carrying out day-to-day supervision following the principles of risk-based supervision, delivering online submissions and Part II of PRISM (which consists of fully automated scrutiny of on-line returns using equations to evaluate changes and potential warning signals). It also includes our work to support innovative authorisation applications as well as meeting our service standards when processing applications;
- Delivering high-quality regulatory policy. This includes a significant project where we are working in partnership with industry and the States to revise the regulatory laws to ensure they meet current international requirements and the Bailiwick's needs. Separately, we are continuing with our project to revise the AML/CFT handbooks – again, in conjunction with industry and the States. The demands of the Moneyval inspection may well prevent this project being completed in 2015;
- Delivering targeted risk-based enforcement. We will seek to ensure that our enforcement activity covers key areas of risk where we discover unacceptable practices;
- Protecting and enhancing the Bailiwick's reputation and influence. This involves both our international engagement working alongside CIBO, the States and the JFSC in a European context and UK context as well as with international regulatory organisations such as the International Organisation of Securities Commissions, the International Association of Insurance Supervisors, GIICS and GIFCS;
- Managing finite resources effectively. This is primarily concerned with good-quality financial management and with the production of high-quality management information to help us take well-informed regulatory and management decisions; and
- Developing staff. This is concerned with recruiting, developing and retaining our staff and ensuring they are well managed.

Challenges in 2015

International Context

The weight of international standards and EU law where some degree of equivalence is helpful to the Bailiwick continues to grow. We need to run faster just to keep up with understanding the new developments and then work in partnership with the States and industry to identify what proportionate implementation for the Bailiwick should look like. In 2014, we recruited a senior international policy advisor to grow our capacity in this area but the pace of international change is relentless, as implementation of the standards agreed in the wake of the 2008 financial crisis accelerates. We will continue to work closely with the JFSC and CIBO to share the burden of this work which is often conducted on an international regulatory authority to regulator basis rather than a government to government basis. Even good-quality joint working does not prevent it consuming very large quantities of senior staff time.

Strangely, in the wake of the financial crisis, we appear to have arrived at a situation where we have come closer to having more binding international law in the sphere of financial services regulation than in almost any other area of public policy. Whereas democratic decision-making and diversity are watchwords in many policy areas such as taxation, criminal law, education and even environmental regulation, the Financial Stability Board – sponsored by the great powers – now oversees a regime of international regulation where non-compliance is anything but a cost-free option. I make no judgement here as to whether this is a good or a bad thing for global society but it is certainly an existential reality for the Bailiwick.

We will also, in 2015, need to work with the States and CIBO to understand the results of the UK's General Election and what it, and the consequent possible referendum on British independence from the EU, could mean for the Bailiwick's financial services sector.

National Risk Assessment

The 2012 Financial Action Task Force standard relating to money laundering and terrorist financing requires the Bailiwick to undertake a National Risk Assessment. Working with the States, Law Officers of the Crown and Law Enforcement, we will plan to start this quite involved exercise in 2015. Whilst we will aim to keep the burdens of it to a minimum, it is likely that we will require support from industry in order to be able to complete it in a high-quality fashion.

Legal Reform

Last year we worked to develop our relationship with States members through a number of workshops and outreach activities. We appreciated many States members supporting this work and hope that the exchange of contexts which took place was mutually beneficial. This year we would like to continue to work with the States and with industry to deliver the Revision of Laws project which covers changing our legislation to ensure we meet a much-changed international environment, updating and clarifying aspects of our legislation. Experience has exposed the need for amendment if our laws are to be clear and easier for industry and the Commission to use properly. We believe this is a project which the Bailiwick needs to complete in a timely manner if we are to maintain our standing as a reputable international financial centre with good-quality laws as well. There is also work to do on the framework within which "Fintech" and other novel financial services businesses can be regulated in a sensible and proportionate manner. Overall, there is considerable ground to cover and growing international expectations that international standards will be fully implemented.

Staff Retention and Development

Regulation never has been and never should be a tick box exercise. International reforms to regulation in recent years as well as post-crisis lesson learning have led us, alongside the rest of the developed world, to implement risk-based supervision requiring judgement. This has meant that expectations as to what our staff must do have grown considerably. We are doing all that we can to recruit and develop home grown talent but the challenge of being able to recruit, train and retain sufficient numbers of highly skilled local staff is a real one. During 2014 we put in place a Graduate Development Programme and we are currently developing plans for a school leaver development programme as well as investing a lot of time and money in developing our current staff. We will continue to do all of this because it is only through our staff that we are able to deliver outcomes which are of value to the Bailiwick.

Conclusion

The Commission changed a great deal through the course of 2014. I hope that our financial and operational results will reassure those who have an interest in our activities that we are seeking to serve the best interests of the Bailiwick whilst maintaining good controls on costs. The Commission has expected a lot of its staff in 2014 and will continue to ask a lot of them for so long as they continue to work for the Commission. I would like to thank them for their patience and endeavours on behalf of the Bailiwick in pursuit of the common good and I would also like to thank all those outside the Commission who have given generously of their time and energy to help us achieve our objectives.

William Mason
Director General

INCOME AND EXPENDITURE ACCOUNT

For the year ended 31 December 2014

	2014	2013
	£000	£000
Income		
Fees receivable	12,755	12,518
Financial penalties imposed	506	160
Interest receivable and similar income	68	94
	13,329	12,772
Expenditure		
Salaries, pension costs, staff recruitment and training	8,772	9,222
Gain on curtailment of pension scheme	(497)	–
Commissioners' fees	214	215
Legal and professional fees	512	639
Premises and equipment, including depreciation	1,511	1,407
Other operating expenses	891	629
Bad debt provision expense	200	–
Other finance costs	61	135
	11,664	12,247
Surplus for the year	1,665	525

BALANCE SHEET

As at 31 December 2014

	2014	2013
	£000	£000
Fixed assets		
Tangible assets	3,327	2,942
Current assets		
Debtors and prepayments	676	469
Short-term investments	7,140	7,474
Cash at bank and in hand	1,448	646
	9,264	8,589
Creditors	(2,218)	(2,490)
Net assets before post-retirement liability	10,373	9,041
Post-retirement liability	(9,974)	(9,389)
Net assets/(liabilities)	399	(348)
Reserves	399	(348)

Supervision

In early 2014, the Division was restructured to reflect the new PRISM impact categories relating to supervised firms and products.

The supervised firms were impact rated and were then allocated to one of the three teams: 1) High and Medium Low Impact team; 2) Medium High Impact team and 3) Low impact team. Each of the new teams commenced programmes of engagement tasks as prescribed by the PRISM risk-based supervision model for their respective cohort of supervised firms and products. The latter team also remained responsible for the processing of applications for new business in respect of licence applications, including fast track applications, and authorised funds, together with reviewing the fast track fund applications processed by the Authorisations Unit.

The Division adapted well to the changes arising from the introduction of the PRISM risk-based supervision methodology whilst still drawing on the depth of supervisory experience held by the members of the teams. We have always focused strongly on prudential, conduct of business and corporate governance, but to that we have added several new areas, most notably business model analysis.

During 2014 the main focus of our visits was on high and medium high firms. We found the PRISM approach helped us to focus and strengthen our understanding of a firm's business and to develop a more rounded appreciation of their key risks and issues through qualitative discussions held with the firms.

Policy

The European Union continued to be an area of major focus for us throughout 2014 and in particular the Alternative Investment Fund Managers Directive ("AIFMD") and the Markets in Financial Instruments Directive and the Markets in Financial Instruments Regulation ("MIFID II" and "MIFIR") formed the most significant components of our engagement with the EU Commission and the European Supervisory and Markets Authority ("ESMA").

Since the implementation of the AIFMD in July 2013, the Bailiwick has been operating under the national private placement regimes largely without significant difficulty. Throughout 2014 the Commission provided attestations to the EU competent authorities with the principal aim of ensuring the applications by Bailiwick funds progressed as smoothly as possible. We also continued to have dialogue with our EU counterparts so that they can be assured as to the quality of supervision we apply to Bailiwick funds. To that end, in September, we were able to reach agreement with the competent authority of the Netherlands, the AMF, for them to accept an overarching statement from the Commission for applications, meaning individual attestations would no longer be required.

We also consulted on the guidance for depositaries under Article 36 of AIFMD and the guidance, together with a feedback statement, was published on our website on 17 November 2014.

Notifications under the AIFMD (Marketing) Rules, 2013, were submitted to the Commission on a regular basis and at the last count 205 Guernsey AIFs were being marketed into one or more EEA member states and three licensees, offering depositary services, had been established. We continue to provide links through our rules to the latest ESMA guidance to ensure that all those in our industry making use of our AIFMD MoUs with EU regulators can remain up to date and in compliance with the appropriate requirements.

There remains the potential for passporting under AIFMD to be granted to non-EU AIFMs (third countries) subject to ESMA's findings and no objections. By July 2015, ESMA is required to issue its advice to the European Commission in this area and, on 7 November 2014 as part of that process, ESMA issued a "Call for Evidence" paper to gather input on the key issues that will determine the orientation of their opinion. We responded to ESMA's Call for Evidence and continue to talk, together with our counterparts at the JFSC, to ESMA and the EU Commission about passporting.

Also during 2014, we intensified our work around the jurisdiction's response to MIFID II and continued to work with both government and representatives of local regulated firms which included holding a series of presentations to inform supervised firms of the consequences of MIFID II.

In November we, alongside colleagues from the Channel Islands Brussels Office, met with officials from the EU Commission. The main purpose of the meeting was to discuss the Bailiwick's regime in respect of equivalence under MIFID II. Subsequent to the meeting, we provided the EU Commission with background information on the financial services industry in the jurisdiction, including statistics around the important role the Bailiwick plays in facilitating the flow of global capital into the EU, as well as further details around our proposals for the provision of a concurrent regime. This dialogue remains ongoing and has been extended to include certain of our EU counterparts and ESMA.

During July 2014, the Commission released its second consultation on the proposed revisions to the regulatory regime on the implementation of the new Guernsey Financial Advice Standards ("GFAS"). The implementation of GFAS will raise professional standards, make adviser charging more transparent and reduce potential conflicts of interest. In turn this should contribute to the protection of the public against financial loss because of potential dishonesty, incompetence or malpractice by persons carrying on finance business. A feedback paper on the consultation was released in November detailing the representations received, the Commission's response to those representations and links to the rules and codes which have been approved by the Commission and came into effect from 1 January 2015 for investment, insurance intermediary and insurance manager licensees.

Finally, we are continuing to participate in IOSCO's Standing Committee 4 on Enforcement and the Exchange of Information. Standing Committee 4 considers, and reflects upon, what is probably one of the most significant piece of international cooperation work that IOSCO undertakes. Experiences of enforcement cases are shared and improvements to the mechanisms for the exchange of information discussed. Earlier in the year we were also invited to sit on IOSCO's Multilateral Memorandum of Understanding ("MMoU") Screening Group. This Group screens the applications from those jurisdictions which are not yet signatories to the IOSCO MMoU.

Risk Outlook

As seen during the previous year, the closed-ended investment sector continued to experience shortage of credit and liquidity issues and investor appetites for the new offerings generally remained lower than they had been several years ago. Some funds have had to adapt to tighter credit conditions for fund-related lending over the course of 2014 and this has had some impact on operations for a number of them. The European Central Bank has very recently agreed a significant programme of quantitative easing, extending over a two-year lifespan however, it is unclear to what extent this will improve credit and liquidity conditions for investment funds.

Whilst confidence levels relating to investment funds continued to improve, this was largely as a result of repeat business, although there was an upturn in 2014 in the number of new promoters with whom the Commission met. However, until there is a significant turnaround in the international outlook, repeat business is likely to continue to be the significant source of new business in 2015. That said the Bailiwick – and the Commission's regulatory regime – continue to seek to encourage high-quality business to locate here thus, whilst adopting a cautious outlook, the Bailiwick's investment business continues to be well placed to weather the international challenges.

Emma Bailey
Director

FIDUCIARY SUPERVISION POLICY AND INNOVATIONS

Supervision

2014, as outlined elsewhere in this report, brought the implementation of PRISM to the Commission. The Fiduciary Division went 'live' with PRISM in May. An on-site PRISM risk assessment is underpinned by an appreciation of the licensee's business model, and focuses through a series of engaged discussions on identifying the key risks to that business and the management or mitigation of those risks.

It is too early to draw trend conclusions; however, PRISM risk assessment visits thus far have identified the importance of focusing on Governance (including evidence of adequate board challenge), Financial Crime (including evidence of adequate Client Due Diligence) and Operational Risks (including relevant historic events, policies and procedures). More detail on PRISM visits is contained in the "Risk Outlook" section below.

A notable change to the Division was the addition of 'Innovations' to the title. Whilst "innovative business" can arise from any sector, from our experience Corporate Service Providers are often involved in providing services to innovative businesses, and the Non-Regulated Financial Services Businesses (NRFSBs) tend to act as a conduit for proposals which do not fall within one of the existing legislative regimes. As a non-regulated population of firms, our focus as a Division is on NRFSB applications or "innovative" approaches.

A number of behind the scenes steps have been taken to support "innovative" approaches, including the Commission Economist encouraging applicants to contact the Commission directly for early-stage discussions and establishing a cross-Commission forum. It should be noted that whilst the Commission has been taking steps to develop its processes in this area, only a handful of "innovative NRFSB" approaches were actually made in 2014.

The Commission's data indicates that the Fiduciary sector remains strong, stable or with slight growth on key indicators (turnover, assets under regulated activity, number of licensees, and number of employees in the sector). General ownership movement within the sector continues due to consolidation, new entrants and changes to controllers.

Policy

In parallel to the Revision of Laws project, revising the NRFSB Law is high on our agenda for 2015. In the latter stages of 2014 we started laying the ground work for this, including a questionnaire which was sent to all NRFSBs.

The 17th of October 2014 was a watershed moment for Fiduciaries when the Group of International Finance Centre Supervisors (GIFCS) issued a new standard on the regulation of Trust and Corporate Service Providers. The standard drew on its previous Statement of Best Practice and on other international best practice and provides an international benchmark that we can assess ourselves against. The Commission has performed a gap analysis in respect of our current legislation and will take forward the minor changes required to enable us to demonstrate compliance with the standard as part of the Commission's Revision of Laws project.

We are grateful to those who responded to the Retirement Annuity Trust Scheme (RATS) consultation process. As has been outlined before, the object of the consultation was to explore whether the legislation could be simplified to enable lower-cost pension provision for the Bailiwick. Work is ongoing in this area and is a priority for 2015.

As in previous years the Division has met with fellow fiduciary supervisors in the Quatre Isles Group (comprising Guernsey, Jersey, the Isle of Man and Gibraltar). This continues to be a useful forum to share and explore topics of mutual interest. Another important area for the Division is the international horizon-scanning work we have been undertaking in respect of Innovative or Digital Finance legislative developments.

Risk Outlook

Although the economic recovery remained patchy in 2014 it did benefit those firms whose clients were active in progressing transactions, particularly real-estate property transactions. Breaking into new markets remains a considerable challenge in the current low-interest rate environment. Consolidation of ownership of the sector continued with more private equity firms taking a stake. We would expect that process to continue in 2015.

As highlighted elsewhere in this report, 2014 marked the rolling out of the impact and risk-based approach to supervision. Although PRISM went live in mid-year, the risk assessment methodology was tested in earlier on-site visits. The first year gave us a better understanding of licensees' business models and their approach to corporate governance enabling supervisors to get a better feel for what drives firms. Full risk assessments (FRAs) were undertaken at several larger medium high impact firms.

It is evident in the bank-owned and private equity-owned firms that strategy is driven at group level from outside the Bailiwick: the onus is on local firms to deliver performance and profits. However, there are often benefits in accessing group wide resources to address international initiatives, for example, FATCA readiness.

Structured engagement visits were conducted with several medium low impact firms but these still covered the key risk questions addressed in FRAs. We embarked on this programme hoping to see evidence of corporate governance working effectively and of boards aligning adequate levels of resources with their key risks and not economising on critical functions. Overall we were encouraged by what we saw. Clearly some smaller firms outsource key functions so we have been looking to see whether performance of service providers has been adequately monitored so that the responsibility is seen not to be outsourced.

We now know a lot more than we did prior to PRISM about the challenges facing firms: some have to deal with major litigation cases whilst others have constantly to manage their dependence on large clients. Another positive outcome has been that all firms have said they found the process beneficial to them in asking questions they would not otherwise have considered.

More on-site PRISM-based risk assessments are scheduled for 2015 but we cannot escape the reality that the fiduciary sector has a large number of firms and the Division has only a small team of supervisors. A key supervisory tool in respect of Low impact firms (a core Fiduciary population), is to employ focused thematic reviews using survey questionnaires and selected on-site visits. For 2015, we will be exploring how the fiduciary duty is maintained throughout the lifecycle of an investment portfolio.

Gillian Browning
Director

Supervision

With insurance trends in 2014 yet to be pinned down in detail, it is nevertheless certain that a key theme in global insurance – and one relevant to the Bailiwick – was the growth in the catastrophic reinsurance market by way of alternative finance. This means that there are more entrants into the market – such as pension schemes – searching for a yield higher than available elsewhere. However, with traditional reinsurers already offering good deals, the cost of catastrophe reinsurance may now be materially under-priced.

Elsewhere global life insurance premiums in 2014 are estimated to have returned to growth because of a strong rebound in Japan and the United States, in part due to improved economic conditions. Return on equity in the life industry increased from 10% in 2013 to an estimated 12% in 2014 due in part to industry efficiencies. Global general insurance premium growth in real terms is estimated at 2.5%, marginally down on 2013.

In the Bailiwick, 2014 aggregate figures are unavailable. However in 2013 gross assets stood at £22.9bn (the same as 2012), net worth at £10.1bn (up from £9.3bn in 2012), and premiums at £4.8bn (up from £4.6bn in 2012). Given that these figures can be unduly influenced by a few of the larger firms, all that can be safely said is that the local industry has remained stable in recent years, with some signs of modest real growth.

In terms of the number of insurers, international insurer licences increased from 758 in 2013 to 797 in 2014. As might be expected given past trends, the main change was a net increase of 22 in Protected Cell Company (PCC) cells, given the general popularity of the PCC cell (which in 2014 accounted for 55% of all international insurers). However, Incorporated Cell Company (ICC) cells increased by 14 to 40 in 2014, reflecting the increasing usage of this vehicle. Insurance Linked Securities (ILS) accounted for over two thirds of new PCC cells in 2014.

Specific business highlights in 2014 included a large ICC longevity transaction involving the Bailiwick and a wider sourcing of ILS funders.

As in previous years, in 2014 the domestic Bailiwick market remained stable in terms of licences. In 2014, there were 8 licensed domestic insurers dealing with local requirements compared to the same number in 2013. There were 20 authorised managers serving the captive market compared to 20 in 2013, although the latter figure included one exit and one entry.

There were relatively few major supervisory issues affecting insurance firms. However, 2014 saw the implementation of PRISM with 6 risk governance panels being held for insurance companies. None of these resulted in a material change in supervisory action, although they did lead to a deeper understanding of the relevant firms, including greater board challenge in several cases. In 2014 there were no general supervisory themes although when issues arose they almost invariably, as in 2013, related to the adequacy of board oversight of the business. No relevant supervisory colleges were held in 2014, although the Commission undertook bilateral contact with home supervisors where appropriate.

Policy

The Commission continued to be engaged in the international insurance arena; and in particular with the International Association of Insurance Supervisors (IAIS) and the Group of International Insurance Centre Supervisors (GIICS). In 2014 Guernsey was elected by the GIICS constituency onto the IAIS Executive Committee.

The focus of global regulation continued in 2014 to be on capital and large international firms. None of this was of direct relevance to the Bailiwick.

Following extensive discussion with the industry and a local quantitative impact study, the Commission intends in 2015 to implement quantitative and qualitative proposals to ensure that the Bailiwick adheres to new international insurance standards. In quantitative terms the Commission will introduce a framework for prescribed and minimum regulatory capital, differentiating capital requirements by types of issuer. In qualitative terms the Commission will set out appropriate supervisory standards around corporate governance and disclosure.

Risk Outlook

Non-diversified catastrophe reinsurance exposure may be significantly at risk both from under-pricing and unmodelled catastrophes, especially if the providers of alternative finance are less sanguine about tail loss than their traditional reinsurance peers. In this context it is important that such exposure does not drift down into the retail market, even indirectly. Elsewhere, fronting agents and reinsurance are used extensively in the Bailiwick and there is always the remote risk of a large non-Bailiwick insurer or reinsurer failing. It is important to note that the definition of a captive is different in different jurisdictions. Bailiwick insurers need to work to ensure that they are not confused with similar-sounding but structurally different US vehicles.

Jeremy Quick
Director

Supervision

In global terms, 2014 was much like 2013. Interest rates and inflation remained low, with growth limited, although there was a pick-up in growth in 2014 in the US and UK. Under market and regulatory pressure, banks have been re-capitalising through a combination of de-leveraging and capital accumulation. Regulators have continued to apply large fines, with several reaching record levels in 2014.

Correspondingly, conditions in the Bailiwick remained much the same in 2014 as in previous years. With another retail bank closing, choice in the retail banking sector further narrowed. Expatriate deposits in UK banks have been increasingly centralised for business reasons in other jurisdictions while Swiss fiduciary deposits have been in decline because of low interest rates. Nevertheless, the core of the banking sector, in the form of several long-standing wholesale and private banks that employ the majority of bank employees, remained firmly in situ.

One bank was licensed in 2014 – the first since 2008. In this case, the Bailiwick branch of a large retail overseas bank will offer routine banking services to professional, expatriate and high-net-worth individuals. With this bank opening offset by the above closure, the overall number of banks in Guernsey remained at 31 in 2014.

The aggregate deposit base in the Bailiwick has been in structural decline since its high point of £179bn in 2008. Compared with 2013, in 2014 total liabilities rose marginally from £107bn to £111bn. In contrast the key disaggregated figure of non-bank deposits fell marginally from £35bn in 2013 to £34bn in 2014. Full-time banking staff numbers in the Bailiwick have fallen from 2,009 in 2008 to 1,515 in 2014, a marginal fall from 1,568 in 2013.

The aggregate pre-tax profit on regulatory capital for Bailiwick subsidiaries after provisions remained at much the same level in 2014 as in 2013, that is 13.1%. However, given intra-group transfer pricing, this figure should be treated with caution. The minimum regulatory capital requirement in the Bailiwick is a Risk Asset Ratio of 10% – otherwise expressed as an Internal Capital Guidance (ICG) ratio of 125%. All banks operate above this limit.

The main divisional task in 2014 was the gradual implementation of the Commission's new impact and risk-based supervisory framework – PRISM – and its absorption of the more long-standing internal capital adequacy assessment programme. PRISM has led to a closer and more searching supervisory approach that has focused more on business plan and board behaviour. In 2014 the PRISM schedule resulted in 6 banks being reviewed by risk panels. No overriding theme has become evident as yet.

The number of supervisory colleges attended by the Commission increased from 3 in 2013 to 5 in 2014. There was also periodic bilateral contact with home regulators during 2014 and several meetings with the Association of Guernsey Banks.

In terms of sector risk, the risk attached to the Bailiwick banks up-streaming to their parents remained relatively subdued as home governments took measures to strengthen bank capital and government ownership of banks often remains in place. However, the risk attached to the Bailiwick banks that lend significantly into the UK property market, especially in central London, increased in 2014 as signs of an asset bubble emerged. Banks look to moderate loan to value ratios, and collateralisation as mitigants. Default levels here continue to remain very low. In the longer term, the impact of recent UK tax changes on such lending remains unclear.

In 2014, the Commission obliged all bank subsidiaries to undergo a pre-set stress test. The main – unsurprising – conclusion was to highlight the exposure of those banks who upstream to a parental default or who have third-party lending concentration.

Policy

Alongside the States and its sister regulators in the Crown Dependencies, the Commission has closely monitored UK plans to ring fence systemic retail banks and the possible implication of this on the relevant Bailiwick operations. This has involved discussions with the relevant banks and the UK authorities. The UK government decided in 2014 that the Crown Dependency operations of the relevant banks would not form part of the ring-fenced operations. As at end-2014, we continue to work with banks to consider how best to comply with the new UK regime.

In 2014, the Commission continued its work in implementing Basel III in partnership with the other Crown Dependencies. There was a tripartite discussion paper on the leverage ratio and tripartite feedback on earlier discussion papers on capital and domestically significant banks. The tripartite authorities also began work on a liquidity discussion paper. In 2015, the Commission intends to issue a consultation paper and then implement a Basel III compliant regime on capital and the leverage ratio.

In 2014, the Commission implemented its new Large Exposure policy. It marginally hardened policy for third-party and sovereign large exposures and augmented limits on bank exposures. The policy had a direct impact on the business of some banks, although this was in part mitigated by grandfathering allowances.

Risk Outlook

Banks in the Bailiwick continue to face the risk of a local adverse finding connected with AML/CFT and/or tax evasion; the maintenance of high standards in this area is therefore crucial. Indeed one bank was fined by the Commission for failures around preventative measures in this area. A newer risk that is emerging is around sales advice to wealthy individuals; this points to extra care around the selling process. Finally, as noted above, the risks surrounding lending into the London property price "bubble" need to be monitored and, where necessary, mitigated.

Jeremy Quick
Director

2014 saw continued work by the Commission on the implementation of the new Guernsey Financial Advice Standards (GFAS). Following consultation, the Commission issued a new set of conduct rules in line with GFAS requirements and provided additional guidance on the educational requirements. GFAS implementation began in January 2015 and by January 2016 advice can only be offered by level 4 qualified advisers.

There were 38 licensed insurance intermediaries at the end of 2014 dealing with local and specialised requirements covering both life and general insurance compared to 39 at the end of the previous year.

Following a thematic series of on-site visits around sales practice for long term insurance and investment products in 2013, the Conduct Unit continued to be involved in oversighting a series of remedial action programmes, as well as supporting enforcement actions in some cases. In 2014 alone, around a third of the long-term life insurance intermediary industry in the Bailiwick underwent material change as a result of Commission action. This reflects the continuing need for this sector to update and improve its working practices.

The Unit has also been active in forging links with other interested bodies including the putative Channel Islands Ombudsman, the Citizens Advice Bureau and States departments.

In 2015, the Commission will develop internet pages directing the public to key information sites as well as setting out easy-to-understand outlines of consumer interaction with financial services businesses.

Risk Outlook

Higher regulatory standards will continue to pose a challenge to investment and insurance long-term life intermediaries in 2015, not least around the new educational requirements. It is possible that the number of firms active in the life sector will fall, reflecting those higher standards. For their part, general insurance intermediaries will need to ensure that appropriate controls are in place for the sale of add-ons to insurance products in 2015, given evidence of issues in the UK.

Jeremy Quick
Director

This page has been intentionally left blank.

Supervision

The Financial Crime Team became responsible for both supervision and policy in June 2013 and was renamed the Financial Crime Supervision and Policy Division 18 months after its initial establishment as the Anti-Money Laundering Unit in December 2012.

Its principal supervisory role is to assess financial crime risks within firms across banking, fiduciary, investment, insurance, non-regulated financial services businesses and the professional services sector. This is principally achieved through on-site visits to firms. The Division undertook visits to over 50 firms in 2014 including one conducted jointly with colleagues from the Investment Supervision and Policy Division.

During 2014, significant and systemic deficiencies were found in the controls framework and governance arrangements at two firms; a bank and a trust company. The Division referred these cases directly to the Enforcement Division to investigate, the culmination of which were fines and public statements against the firms concerned.

Both of the cases were characterised, in particular, by the respective firms failing to take responsibility for outsourced compliance functions and for failing to ensure effective compliance arrangements.

The Division is increasingly utilising additional means by which to assess financial crime risks on a firm or sector basis including themed work, desktop reviews, surveys and sampling of business risk assessments or policies, procedures and controls. It also uses findings and results from this work to determine where industry might benefit from further guidance, some of which is issued in the form of FAQs. Themed work in 2014 concentrated on accountants, lawyers and estate agents and consisted of surveys followed by focused visits to selected firms. Results of these assessments were fed back to the appropriate industry bodies generally as well as to the specific firms.

The Division issued a Dear CEO letter and feedback on its visit trends and observations in June. This was followed up with a survey of a sample of firms in November to consider the effectiveness of publishing reminders about firms' duties and examples of good and bad practices. The results from the survey indicated that most firms had taken these messages on board.

We are increasingly using analysis of statistical data from firms to determine financial crime visit priorities.

Many firms met with the Division through its outreach programme which included workshops and seminars on topics ranging from challenges the sectors face to tax evasion and handling suspicious activity reporting, with input from specialist speakers from outside the Commission. This approach to supervisory engagement proved popular and the Division has begun to plan other events to hold as part of its outreach to industry during 2015.

Policy

The focus for the Division for much of 2014 was the preparation for Moneyval's evaluation of the Bailiwick's anti-money laundering and terrorist financing measures. Assessors from this Council of Europe body visited the Bailiwick in October. They met not only various Bailiwick authorities, including the Commission, but also more than 20 firms and professional organisations as part of their assessment of the effectiveness of the Bailiwick's implementation of the Financial Action Task Force's (FATF) 2003 recommendations.

The Bailiwick authorities have received the assessors' draft report which is due to be discussed by Moneyval members at its September 2015 plenary in Strasbourg.

Also during 2014, the Division established a joint working group with industry which made considerable progress towards revising the existing Handbooks to bring them into line with the FATF's 2012 Recommendations. The aims of the project include introducing guidance for firms that are considering using technological advances in e-verification for customer due diligence purposes, assisting the emerging "Fintech" sector and casting the Handbook in a new user-friendly format. It is intended to issue a draft Handbook later this year for a period of consultation.

In the near future we also intend to issue a consultation on draft guidance on using e-verification tools.

The Division is also identifying areas where aligning certain provisions in the Handbook with Jersey could be beneficial for the Bailiwick.

The FATF's 2012 Recommendations introduced the requirement for jurisdictions to undertake a National Risk Assessment. In 2015 we will be working with the States, HM Procureur's Chambers and Law Enforcement to start this exercise.

Risk Outlook

2014 saw an unprecedented increase in the number of international sanction measures against certain persons, regimes and territories in response to the serious events in Ukraine, Syria's continuing civil war and the rapid rise of extreme Islamically-inspired organisations such as Islamic State in parts of the Middle East and Africa.

Present indications are that the situation in many of these countries will continue to deteriorate and terrorist activity will increase. As a consequence, efforts by the international community against these persons and regimes will continue to include the use of sanctions to stifle economically those targeted persons and regimes and to sever their funding. There could not be more pressing reasons for all firms in the Bailiwick's financial services sector to remain vigilant and ensure their AML/CFT regimes and sanctions compliance controls remain robust.

Fiona Crocker
Director

General

Established in the summer of 2013, the Division necessarily spent the first few months of its existence in recruiting and training its people and developing essential supporting processes and procedures. 2014 was therefore the Division's first full calendar year in operation and this has provided a useful platform from which to assess constructively the progress that has been made.

The Division's role is to act on referrals from supervisory divisions, taking action against those who have broken financial services laws in a significant manner. This approach ensures that those firms that are conducting their business in accordance with the standards of regulation that have been adopted by the Bailiwick can do so, whilst the small minority who are paying little or no attention to the laws that have been put in place to protect the Bailiwick, its citizens and the international financial system, are dealt with fairly, transparently and robustly by a professional Enforcement Division striving to protect all that is good in our industry.

In the early part of 2014, the Commissioners delegated to the Commission Secretary the power under section 11 of the Financial Services Commission (Bailiwick of Guernsey) Law, 1987 as amended (the FSC Law) to appoint Senior Decision Makers as officers of the Commission. A panel of Senior Decision Makers comprising leading Queen's Counsel was subsequently appointed to determine the outcome of the Commission's major enforcement cases which were previously heard by a "Commissioners' Decisions Committee" comprising three Commissioners. In future a QC will be appointed by the Commission as a "Senior Decision Maker" to sit and hear those cases involving serious findings against a licensee and / or individual Directors where those findings are contested by the licensee.

The principal benefit of this new approach is that it reinforces the independence of the Commission's decision-making process while at the same time enabling Commissioners to undertake their wider corporate governance responsibilities for oversight of the Commission. At the same time it will ensure that the hearings are dealt with in accordance with best practice and any legal issues that may be brought by a party's legal counsel can be properly and professionally dealt with at the time to ensure that the process is smooth and, most importantly, fair to all concerned. It is still in its infancy but our experience to date is that the benefits of having this level of independence and expertise are clear to see.

In March 2014, the Commission published its guidance document on the Decision Making Process. It provides more detail than previous documents and sets out the various processes and procedures that licensees can expect to be involved in if a matter is referred for investigation. Also within the document is mention of the Senior Decision Makers. The document was updated in September.

During 2014, an assessment was made of the number of cases that the Division had acquired on its formation as well as the new ones that had arisen. A common feature of most of these cases was the level of complex legal issues; this required the Division to seek external legal advice and support to ensure that serious breaches of the regulatory regime could continue to be dealt with robustly and effectively. The Commission decided that to manage costs effectively it would employ an additional legal counsel to assist the Enforcement Division with its litigation.

The Commission continues to receive considerable support from HM Procureur's Chambers and specifically from the civil litigation team. It is envisaged that some level of ongoing support from Chambers will still be required from time to time for which the Commission is grateful.

Cases

2014 was a busy year for the Division. Four significant cases were brought to a conclusion with fines totalling £506,000. Two of the cases concluded were with regard to AML/CFT breaches of the Handbook for Financial Services Businesses on Countering Financial Crime and Terrorist Financing ("The Handbook") and the remaining two cases were concerned with a combination of mis-selling of investment products, poor corporate governance and poor conduct. The seriousness of the conduct identified was varied and that is reflected within the discretionary financial penalties imposed and other sanctions that were brought against either the licensee or individuals concerned.

The two cases involving AML/CFT breaches of the Handbook were primarily concerned with systemic failings in the licensees' anti-money laundering procedures, corporate governance failings relating to the management of associated risks and a failure to ensure adequate client file reviews had taken place. There was also concern over the Customer Due Diligence with regard to high risk clients and how the risks were being mitigated. In both cases there was a heavy reliance on the outsourcing of functions but the responsibility for those activities always remains with the licensee.

A common finding throughout those investigations carried out to date relates to the outsourcing of functions. Any outsourced function ultimately remains the responsibility of the licensee and irrespective of whether a function(s) has been outsourced, this will not be accepted as a form of defence by a licensee if the function(s) has not been properly managed. The Commission's expectation is that, any report given to a board or senior management team in respect of a function that has been outsourced, will be properly scrutinised and challenged where necessary and, where failings have been identified, they are addressed as early as possible.

It is of note that, in three of the four cases, settlement was reached with the parties and the appropriate discount was afforded to them. In the case where settlement could not be reached, the Senior Decision Maker afforded a discount to one of the parties involved as they accepted the findings made in the case against them.

It has also proven advantageous to all parties when early discussions have taken place with the Enforcement Division to assess the potential for reasonable outcomes. It is accepted that this approach will not be feasible on every occasion. However, it is a process which is encouraged by the Commission where the circumstances are appropriate. There will also be occasions where the Commission deems it inappropriate to consider settlement.

Whistleblowing Line

The Commission's dedicated whistleblowing line is used as a method for receiving information about regulatory misconduct. Calls to the line are neither electronically recorded nor traced by the Commission and callers can remain anonymous if they choose to do so.

The line is manned by staff from the Commission's Intelligence Team who review the information supplied and refer any relevant material to the Commission's Supervision and Policy Divisions in a sanitised format.

During 2014, reports were received regarding alleged failings in anti-money laundering procedures, questionable business behaviour by directors, alleged unlicensed financial services firms and negligent treatment of customers.

The number of the whistleblowing line is 01481 748094.

Simon Gaudion
Director

Introduction

The Commission is cost-conscious and promotes an ethos of best value. That both the Chairman and the Director General have dedicated significant parts of their messages in this Annual Report to highlighting operational matters is an indication of the importance the Commission places upon the management of resources and the role of the Finance and Operations (F&O) Division. The three pillars of operational management are, firstly, the daily management of resources; secondly, the formal reviews of functions, structure, corporate governance and other control systems such as audits and thirdly, the regular streamlining of operational business processes. These three activities combine to create an overall impact across the operational arena of the Commission.

The daily management of limited resources echoes the Commission's risk-based approach. Risk-based supervision explicitly recognises that the Commission has limited resources and, through PRISM, supervisory effort is channelled to where it should have the greatest effect. The concept remains true in the management of operational resources and the role of the F&O Division in the Commission is to ensure that IT, HR, Finance and Facilities are managed as efficiently and cost-effectively as possible to support the supervision, policy and enforcement divisions.

In addition to meeting the requirements of good corporate governance (see Appendix for further details), we also regularly review our internal business processes, building upon the 2013 restructuring to ensure that we continue to deliver a balanced, proportionate and cost-effective approach to our supervisory and regulatory responsibilities. To this end, during 2014, the activity of the Data Management Unit was integrated into the Risk Team.

The Commission has also sought to increase its efficiency through initiatives in 2014 to deepen understanding across all areas of what separate units do and how they interact together. One good example of this approach was a simple initiative that saw all F&O staff undertaking an in-house course in the fundamentals of risk-based supervision. This has allowed them to understand the work of supervisory divisions and therefore be better placed to focus on how to enable our overarching mission by providing the right IT, Facilities, HR and Financial support needed by our supervisors to allow them to make good-quality judgements efficiently and effectively. We have also continued to reinforce internal communication and develop training in a thematic and structured way.

Within F&O specifically, throughout this year, we have been re-analysing the roles, and numbers, of F&O staff and have been able to rationalise the back office operations. This has allowed us to release more staff into front line supervision and enforcement activity. The proportion of front office to back office has risen from 65% to 70% overall.

Finally, under the guidance of HR, we have continued to focus on recruiting as well as retention and have clarified our approach to training and staff development. Underpinning all activity, our IT department has continued to meet our "business as usual" requirements as well as supporting the development of online submissions.

Financial Information

This section highlights financial information detailed in the statements and the accompanying notes on pages 32 to 43 of this report. It also contains detail on the fees for 2014 and the Commission's approach to retained income.

The Commission's Net Assets for the year show £398,489 which is a marked improvement from 2013 (£348,163 adverse). As the Director General's report makes clear, this change was driven by a sharp focus on staff costs together with rigorous management of non-staff costs combined with running the Sentinel programme more slowly than planned. The closure to future service accrual of the defined benefit pension scheme produced a one-off curtailment gain of £497,000.

Applications and licensing across all sectors saw overall total licensee income for the year of £12,755,412.

Fees set in 2014 for implementation in 2015 showed the final stages of a 2-year incremental increase in several areas – the most predominant being banking. 2014 was also the second year of a 3-year pledge to keep the blended rate of increase, including all anomalies, at under 2 per cent. Keeping fee rates below 2 per cent presented a challenging target that the Commission worked hard to meet.

We remain committed to managing costs so that future fee increases are modest.

With regard to financial reserves, these are required to cover unforeseen costs arising from enforcement or extraordinary regulatory activity which may involve professional assistance and advice – for example, in the event of a firm or more than one firm failing. Therefore, the Commission will continue the policy, initiated in 2001 and articulated in annual reports since then, to aspire to establish and maintain a reserve equivalent to 6 months operating costs. Given that the last realistic triennial valuation of the Commission's portion of the States pension scheme showed a small surplus, the Commission does not intend to raise fees to offset the volatile FRS 17 pension liability.

Authorisations Project - the Creation of an Authorisations Division

The role and importance of the Commission's Authorisation Unit have grown since its inception in October 2012. Its initial mandate encompassed centralising the reception of Personal Questionnaires and Declarations. It became clear in 2014 that further commonality should be sought in dealing with the applications for new licences, together with other applications for various approvals, authorisations and registrations under the regulatory laws that were being considered separately by the relevant supervisory divisions of the Commission.

We therefore moved the Authorisations Unit from the Financial Crime Division to become a distinct entity in its own right. This was completed in August 2014. We plan further work to reinforce the Authorisations Unit in 2015.

We have already repositioned and retrained our staff to best effect in order to ensure they have the skills to analyse all requests for new licences, approvals, authorisations and registrations. Streamlining processes not only involves developing IT systems, but also preparing, and then allowing our staff to make, recommendations to decision makers on more routine work within a supported and controlled environment.

Balanced Scorecard

Our internal balanced scorecard has been further developed. It ensures that the objectives of staff are aligned with the Commission's strategic objectives and priorities.

The essence of a balanced scorecard is that objectives are identified and articulated at an overall organisational level before being carefully weighted (balanced) to ensure work is appropriately prioritised.

2014 was the first year in which the Commission operated under a balanced scorecard approach. It proved useful and, in tandem with PRISM, the balanced scorecard helped to focus all levels of the Commission towards our mission and key objectives. Throughout the year the reporting of progress towards the achievement of the balanced scorecard objectives was refined and, as a result of the lessons learned of the actual application of the method in a Commission context, the approach has been further tailored but the overarching objectives, as articulated in the Director General's report, will continue to be followed in 2015.

People

Against a background of the closure of the defined benefit pension scheme, a sharp focus on staff pay and the rigorous management of non-staff costs – all clearly articulated in the Director General's statement – the human resources team has been focused on four major themes throughout 2014. These are the interlinked activities of recruiting, remuneration, retention and staff development.

Recruiting: Whilst always cognisant of the benefits of maintaining a strong core of experienced staff, the Commission has been encouraging the recruitment and development of junior staff. To that aim, 2014 saw the first attempt to recruit a pool of talented young graduates and school leavers into the Commission. The programme has been a success and graduates were selected to join the Graduate Development Programme (GDP) in 2014. The aim of the programme is to develop and train the next generation of financial services experts ensuring that they have a detailed knowledge of regulation and specifically risk-based supervision. The programme sees a yearly rotation through Commission divisions over a three-year period. To complement the in-house training initiatives (see below), those on the GDP are also enrolled onto external courses such as the Investment Management Certificate and the Chartered Financial Analyst. The initiative is continuing into 2015.

Remuneration: We aim to recognise and reward excellent work and to encourage high performers to work at the Commission. However, in common with all sectors, because of the current economic climate and the subsequent focus upon costs, remuneration has remained static for several years. 2014 was no exception and there was no general increase in staff pay.

Salary and related costs for the year were £8,772,484. An analysis of these figures is provided in table 3 on page 54.

Analyses of staff by salary band and movements in staff numbers are shown in tables 4 and 5 on page 55.

A breakdown of Commissioners' fees is shown in table 7 on page 55.

Retention: The Commission demands a lot from its staff and the Bailiwick deserves the best-qualified and most able staff that we can reasonably retain. We must strike a balance of presenting an employment package which is competitive, yet also within the limitations of the Commission's finances. We believe that in a risk-based supervisory environment where supervisors are required to challenge, exercise good-quality judgements and mitigate unacceptable risks, there are considerable opportunities for us to provide high levels of job satisfaction for our people.

The Commission has realigned its mission and overarching objectives in a balanced way as detailed above. This, in turn, means that our staff know exactly how the work they are doing relates to the overall aims of the Commission. We actively encourage staff to use initiative and intelligence to solve problems – knowing that they remain within the framework of what has been agreed. Our revised moderation-based appraisal system reflects this and it has been welcomed by staff as a way of measuring and rewarding real performance and teamwork.

Staff development: Regulation provides a challenging and complex working environment where only continual professional development will allow our staff to keep pace with our stakeholders, be they local industry, peer jurisdictions or international regulatory bodies. We must strive to be informed and contemporary in all financial services disciplines to equip our people to meet the demands of their profession.

Training is organised thematically and we always look for value for money – we use on-island resources where they offer best value. We also use in-house resources wherever possible – both in the context of organising peer briefings on specialist subjects, as well as asking individuals who have attended courses to pass on their knowledge in learning environments.

Where we cannot deliver training in-house, and there is no course available on-island, we use specialist individuals and organisations to deliver on-island training to ensure that our people receive up to-date and relevant training. For example, we have undertaken specialist business model analysis training as well as risk-based supervision training, impact and influence training and interview skills training.

Communication and Information Systems

During 2014, we continued to maintain and upgrade our core communication and information technology infrastructure in line with our long-term IT strategy. We replaced our network storage and switching infrastructure, and made a surplus on the disposal of the fully depreciated existing equipment, purchased primarily in 2008. The new, robust infrastructure provides the Commission with network storage capacity for the foreseeable future, including the increased storage requirements expected to arise from the Sentinel programme deliverables.

We continued our programme of cost-effective service provision, identifying areas where it is more cost-effective to outsource than to up-skill individual members of staff, and successfully negotiated more cost-effective contracts with new and existing suppliers.

We continue to focus on information security both in terms of user awareness and the technical improvements to mitigate against threats to our systems and information.

We implemented a version of Nuix eDiscovery software for our Enforcement Division during the year thereby enabling the Division to more efficiently search, analyse and extract relevant information in support of their work.

Stephen Cole
Chief Operating Officer

Independent Auditor's Report to the Guernsey Financial Services Commission

We have audited the financial statements of the Guernsey Financial Services Commission (the "Commission") for the year ended 31 December 2014 which comprise the Income and Expenditure Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Commission, in accordance with our Terms of Engagement as detailed in our letter dated 28 November 2013. Our audit work has been undertaken so that we might state to the Commission, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Commission, for our audit work, for this report, or for the opinions we have formed.

Statement of the Commission's Responsibilities

The Commission is required by the Financial Services Commission (Bailiwick of Guernsey) Law, 1987 as amended to prepare financial statements for each financial year which give a true and fair view, in accordance with applicable Guernsey law and United Kingdom Accounting Standards. In preparing these financial statements, the Commission is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Commission will continue to operate.

The Commission is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Commission and to enable it to ensure that the financial statements have been prepared in accordance with the Financial Services Commission (Bailiwick of Guernsey) Law, 1987 as amended. It is also responsible for safeguarding the assets of the Commission and hence for taking reasonable steps for the prevention and detection of fraud, error and other irregularities.

Respective Responsibilities of the Commission and Auditor

As explained more fully above, the Commission is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Commission's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Commission; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion the financial statements:

- give a true and fair view of the state of the Commission's affairs as at 31 December 2014 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Accounting Standards; and
- have been properly prepared in accordance with the Financial Services Commission (Bailiwick of Guernsey) Law, 1987 as amended.

BDO Limited
Chartered Accountants
Guernsey

7 May 2015

INCOME AND EXPENDITURE ACCOUNT

For the year ended 31 December 2014

	Note	2014	2013
		£	£
Income	2		
Fees receivable	1(b)	12,755,412	12,517,683
Financial penalties imposed	1(c), 13	506,000	160,000
Interest receivable and similar income	1(d)	68,036	94,491
		13,329,448	12,772,174
Expenditure			
Salaries, pension costs, staff recruitment and training		8,772,484	9,221,754
Gain on curtailment of pension scheme	7(b)	(497,000)	–
Commissioners' fees		214,500	214,583
Legal and professional fees		502,896	631,116
Premises and equipment, including depreciation	1(f), 1(h), 4, 9	1,510,556	1,406,684
Other operating expenses		890,714	629,031
Bad debt provision expense	5, 13	200,000	–
Other finance costs	1(i), 7(b)	61,301	134,909
Auditor's remuneration		8,750	8,750
		11,664,201	12,246,827
Surplus for the year		1,665,247	525,347

There is no difference between the surplus for the financial year as stated above and its historical cost equivalent.

The notes on pages 36 to 43 form an integral part of these financial statements.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2014

	Note	2014	2013
		£	£
Surplus for the year		1,665,247	525,347
Actuarial loss	7(e), (k)	(918,595)	(2,247,755)
Total recognised gain/(loss) for the year		746,652	(1,722,408)

The notes on pages 36 to 43 form an integral part of these financial statements.

BALANCE SHEET
As at 31 December 2014

	Note	2014	2013
		£	£
Fixed assets			
Tangible assets	4	3,327,016	2,941,650
Current assets			
Debtors and prepayments	5	675,972	468,629
Short-term investments	1(g), 12	7,140,274	7,474,029
Deposits with States Treasury	12	22,923	21,650
Cash at bank and in hand	12	1,424,830	624,396
		9,263,999	8,588,704
Creditors – amounts falling due within one year	6a	(2,080,423)	(2,385,750)
Net current assets		7,183,576	6,202,954
Creditors – amounts falling due after one year	6b	(137,752)	(103,700)
Net assets before post-retirement liability		10,372,840	9,040,904
Post-retirement liability	7(a), (k)	(9,974,351)	(9,389,067)
Net assets / (liabilities)		398,489	(348,163)
Reserves	8	398,489	(348,163)

The financial statements on pages 32 to 43 were approved by the Commissioners and signed on their behalf on 7 May 2015 by:

C Schrauwers *Chairman*	A Rodger *Vice-Chairman*	W Mason *Director General*

The notes on pages 36 to 43 form an integral part of these financial statements.

CASH FLOW STATEMENT
For the year ended 31 December 2014

	Note	2014	2013
		£	£
Reconciliation of surplus of income less expenditure for the year to net cash inflow from operating activities			
Surplus of income less expenditure		1,665,247	525,347
Other finance costs	7(b)	61,301	134,909
Current pension service cost	7(c)	414,645	682,690
Gain on curtailment of pension scheme	7(b)	(497,000)	–
Contributions made to defined benefit pension scheme	7(d)	(312,257)	(450,578)
Depreciation on tangible fixed assets	4	589,219	478,113
Interest receivable		(68,036)	(94,491)
(Increase)/decrease in debtors		(207,343)	78,630
(Decrease) /increase in creditors		(271,275)	699,655
Net cash inflow from operating activities		1,374,501	2,054,275
Cash flow statement			
Net cash inflow from operating activities		1,374,501	2,054,275
Returns on investments and servicing of finance - interest		68,036	94,491
Capital expenditure	4	(984,585)	(981,440)
Receipts from sale of tangible assets		10,000	–
Management of liquid resources	1(g), 12	333,755	(743,923)
Increase in cash in the year	12	801,707	423,403
Reconciliation of net cash flow to movements in net funds			
Increase in cash in the year	12	801,707	423,403
Net funds at 1 January	12	8,120,075	6,952,749
Cash (inflow)/outflow from (decrease)/increase in liquid resources	12	(333,755)	743,923
Total funds at 31 December	12	8,588,027	8,120,075

The notes on pages 36 to 43 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

1. Accounting policies

(a) Convention

These financial statements have been prepared in accordance with the historical cost convention and under applicable accounting standards in the United Kingdom. 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.

(b) Fees receivable

Fees are a combination of annual licence fees and application fees. Fees receivable are accounted for on an accruals basis.

(c) 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.

(d) Interest

Bank and States Treasury deposit interest is accounted for on an accruals basis. Interest income received on a portfolio of certificates of deposit is accounted for on an accruals basis.

(e) Investigation and litigation

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

(f) Tangible fixed assets and depreciation

Depreciation on tangible fixed assets is calculated to write down their cost to their estimated residual values over the period of 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 and fittings	25% straight-line
Furniture	over the shorter of 10 years and the estimated useful economic life of the assets
Computer equipment:	
Hardware	33⅓% straight-line
Software	over the shorter of 10 years and the estimated useful economic life of the assets

(g) Short-term investments

Short-term investments, represented by a portfolio of certificates of deposit and managed by an investment manager, are actively traded and thus included as current assets irrespective of the maturity date of individual certificates.

(h) Leases

Rental payments made in relation to office accommodation are treated as operating leases and are charged to the income and expenditure account on a straight-line basis over the lease term.

(i) Pensions

Employees of the Commission who joined before 1 January 2008 were eligible to be members of the States of Guernsey Superannuation Fund ("the Fund") which is a defined benefit pension scheme funded by contributions from both the member and the employer.

This defined benefit scheme closed to future service accrual on 30 June 2014

A separate Actuarial Account comprising the assets and liabilities of the Fund attributable to the Commission's members ("the scheme") was established with effect from 1 January 2004. Regular valuations are prepared by independent professionally qualified actuaries.

In accordance with Financial Reporting Standard 17 - Retirement Benefits ("FRS 17"), the regular service costs of providing retirement benefits to employees during the year, together with any past service costs, are charged to the income and expenditure account in the year.

A debit is included within other finance costs, representing the interest cost on the scheme's liabilities, less the expected return on the scheme's assets, for the year. The difference between the market value of assets and the present value of accrued pension liabilities is shown as an asset or liability in the balance sheet.

1. Accounting policies (continued)

(i) Pensions (continued)

Differences between the actual and expected returns on assets during the year are recognised in the statement of total recognised gains and losses in the year together with differences arising from changes in assumptions and experience gains and losses arising on the scheme liabilities.

Following closure of this defined benefit scheme to future service accrual, employees had the option to transfer out their pension or become deferred members of the scheme.

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 Island Trust Plan DC plan, a multi-member Group RATs scheme or a personal approved pension plan. Contributions by employees are no longer a mandatory requirement.

2. Income

Income is derived wholly from continuing activities.

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 2014	1,280,372	438,569	561,472	2,494,610	4,775,023
Additions	–	19,345	248,070	717,170	984,585
Disposals	–	(30,675)	(109,031)	(305,957)	(445,663)
At 31 December 2014	1,280,372	427,239	700,511	2,905,823	5,313,945
Depreciation					
At 1 January 2014	182,455	250,322	444,081	956,515	1,833,373
Charge for the year	56,404	58,529	112,704	361,582	589,219
On disposals	–	(30,675)	(104,641)	(300,347)	(435,663)
At 31 December 2014	238,859	278,176	452,144	1,017,750	1,986,929
Net book value at 31 December 2013	1,097,917	188,247	117,391	1,538,095	2,941,650
Net book value at 31 December 2014	1,041,513	149,063	248,367	1,888,073	3,327,016

5. Debtors and prepayments

	2014	2013
	£	£
Other debtors	242,914	18,903
Provision for bad debts (see note 13)	(200,000)	–
Prepayments	633,058	449,726
	675,972	468,629

Included in the total are prepayments of £160,082 (2013: £20,654) which relate to periods longer than 12 months.

6a. Creditors – amounts falling due within one year

	2014	2013
	£	£
Expense creditors and accruals	816,382	1,148,378
Fees received in advance	1,264,041	1,237,372
	2,080,423	2,385,750

6b. Creditors – amounts falling due after one year

	2014	2013
	£	£
Expense accruals	137,752	103,700
	137,752	103,700

7. Superannuation

(i) FRS 17 Disclosure for the Guernsey Financial Services Commission Actuarial Account of the States of Guernsey Superannuation Fund

Employee benefit obligations

The scheme closed to future service accrual with effect from 30 June 2014 although the pension scheme deficit continues to be recognised in the balance sheet in accordance with FRS 17. This is a defined benefit pension scheme funded by contributions from both the member and the employer which provides retirement benefits based on final pensionable salary. The employer contributions were determined on the basis of independent actuarial advice and were calculated to meet the cost of benefit accrual over the next year of pensionable service.

A separate Actuarial Account comprising the assets and liabilities of the Fund attributable to the Commission's members was established with effect from 1 January 2004 within the Fund following an instruction from the former States Advisory and Finance Committee. The Actuarial Account is used solely for the purpose of determining the contributions payable to the Fund by the Commission and to avoid the possibility of inappropriate subsidisation of one employer by another.

A full actuarial valuation of the scheme was carried out at 31 December 2013 by the scheme's actuary, which resulted in a funding surplus of £315,000. Subsequent to the closure of the scheme to future accrual of benefits, no further contributions were made by the Commission. The States of Guernsey ("the States") confirmed the advice of the actuary that, given the funding surplus in the Commission's actuarial account, additional contributions would not be required pending the result of the next triennial valuation in 2016.

The valuation used for FRS 17 disclosures has been based on a full assessment of the liabilities of the Fund. The present values of the defined benefit obligation, the related current service cost and any past service costs (if applicable) were measured using the projected unit method.

(a) The amounts recognised in the balance sheet are as follows:

	2014	2013
	£	£
Fair value of scheme assets	18,190,000	17,123,000
Present value of funded obligations	(28,164,351)	(26,512,067)
Post-retirement liability	(9,974,351)	(9,389,067)

The asset and liability values on the FRS17 basis reflect market conditions at the Commission's year-end date and, as point-in-time calculations, can be expected to vary greatly from year to year, without prejudicing the scheme's long-term ability to provide the required benefits.

7. **Superannuation (continued)**

(b) The amounts recognised in the income and expenditure account are as follows:

	2014	2013
	£	£
Interest on obligation	1,182,551	1,029,669
Expected return on scheme assets	(1,121,250)	(894,760)
Other finance costs	61,301	134,909
Current service cost	414,645	682,690
Gain on curtailment (see note below)	(497,000)	–
Net expense recognised in income and expenditure account	(21,054)	817,599

The closure of the Actuarial Account to future accrual of benefits on 30 June 2014 has led to a curtailment gain in accordance with FRS 17. This comprises a gain from the loss of linkage of benefits to final salary, with partially offsetting losses due to the reduction in the assumed retirement age when members become deferred pensioners.

	2014	2013
Actual return on scheme assets	1,022,570	1,845,929

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

	2014	2013
	£	£
Opening defined benefit obligation	(26,512,067)	(22,051,291)
Current pension service cost	(414,645)	(682,690)
Interest on obligation	(1,182,551)	(1,029,669)
Contributions by members	(282,845)	(234,184)
Actuarial losses on obligations	(819,915)	(3,068,403)
Gain on curtailment	497,000	–
Net benefits paid including pensions, lump sums, refunds of member contributions and transfer values	550,672	554,170
Closing defined benefit obligation	(28,164,351)	(26,512,067)

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

	2014	2013
	£	£
Opening fair value of scheme assets	17,123,000	15,277,000
Expected return on scheme assets	1,121,250	894,760
Actuarial (losses)/gains on scheme assets	(98,680)	820,648
Contributions by employer	312,257	450,578
Contributions by members	282,845	234,184
Net benefits paid, including pensions, lump sums, refunds of member contributions and transfer values	(550,672)	(554,170)
Closing fair value of scheme assets	18,190,000	17,123,000

7. Superannuation (continued)

(e) Analysis of amount recognised in statement of total recognised gains and losses ("STRGL")

		2014 £	2013 £
Opening amount of losses recognised in STRGL		(8,685,474)	(6,437,719)
Actuarial losses on obligations for the year	7(c)	(819,915)	(3,068,403)
Actuarial (losses)/gains on scheme assets for the year	7(d)	(98,680)	820,648
Total actuarial losses for the year		(918,595)	(2,247,755)
Cumulative amount of losses recognised in STRGL		(9,604,069)	(8,685,474)

(f) Following the closure of the scheme to future service accrual the employer does not expect to make any contributions to the scheme in the year ending 31 December 2015.

(g) The major categories of fund assets as a percentage of the total Fund assets are as follows:

	2014 %	2013 %
Equities	75	71
Gilts	1	3
Corporate bonds	14	13
Property	7	9
Other assets	3	4

This allocation is at the discretion of the States.

(h) Long-term principal actuarial assumptions at the balance sheet date (expressed as weighted averages where applicable):

	2014 %	2013 %
Discount rate as at 31 December	3.6	4.5
Expected return on fund assets at 31 December	see note below	6.6
Rate of increase in pensionable salaries	3.85	4.5
Rate of increase in deferred pensions	3.1	3.7
Rate of increase in pensions in payment	3.1	3.7

The FRS 17 standard refers to a discount rate determined as the current rate of return on high quality corporate bonds (normally taken to be rated as AA) of equivalent currency and term to the Actuarial Account's liabilities.

As a result of the implementation of FRS 102 with effect from 1 January 2015 the expected return on fund assets at 31 December 2015 will be governed by the discount rate applicable at the time.

7. Superannuation (continued)

(i) Mortality assumptions

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that members aged 60 will live on average until age 87 if they are male and until 89 if female. For members currently aged 45, the assumptions are that if they attain age 60 they will live on average until age 88 if they are male and until 90 if female.

(j) Description of the basis used to determine return on fund assets

The States adopts a building block approach in determining the expected rate of return on the Fund's assets. The States retains full responsibility for the management of the Fund's assets. Historic markets are studied and assets with high volatility are assumed to generate higher returns consistent with widely accepted capital market principles.

Each different asset class is given a different expected rate of return. The overall rate of return is then derived by aggregating the expected return for each asset class over the actual asset allocation for the fund at the disclosure year end.

(k) Amounts for the current and previous periods are as follows:

	2014	2013	2012	2011	2010
	£	£	£	£	£
Defined benefit obligation	28,164,351	26,512,067	22,051,291	21,033,140	19,356,128
Fair value of scheme assets	18,190,000	17,123,000	15,277,000	13,455,961	14,811,865
Deficit in the scheme	(9,974,351)	(9,389,067)	(6,774,291)	(7,577,179)	(4,544,263)
Actuarial (losses)/gains on scheme assets	(98,680)	820,648	525,784	(1,582,355)	793,060
Actuarial (losses)/gains on defined benefit obligation	(819,915)	(3,068,403)	748,805	(1,853,787)	(564,879)
Actuarial (losses)/gains recognised in STRGL	(918,595)	(2,247,755)	1,274,589	(3,436,142)	228,181

The States has confirmed that in the final resort the claims of the Commission's pensioners and employees would be met from the whole Fund and any shortfall in the scheme would then be met by the States from General Revenue.

(ii) FRS 17 Disclosure for the Island Trust Pension Plan ("the DC Plan")

The net cost of employer contributions to the DC Plan for the year ended 31 December 2014 was £233,080 (2013: £301,376). No contributions were outstanding as at 31 December 2014 (2013: £4,665). No contributions were prepaid as at 31 December 2014 or 2013. 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.

(iii) FRS 17 Disclosure for the Multi-member RATs scheme ("GFSC Group Pension Scheme")

The net cost of employer contributions to the GFSC Group Pension Scheme for the year ended 31 December 2014 was £130,934 (2013: £0). Contributions of £11,004 were outstanding as at 31 December 2014 (2013: £0). No contributions were prepaid as at 31 December 2014 or 2013. Employer contributions are calculated at 12% of pensionable salary and employee contributions are entirely voluntary.

8. Reconciliation of movements in reserves

		2014	2013
		£	£
Reserves brought forward		(348,163)	1,374,245
Surplus of income less expenditure for the year		1,665,247	525,347
Actuarial loss on post-retirement liability	7(e)	(918,595)	(2,247,755)
Reserves carried forward		398,489	(348,163)

Reserves are stated after deducting the accumulated pension liability of £9,974,351 (2013: £9,389,067) which equates to the post-retirement liability under FRS 17 (see note 7).

9. Lease commitments

The Commission leased office accommodation at Glategny Court during the year. The lease for Glategny Court expires on 16 September 2034 and the rental payable in 2015 under the terms of the lease amounts to £655,188 (2014: £655,188).

10. Investigation and litigation costs

As a consequence of fulfilling its regulatory responsibilities, from time to time the Commission undertakes investigations and is a party to legal actions, the costs of which may be significant. No provision has been made in the financial statements for any future costs in respect of current investigations or legal actions because the nature, complexity and duration of such actions remain uncertain.

In a few cases, some or all of the Commission's investigation and legal costs may be recoverable, although not necessarily in the same financial year as the expenditure is incurred. In such cases the recovery is recognised when received.

11. Controlling party

In the opinion of the Commissioners there is no controlling party of the Commission, as defined by Financial Reporting Standard No. 8 – Related Party Disclosures, 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.

12. Analysis of changes in total funds

	At 1 January 2014	Cash flow	At 31 December 2014
	£	£	£
Deposits with States Treasury	21,650	1,273	22,923
Cash at bank and in hand	624,396	800,434	1,424,830
Total cash balance	646,046	801,707	1,447,753
Certificates of Deposit	7,474,029	(333,755)	7,140,274
Total funds	8,120,075	467,952	8,588,027

The Certificates of Deposit are managed as liquid investments and have maturity dates typically between three months and one year after the balance sheet date.

13. Financial penalties

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 £506,000. At the year end the Commission raised a provision of £200,000 in relation to amounts outstanding.

SENIOR OFFICERS OF THE COMMISSION

COMMISSIONERS

- **William Mason** — Director General
  - **Gillian Browning** — Director, Fiduciary Supervision Policy and Innovations Division
  - **Philip Nicol-Gent** — General Counsel
  - **Jeremy Quick** — Director, Banking and Insurance Supervision and Policy Division
    - CONDUCT UNIT
  - **Dale Holmes** — Commission Secretary
  - **Emma Bailey** — Director, Investment Supervision and Policy Division
  - **Stephen Cole** — Chief Operating Officer
    - AUTHORISATIONS UNIT
  - **Fiona Crocker** — Director, Financial Crime Supervision and Policy Division
  - **Tim Loveridge** — Chief Transformation Officer
  - **Simon Gaudion** — Director, Enforcement Division
  - **Kevin Bown** — Deputy Director, Intelligence Services

This page has been intentionally left blank.

COMMISSIONERS

Drs. Cees Schrauwers
Chairman of the Commission

Drs. Schrauwers is a Dutch citizen and has more than 35 years' financial services experience. 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 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 insurance consultancy. In the past 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 and as an independent Director at Scottish Widows Group and as a director of Munich Re (UK) Plc. He was appointed as a Commissioner in 2008 and Chairman in 2012 and is the senior independent director of Record Plc since November 2007. He was educated at the Vrije Universiteit Amsterdam and the Nautical College Den Helder. He lives with his wife near London.

Susie Farnon FCA
Vice-Chairman of the Commission (until 31 March 2015)

Susie Farnon was appointed as a Commissioner in February 2006. She was a Banking and Finance Partner with KPMG Channel Islands from 1990 until 2001. She has served as President of the Guernsey Society of Chartered and Certified Accountants and as a member of the Guernsey Audit Commission and the Guernsey Public Accounts Committee. She is also director of a number of private and listed companies.

The Lord Flight MA (Cantab) MBA FRSA
Commissioner

Howard Flight was appointed as a Commissioner in 2005. He was the Conservative MP for Arundel and South Downs from 1997 – 2005, during which time he held the posts of Shadow Economic Secretary, Paymaster General and Chief Secretary to the Treasury and was a member of the Shadow Cabinet. He was appointed to the House of Lords in 2010 and serves as a working Conservative Peer focusing particularly on financial legislation, financial regulations and pensions. He has been a member of the Lords EU Economic and Financial Affairs Sub-Committee. He has worked for over 40 years in the financial services industry, starting his career at Rothschilds. In the second half of the 1970's he worked for HSBC's merchant bank in Hong Kong and India. In 1979 he joined Guinness Mahon and established what became Guinness Flight Global Asset Management, of which he was joint Managing Director until it was acquired by Investec in 1998. He formed, and is Chairman of, Flight & Partners, which is the manager of the Flight & Partners Recovery Fund, and is currently a director of Investec Asset Management Limited, Metro Bank PLC, Aurora Investment Trust plc and a number of other companies and investment funds.

Alex Rodger MCIBS
Commissioner

Alex Rodger was appointed as a Commissioner in February 2008. He spent over 40 years with the Royal Bank of Scotland ("RBS") Group. Prior to moving to Guernsey in 1989 as Island Director, he occupied senior posts in relationship management and credit control in London and New York. He was executive director of RBS International from its formation in 1996 and was appointed Managing Director of RBS International Securities Services Group in April 2002. Later that year his responsibilities were increased to that of Managing Director of RBS International Corporate Banking Division with responsibility for corporate banking operations in each of Jersey, Guernsey, the Isle of Man and Gibraltar. He was also Chairman of RBS International Employees Pension Trust. Alex Rodger is the non-executive Chairman of advocates Collas Crill.

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 15 years has been a consultant advising a wide range of clients in financial services on regulatory, risk and governance issues. He is also chairman of Faber Global Ltd, a wholesale insurance broker, and a non-executive director of Barbican Managing Agency Limited, a Lloyd's managing agent.

Bob Moore
Commissioner

Bob Moore was appointed as a Commissioner in February 2012. He has spent over 30 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 USA, the UK and Luxembourg. These included responsibility for Lloyds' international private banking operations in New York and in Luxembourg. From 1997 to 2011, he was jurisdictional Managing Director with responsibility for the Butterfield Group's operations in Guernsey, including banking, investment management, custody and fiduciary services. In June 2011, he was appointed to the position of Executive Vice President and Head of Group Trust for the Butterfield Group. He has also been a director of a number of other Guernsey banks and investment funds.

Simon Howitt
Commissioner

Advocate Howitt was appointed as a Commissioner in June 2013. He has 26 years' experience as an advocate and is a partner at Babbé. He is a member of the Council of the Chamber of Commerce and served as its president between 2001 and 2003. Advocate Howitt has served on a number of States Committees including being a non-States member of the Legislation Select Committee since 2004, the share transfer duty working party and the Inheritance Law Review Committee.

Investment Supervision and Policy

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

Year	£bns
2007	76
	69
	33
	178
2008	91
	64
	45
	200
2009	85
	51
	48
	184
2010	110
	58
	90
	258
2011	119
	55
	87
	261
2012	131
	50
	95
	276
2013	136
	42
	88
	266
2014	136
	40
	44
	220

- Closed-ended
- Open-ended
- Non-Guernsey
- Total

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

Year	
2007	574
	277
	851
	271
2008	624
	295
	919
	297
2009	608
	276
	884
	324
2010	599
	262
	861
	332
2011	610
	244
	854
	308
2012	618
	222
	840
	274
2013	626
	198
	824
	264
2014	636
	176
	812
	236

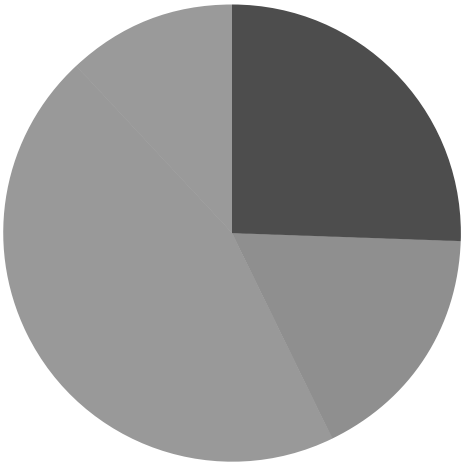
- Closed-ended
- Open-ended
- Total Guernsey
- Non-Guernsey

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

Table 1. **Movements within period**

Type	Total as at 31 December 2013	Approved in year	Lost in year	Total as at 31 December 2014
Total of open-ended schemes	198	10	32	176
of which Authorised	186	8	30	164
of which Registered	12	2	2	12
of which Qualifying Investor Funds (QIFs)	41	2	11	32
Total of closed-ended schemes	626	57	47	636
of which Authorised	446	17	28	435
of which Registered	180	40	19	201
of which QIF's	150	15	14	151
Total of licensees	635	52	65	622
Total of non-Guernsey schemes	264	70	98	236
of which QIF's	47	0	19	28

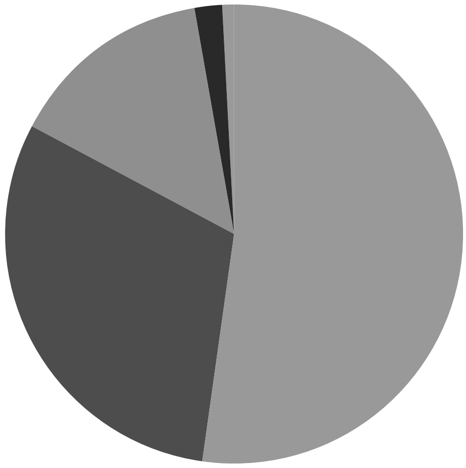
Figure 4. **Ownership of lead licensees at 30 June 2014***



	2014	2013
International financial group	39	42
Lawyers and accountants	26	25
Privately owned – local	68	66
Privately owned – overseas	18	17

*Based on 151 persons holding a full fiduciary licence as at 30 June 2014.

Figure 5. **Number of licensees per number of total staff carrying out regulated fiduciary activities***



	2014	2013
Up to 10 staff	79	77
11-25 staff	46	44
26-50 staff	22	25
51-75 staff	3	3
76-100 staff	1	1

*Based on 151 persons holding a full fiduciary licence as at 30 June 2014.

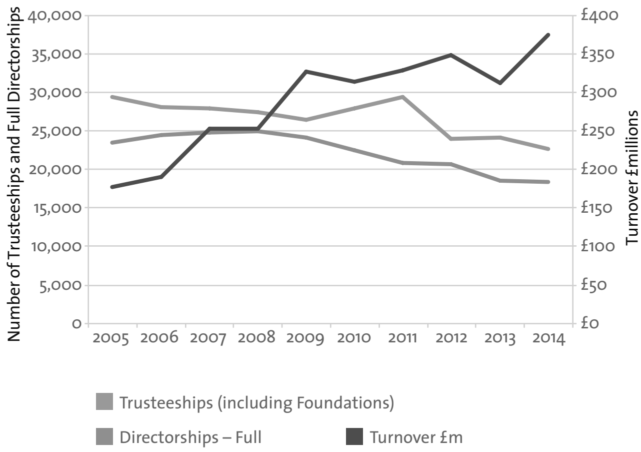
Figure 6. **Number of licensees in each turnover band based on fiduciary turnover for accounting periods falling in the year ended 30 June 2014***

Turnover band	
<£249,999.99	35
	35
	36
	46
	42
£250,000 to £999,999.99	24
	27
	28
	30
	36
£1,000,000 to £1,999,999.99	19
	20
	18
	19
	18
£2,000,000 to £3,999,999.99	24
	26
	25
	25
	26
£4,000,000 or over	25
	27
	32
	30
	29

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

2010
2011
2012
2013
2014

Figure 7. **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.

Insurance Supervision and Policy

Figure 8. **International insurers as at 31 December 2014**

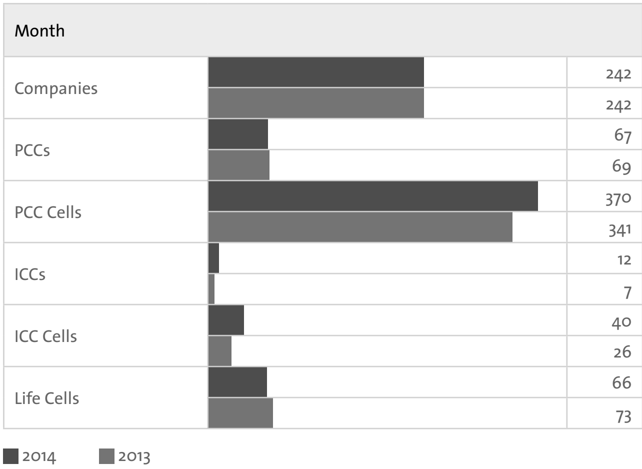


Figure 9. **International insurers – net worth**

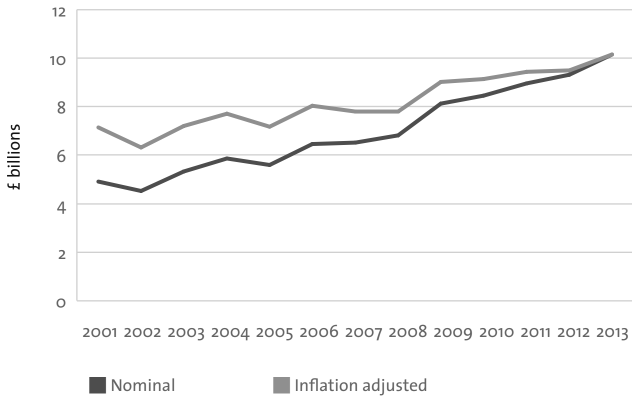


Figure 10. **International insurers – gross assets**

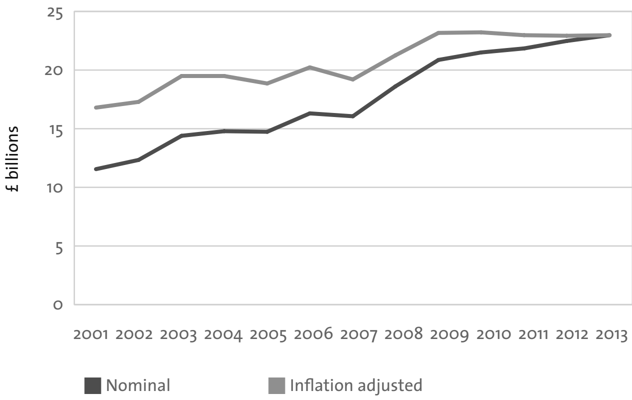


Figure 11. **International insurers – gross premium**

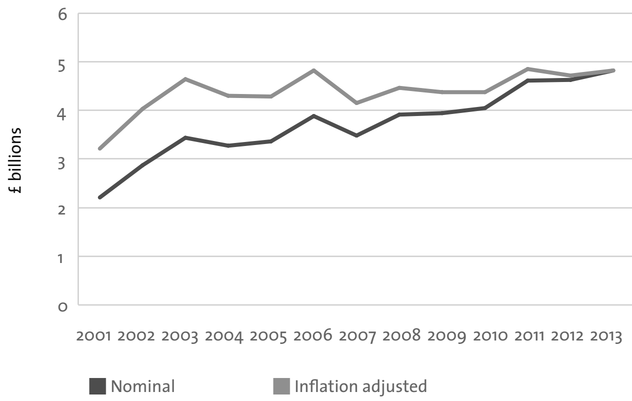


Figure 12. **Total assets, number of licensees and Full-Time Equivalent staff (FTE)**

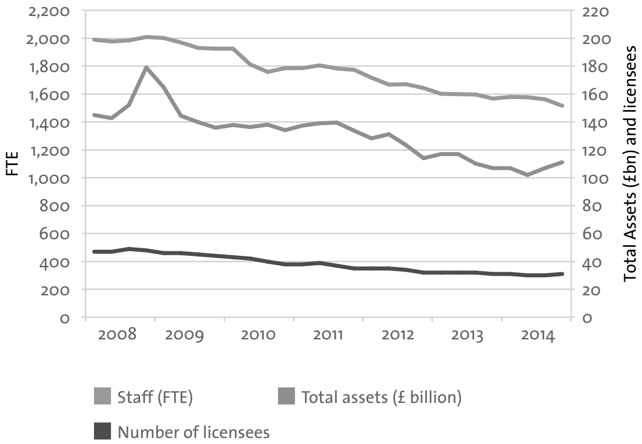
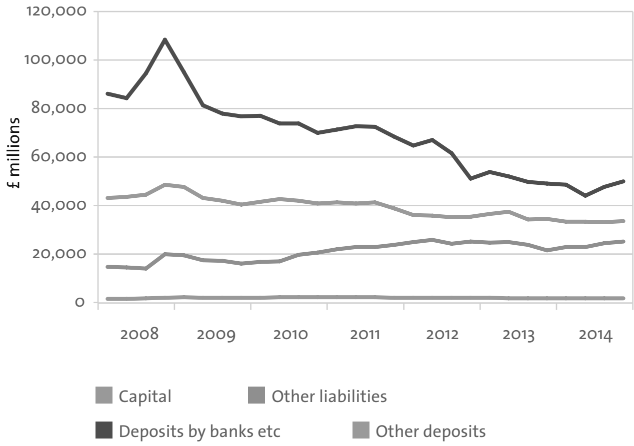


Figure 13. **Guernsey bank liabilities**



Finance and Operations

Table 2. **Expenditure by functional area**

	2014	2013
	£'000	£'000
Enforcement	1,076	819
Authorisations and Data Management Unit	776	726
Risk and Transformation	754	722
Supervisory and Policy divisions (incl. Financial Crime)	5,728	6,363
Other operational	1,130	1,294
Overheads, incl. Premises, IT expenses and depreciation	2,697	2,323
Gain on curtailment of pension scheme	(497)	–
Total	**11,664**	**12,247**

Table 3. **Salaries and related costs**

	2014	2013
	£'000	£'000
Salaries	6,921	6,980
Consultants/ secondees	–	91
Pension costs	819	1,192
Social insurance, permanent health and medical insurance	720	701
Recruitment and training	312	258
Total	**8,772**	**9,222**

Table 4. Number of staff by salary band

Annual salary	2014	2013
£0 – £39,999 p.a.	37	36
£40,000 – £79,999 p.a.	47	52
£80,000 – £119,999 p.a.	14	10
£120,000 – £159,999 p.a.	6	6
£160,000 p.a. and above	1	3
Total number of staff	105	107
Full-time equivalent	101.7	102.1
Comprising:		
Full-time staff	93	91
Part-time staff	12	16
	105	107
Vacancies at year end	8	2

Table 5. Movement in number of staff

	2014
Employed at start of year	107
Recruited into new positions	3
Positions removed	(6)
Existing vacancies filled	1
Employed at end of year	105

Table 6. Legal and professional fees

	2014	2013
	£'000	£'000
Legal fees – enforcement	132	165
Legal fees – judicial process	119	–
Legal fees – advisory	14	129
Professional fees	125	208
Consultancy fees – Independent Evaluation Review and implementation of recommendations	–	35
Consultancy fees – Sentinel programme	73	63
Internal audit	40	31
	503	631

Table 7. Commissioners' fees

		2014	2013
		£	£
Cees Schrauwers		52,000	61,000
Susie Farnon		25,000	25,000
Alex Rodger		25,000	25,000
Lord Flight		32,500	32,500
Richard Hobbs		30,000	38,000
Robert Moore		25,000	25,000
Simon Howitt	Appointed 3 June 2013	25,000	18,083

N.B. The Policy Council, in anticipation of the increasing input required from Commissioners, wrote to the Chairman of the Commission in January 2012 varying the fee arrangement for Commissioners. The arrangement allowed for per diem remuneration of £1,000 for Commissioners for work above the normal time commitment expected from them.

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 States Policy Council is responsible for international financial matters and for establishing the policy framework for financial regulation, including the government's relationship with the Commission. The Commission Law states that the Commission shall issue its audited financial statements and the two reports, referred to later in this appendix, annually to the Policy Council. The Policy Council is also responsible for the administration of the Control of Borrowing Ordinances. Individual officials of the Commission act for the Policy Council in matters requiring consent under the Ordinances.

The Commission maintains regular, constructive dialogue with the States. During 2014, the Commission continued to engage with the Policy Council, principally through the Fiscal and Economic Policy Group ("FEPG"), with meetings held in order to facilitate an open exchange of views on matters of importance to the States and the Commission. This is one of the key mechanisms through which the Commission is held to account by the States. The Commission also engages with the Commerce and Employment Department in relation to financial services legislation. The Department is an important stakeholder and the Commission values its relationship with the Department's political board. During May and June, the Commission held a series of "workshops" for States Members where the Director General and senior staff were able to update them on the work of the Commission and the various challenges it currently faces. In addition, a presentation of the Commission's 2013 annual report was held for States Members in July. Outside of these formal meetings and presentations, the Commissioners and Director General maintain regular contact with Ministers.

The Commissioners

The activities of the Commission's executive are overseen by the members of the Commission (Commissioners). The Commission Law provides that the Commission shall consist of a minimum of five members and a maximum of seven members elected by the States from persons nominated by the Policy Council 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 one year from amongst the Commissioners and is elected by the States following nomination by the Policy Council. The Vice-Chairman is appointed for a period of one year by the Commissioners. Each member is appointed as a Commissioner 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. A member of the Commission must retire on reaching the age of 72 years.

The Commission had seven Commissioners during 2014: Drs. Cees Schrauwers, Susie Farnon (retired 31 March 2015), The Lord Flight, Alex Rodger, Richard Hobbs, Bob Moore and Simon Howitt. A brief résumé for each Commissioner is provided on pages 46 and 47 of this report. All of the Commissioners are non-executive – four reside in Guernsey, with the remainder living in the UK.

There were 11 meetings of the Commissioners in 2014. The attendance was as follows: Drs. Cees Schrauwers 11, Susie Farnon 10, Howard Flight 10, Alex Rodger 10, Richard Hobbs 11, Bob Moore 11 and Simon Howitt 11. Prior to each meeting, Commissioners are provided, save in exceptional circumstances, with a full information pack to support the meeting's agenda.

An induction programme is in place for new Commissioners. The Commissioners periodically consider their roles, responsibilities and accountabilities. In addition, each year Commissioners undertake a board effectiveness review and in 2015 this will be facilitated by an external third party.

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 Council;
- 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.

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

Annual report and financial statements

The Commission must, as soon as possible in each year, make a report to the Policy Council on its activities during the preceding year. The Chief Minister 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 Council, 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 Council 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.

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 Council.

Audit Committee

In 2014, the Commission's Audit Committee comprised Alex Rodger and Richard Hobbs and was chaired by Susie Farnon until 3rd July at which point Richard Hobbs was elected Chairman and Simon Howitt replaced Susie Farnon as a member. 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 Commissioners as a whole. Meetings were usually attended by the Director General, the Chief Operations Officer and the Financial Controller. The Committee met 4 times in 2014.

The attendance of the individual members at these meetings was as follows: Susie Farnon 3, Alex Rodger 3, Richard Hobbs 4 and Simon Howitt 1. From February 2014 the Committee became an Audit Committee rather than an Audit and Risk Committee, although it will continue to have oversight for non-regulatory risk. This change has been executed to comply with evolving thinking on audit and risk governance which suggests that audit and risk committees should not be combined. Regulatory risk is reviewed routinely by the Commissioners as a whole.

Remuneration Committee

The Remuneration Committee, which comprised Bob Moore and Richard Hobbs and was chaired by Alex Rodger, 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 Commissioners (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.

During 2014, the Committee exercised oversight of the closure of the Commission's defined benefit pension scheme to future accrual. In doing so the Commission ensured that affected members were consulted and treated in an appropriate and consistent manner.

Meetings were attended by the Director General and the Chief Operating Officer. The Committee met twice in 2014 with all members attending the meetings.

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 2014, the Commission appointed an external party to undertake internal audits in the following areas:-

- Enforcement policies and procedures;
- Anti-Money Laundering and Countering the Financing of Terrorism in preparation for the Moneyval visit;
- Payroll processes and procedures;
- Implementation of Part I of PRISM; and
- Pension administration.

In addition, the Commission undertook three peer reviews within the finance function: expenditure; assets and liabilities; and capital expenditure. The outcomes of the audits and reviews have been taken forward to the satisfaction of the Audit Committee and Commissioners.

In 2014, the corporate governance standards of the Commission were reviewed by Commissioners, the Audit and Risk Committee and by the Commission's officers. The Commission is satisfied that it meets expectations in connection with internal audit and corporate governance. The International Monetary Fund ("IMF") undertook an evaluation of the Bailiwick against international regulatory and supervisory standards in 2010 under its Financial Stability Assessment Programme. The Commission and the other authorities in Guernsey were found by the IMF to have a high-level of compliance with these standards.

This page has been intentionally left blank.

CONTACT US

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